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Sustainable Social and Economic Well-Being

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Shariah Review and Audit as an Oversight Function on Shariah: A Case Study in an Islamic Bank

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Abstract

Islamic finance is not an alien industry to most people nowadays. It is known as an industry with its unique features to comply with the requirements of Shariah. In order to ensure such compliance and to promote the Shariah compliance culture within the industry, Bank Negara Malaysia as the regulator to Islamic Financial Institutions in Malaysia, has issued the Shariah Governance Framework in 2010. However, industry players are having difficult time to distinguish the function of Shariah review and Shariah audit, which leads to duplication of work. To date, the stakeholders are unclear of the scopes and deliverables of the two functions. Thus, in order to avoid the confusion, this paper is aimed to highlight the current practices of Shariah review and Shariah audit function, focusing on the planning process, practiced by an Islamic bank in Malaysia. This study employs a single case study method. In addition, two methods of collecting data were used namely; qualitative interview as the main method and document review for the supporting method. This study reveals that generally, Shariah review and Shariah audit have the same process namely, planning, fieldwork (execution) and reporting process. In planning process, both functions have different ways of determining the scope, coverage, timeframe and manpower, and number of annual assignments. As this study is first study that empirically examined the differences of the two functions, more studies on the functions using the multiple case studies to provide comparative evidences for the both practices and survey questionnaires to check for robustness of the findings.

Keywords: Shariah review, Shariah audit, oversight function, assurance, case study

1. Introduction

Islamic finance is not an alien industry to most people nowadays. The industry that is backed by Shariah has shown a tremendous growth over the last decade. The rapid growth also leads to the same phase of progress in Islamic financial industry. This would not have been possible without the continuous efforts from the industry players in building up a successful and vibrant industry. As for the industry players, the last 30 over years have witnessed continuous effort from them to promote Islamic banking products and services as an alternative to the conventional system to both retail and corporate customers. This is also supported by the strong endeavor plays by the regulators in making sure the Shariah is upheld at all times.

Although the Malaysian Islamic banking system has achieved great success in building itself as a complement, parallel system with the conventional banking, certain issues related to the corporate governance and Shariah governance system are amongst the issues that have received attention especially by the regulators. In addressing the issues, there are two main initiatives introduced by Bank Negara Malaysia (BNM) as the regulator for Islamic financial institutions (IFIs) in Malaysia. They are the Shariah Governance Framework (SGF) and Islamic Financial Services Act (IFSA) issued in 2010 and 2013, respectively.

Eventually, the issuance of SGF that was made effective in 2011 requires the IFIs strengthen the Shariah governance and assurance that provides comprehensive guidance to the BOD, Shariah Committee and the Management as the Shariah governance organ for the IFIs (SGF, 2010). The framework too, outlined the Shariah functions that supports the Shariah governance organs which are Shariah risk management control, Shariah research, Shariah review and Shariah audit.

The Shariah compliance culture that is needed to be practiced within IFIs is to ensure that the activities and operations of the IFIs are in compliance with Shariah, is further enhanced by the introduction of Islamic Financial Services Act in 2013 (IFSA, 2013). IFSA 2013 provides regulations and supervisions to the IFIs, oversight function to the Islamic money market and Islamic foreign exchange market with the objective to promote financial stability and compliance to Shariah principles (Bank Negara Malaysia, 2013). IFSA 2013 integrates previous acts governing the IFIs such as Banking and Financial Act 1989 (BAFIA), Islamic Banking Act 1983 and Takaful Act 1996 under a single legislative framework for the Islamic financial sector (Bank Negara Malaysia, 2013). This shows the serious effort made by the country to uphold Shariah compliance by its IFIs.

Since this paper is focusing on Shariah review and Shariah audit, it is necessary for us to understand the specific provisions in SGF relating to these functions. Paragraph 7.3 provides two important points. First, Shariah review is responsible to conduct continuous assessment on Shariah compliance in the activities and operations of the IFI to ensure full compliance to Shariah principle. Second, the assessment is to be conducted by a qualified Shariah officer which refers to individual with at least a Shariah degree and knowledge on Usul Fiqh and Fiqh Muamalat.

Meanwhile, SGF defines Shariah audit as *“periodical assessment conducted from time to time, to provide an independent assessment and objective assurance designed to add value and improve the degree of compliance in relation to the IFI’s business operations with the main objective of ensuring a sound and effective internal control system for Shariah compliance”* (Bank Negara Malaysia, 2010).

The subsequent practices of Shariah review and Shariah audit by the industry, as required by the BNM, however was plagued with the issue duplication of both functions from the lack of guidance by the regulator and industry best practices. According to Zariah, A. S & Rusni, H. (2014), Shariah audit and Shariah review function is quite similar in nature, and thus lead to duplication of work and inefficiency of cost. The confusion between the two functions, however, is still an issue that remains in the Islamic banking and takaful industry.

Thus, this paper aims to highlight the current practices of Shariah review and Shariah audit function by employing a single case study method on an Islamic bank in Malaysia. Specifically, this study focuses on how the bank distinguishes the Shariah review and Shariah audit functions in term of the planning process adopted by both functions. This study concentrates on the case in Malaysia as Shariah review and Shariah audit was implemented in Malaysia well ahead other jurisdictions of Islamic banking and finance. Wealth of evidences and variations of practices only present in Malaysia from the experience of practices of the functions since 2011. Other jurisdictions such as Pakistan, Bahrain, Oman and Brunei issued their versions of SGF significantly later than Malaysia, which they issued in 2018, 2017, 2012 and 2018, respectively.

The paper is organized as follows: the next section briefly outlines the literature that has been conducted in the area of Shariah audit and Shariah review. This is followed by the discussion on the methodology and findings of the research. Finally, it concludes with suggestions for further research.

2. Literature Review

Shariah Governance Framework

It is undeniably that Shariah governance plays a significant role in the Islamic finance industry to ensure that it meets the objective of the Islamic financial institutions; to ensure all its products and activities are in line with Shariah. A comparative study; Nawal et. al. (2013) provides a conceptual study to compare between the Shariah governance requirements that currently available by the renowned international organization / regulator. In the study, they compare the Shariah governance requirements between Accounting, Auditing Organization for Islamic Financial Institutions (AAOIFI) and Islamic Financial Services Board (IFSB) and Bank Negara Malaysia (BNM). In addition, Nunung N. H. (2016) provides a more comprehensive study by also comparing the regulatory Framework for Governance Infrastructure between Oman, Bahrain, Pakistan, Indonesia and Malaysia.

Furthermore, based on the above study by Nawal et. al. (2013) and Nunung N. H. (2016), it can be concluded that the Shariah Governance Framework (SGF) by BNM could be considered the best and most comprehensive in term of highlighting the relevant roles and responsibilities of the Board, Board Audit Committee, Risk Management Committee and Nomination & Remuneration Committee. In addition, BNM has made an advance step compared to other regulators in other jurisdictions (Nunung N. H. 2016) by establishing and providing descriptions on the four functions; Shariah review, Shariah audit, Shariah risk management and Shariah research, that named as Shariah compliance and research function. Thus, studying the issues in relation to Malaysia SGF by differentiating between the all Shariah Compliance and Research function is considered relevant. Particularly, the current study will examine the different between Shariah audit and Shariah review in order to provide clarity to the practitioner and other stakeholders, in implementing and understanding both functions.

Shariah audit and Shariah review

The issue of the Shariah review and Shariah audit that have been seem to be similar function, is still yet to be addressed by any literature. Since the issuance of SGF in 2010 that become mandatory in 2011 to all IFIs in Malaysia, no study has been conducted to close the gap, in order to make people realize and understand the different between the two functions. The only early research related to Shariah review and Shariah audit upon issuance of the SGF by BNM is made by Nurazalia, Z. & Zurina, S. (2011). In the study, the authors compare the functions of Shariah review and Shariah audit conceptually. In comparing both functions they first refer to SGF of BNM in term of its reference and definition, roles and responsibility, scope and process. In addition, they also compare both functions as required by the other international setting bodies namely Islamic Financial Services Board (IFSB) and the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). The differences are summarizing as follows:

BNM Shariah audit function to be performed by a department similar to internal audit. Report to Board Audit Committee (BAC) and Shariah Committee on Shariah matters Shariah review function / compliance review by Shariah officers. Report to both management & Shariah Committee	IFSB 10 External Shariah compliance review by external auditors (i.e. ex-post Shariah compliance review) Internal Shariah compliance review by Shariah control department / designated internal auditors / Shariah reviewers	AAOIFI Shariah review by external auditors on all activities of IFI – GSIFI No. 2; Auditing Standards for IFI No. 1 Internal Shariah Review by an independent department similar to internal audit to examine adequacy & effectiveness of Shariah internal control system
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(Source: Nurazalia, Z. & Zurina, S. 2011)

Furthermore, Nurazalia, Z. & Zurina, S. (2011) also highlights the practice of Shariah review and Shariah audit of the selected Islamic banks in Malaysia and in the Middle East. However, such practice is highlighted by only referring to the annual report of the selected Islamic banks and not studying those functions based on the actual practices in the industry and particularly in any IFI. The current study extends their study by examining in detailed the industry practice by going on the field to explore the actual practices of both functions. As such, in order to close the gap, and provide a better understanding on these functions; Shariah review and Shariah audit, this study is conducted based on the actual practices that practiced by an Islamic bank in Malaysia.

Shariah Audit Practices

In general the interest of the researcher on the research in Shariah audit is increasing over time (Muntaka et al. 2015). The interest on this subject become more interesting since this practice became mandatory in the year 2011 after the issuance of SGF. Excitingly, the role of Shariah audit is made even more important by Section 28 of the IFSA 2013 which emphasising on Shariah compliance. Moreover, IFSA 2013 also imposes grave penalty when IFIs are found in breach of any Shariah requirement. In addition, Section 37 of IFSA 2013 also allows BNM to instruct any IFI to appoint any external party to audit on the Shariah compliance aspects of the IFI. This shows that the establishment of Shariah audit team with the subsequent conduct of Shariah audit may not be sufficient without the quality of the Shariah audit.

Literature on Shariah audit consists both quantitative study and qualitative study. For quantitative study, Nur Laili (2014), Rusni et al. (2012), Sheila A. Y (2013) and Nawal Kasim & Zuraidah M. S. (2013); have examined it using a survey questionnaire method. For instance, Nur Laili (2014) has distributed the questionnaires to the Heads of Shari'ah audit, internal Shari'ah auditors, Shari'ah executives and members of the Shari'ah Committee of 16 Islamic banks in Malaysia in order to study the Shariah audit practices that practiced by the Islamic banks. Whereas, Rusni Hassan et al. (2012) have examined the Shariah governance practices not just for Islamic banks, but also for Takaful companies. Meanwhile, Sheila A. Y (2013) focuses on the current Shariah audit practices in Islamic banks using the Exposure Draft of Internal Shariah Audit Framework issued by International Shariah Research Academy (ISRA) (2011) as the benchmark. In her study, she covers the audit objectives, audit and governance, audit scope, audit charter, competency of internal Shariah auditors, audit process and reporting requirements in performing Shariah audit practices. While, Nawal Kasim & Zuraidah M. S. (2013) examines the perspective of practitioners who are involved with the process of Shariah auditing from IFIs in Malaysia in term of standards for shariah auditing, auditor's qualifications and independence. The findings of the study reinforce the importance of auditors' qualification and independence especially in the light of Shariah auditing.

Meanwhile, a qualitative approach was also used to gain insight from chief of internal audit to obtain in-depth understanding on the current practice of Shariah audit. Yazkhiruni Y. et al. (2018) conducted 15 semi-structured interviews with chief internal audit, manager in internal audit department, shariah committee, external auditors and academicians in order to understand the current practices of Shariah audit. The study focuses on the practice of shariah audit in term of scope, framework adopted, relationship with shariah review and shariah committee, governance and reporting line, competency and challenges and limitations. The study concluded that the practices are evolving with further developments and improvements. On the other hand, based on a focus group interview, Zurina S. et al. (2014) discovered the audit scope for audit of financial statements to include among others, sources of funding must be halal, zakat determination and reporting, calculation and reporting of *ta'widh* and early settlement, investment activities must be Shariah compliant as well. A single case study analysis by Zurina S. et al. (2013) found that Shariah audit practice has an added value in ensuring Shariah compliance from the perspective of the Shariah Committee. Based on Shariah audit findings, Shariah auditors recommend proper internal control system that was later approved by the Shariah Committee in ensuring that there will be proper tools in mitigating the occurrence of Shariah non-compliance events from happening in the future. This practice has led the Shariah Committee to acquire more knowledge in other areas, like risk management and information technology, so that the opinion given during the meeting is accurate.

Although a lot of studies have been conducted in the area of Shariah auditing, either using quantitative, qualitative or even descriptive study, there is no study addresses the practice of Shariah audit in relation to its processes. Moreover, there is also no study to compare the Shariah audit with Shariah review practice as the two functions that are deem to be similar.

Shariah Review Practices

Research in the area of Shariah review is considered very little in number with the comparison of Shariah audit. In 2014, Zariah, A. S. & Rusni, H. conducted an empirical study on the practice of the Shariah review function based on the questionnaire distributed to ten selected Islamic banks in Malaysia. The study however, limited to only examine the understanding of the Shariah review officer who performed the function and compare it with the requirements stipulated in the SGF. The authors cover the understanding of the management and the Shariah review officer on the requirement to perform the function based on the SGF. The study concluded that all the ten selected Islamic banks have duly understood the Shariah review and its function as highlighted in the SGF.

Based on the above literatures, while very much research is focusing on the Shariah audit and Shariah review functions conceptually with limited research only address the Shariah audit function empirically. Having said that, the questions like “How the Shariah audit and review function are implemented?” and “What is (are) the similarities and differences between these functions?” are still not properly addressed by the previous research. In short, a gap exists in term of literature to better understand the practice of Shariah review and Shariah audit as an oversight function on Shariah matters in IFIs. Thus, there is a need to better understand these functions specifically in term of its planning processes to avoid confusion by the public.

3. Research Methodology

In order to achieve the objective of this paper, a single case study research on ABCD¹ has been conducted. ABCD has been selected as the subject matter of the study based on the commitment of the organization to support the study and also the access granted to the researcher for the information needed in the organization. Case study method has been adopted to collect the data as it is believed to be the appropriate approach to answer the research (Yin, 2003; Scapens, 2004). This research is considered as an exploratory case study as it attempts to explore the details practices of Shariah review

¹The real name of the organization is not disclosed for reasons of confidentiality. The actual name has also been replaced with fictitious names.

and Shariah audit. As mentioned earlier, this research concentrates on one subject matter, which is an organization. In this study, two methods of collecting data were used namely; qualitative interview as the main method and document review for the supporting method. The qualitative interview data was collected in January 2019. In the early stage, documents were reviewed to written procedures. In the latter stage, the Shariah auditor and Shariah review officer of ABCD have been interviewed. In this regard, both of the respondents are chosen due to their experience and managerial rank, as well as their ability to answer the interview questions and hence, lead to achieving the research objectives of the study. The interviews lasted between twenty minutes to half an hour each. During the interview sessions, the respondents were asked on the practices of their function based on the processes involved. The respondents were guided by a series of semi-structured interview questions developed based on the previous literature and the aim of the research.

4. Results and Discussion

In achieving the objectives of this study, i.e., to highlight the current practices of Shariah audit and Shariah review function practiced by an Islamic bank in Malaysia, both of the respondents pointed that they employ the same methodology in performing the Shariah review and Shariah audit practices. Generally, both functions are conducted based on the process of planning, fieldwork (execution) and reporting.

The Shariah auditor (SA) mentioned:

“There are three processes involved, which are pre-audit for planning of the audit assignment, audit fieldwork and post-audit work”.

The SA also added:

“For the audit fieldwork, we use several methods that is appropriate like interview, document checking and observation. While, post-audit is concentrating on the reporting of the audit assignment to the relevant authority like Management Committee, Shariah Committee, and Board Audit Committee”.

The Shariah Review Officer (SRO) also confirmed the same process;

“In conducting the review, we start with planning of the review, followed by the execution of the review and lastly we prepare the report. The report will be tabled to the Shariah Committee”.

In conducting the planning process, the Shariah review started the planning by determining the review areas, the scope and the timeframe for such review. The same process also for Shariah audit practices. Additionally, the Shariah review also includes the introductory meeting during their planning process.

The SRO mentioned:

“During the introductory meeting, we will introduce ourselves and introduce the objective of the review, since review is considered new in the organization. And this introductory meeting also important for us to understand the process involves in the review area”.

In addition, the SRO also stated that:

“The scope of the Shariah review will be finalized after understanding the process involves in the review area during the introductory meeting. That is why it is important for us to have the introductory meeting”.

However, for the Shariah audit practices, the scope is generally determined based on the audit objective of that particular assignment. This is confirmed by the SA:

“The scope of work is depend on the audit objective. Once we have finalized the audit objective, then we can only identify the scope of work, because our work has to achieve the audit objective”.

While, in order to identify the coverage for every assignment, the sampling method is used by both, Shariah review officer and Shariah auditor. However, the sampling method that they use is slightly different. For Shariah audit, the SA mentioned:

"We use the random sampling method. The sampling method that we use is based on the size and period. For period it is normally covers one year and size is normally is not less than 30% of the total number of transactions during the year".

While, for the Shariah review, the SRO stated:

"We use sampling method. Normally we take 10% of the total number of transactions".

Thus, in this regard, the sampling method used by the Shariah review does not consider the period of transactions. The sampling is 10% based on the overall transactions while for Shariah audit it is at least 30% of the total transactions in a year.

Meanwhile, the timeframe and the manpower for both functions are also different. For Shariah audit, normally it takes three to four months to complete an assignment and it is very much relying on the scopes of the audit. Every audit assignment also involves two to three auditors. Whilst, for the Shariah review practices, the product review normally takes two months to complete involving two Shariah review officers while branch review normally takes three days involving only one Shariah review officer for every review assignment.

While, for the number of annual assignments, Shariah audit normally has four audit assignments with the addition of two ad-hoc assignments. The Shariah auditor added:

"The ad-hoc assignments are normally based on the instruction and direction by the management and Bank Negara. When we plan the audit, we always include at least two ad-hoc assignments during the year. Example of the ad-hoc assignment is on the rental charges on the Ijarah based products".

While, for the Shariah review, the number is divided between product review and branch review as stated by the SRO:

"Normally, it is based on the result of the risk assessment that we conducted annually. As of my record, we have covered up to twenty branches and up to ten products per year".

5. Conclusion

An analysis of the previous literature on Shariah review and shariah audit practices revealed that the comparison between both functions is not yet established, which lead to the confusion between the two functions by the stakeholders are still yet to be addressed. Past studies also have not identified the differences of the two functions from the view of its planning process. This paper attempts to highlight the differences between Shariah audit and Shariah review function on the practical by adopting qualitative interview method on an Islamic Bank in Malaysia. It is revealed that generally, the process of both functions is the same. Both functions started with the planning, followed by fieldwork or execution and end with the reporting process. However, the way both functions perform the processes are different to some extent.

As the paper focuses on the planning process, both functions generally determine the objectives, areas, scopes and the timeframe for every assignment. However, specifically, in determining the scope of the assignment, Shariah review will determine it after understanding the processes involves, while Shariah audit will be based on the audit objectives. Meanwhile, for the coverage of every assignment, both functions are using the sampling method. However, the percentage used is different. Shariah audit is using 30% out of the total transactions during a particular year, whilst Shariah review is using 10% out of the total transactions.

In the meantime, the timeframe and the manpower for both functions are also different. For Shariah audit, normally it takes three to four months to complete an assignment and it is very much relying on the scopes of the audit. Every audit assignment also involves two to three auditors. Whilst, for the

Shariah review practices, the product review normally takes two months to complete involving two Shariah review officers while branch review normally takes three days involving only one Shariah review officer for every review assignment. In addition, the number of annual assignments is also different for both functions. Shariah review normally divide it into product review and branch review, which total up can be more than 30 reviews, while Shariah audit normally has four normal and two ad-hoc assignments. Hence, this finding suggests that in planning stage of both functions, Shariah audit would take longer period and more manpower for every assignment as compared to Shariah review function. This may be due to the nature of the function, where Shariah audit needs to give objective assurance on every assignment as compared to Shariah review which is compliance in nature. Besides it is also in line with the definition of SGF on both functions that require regular and periodical assessment by the Shariah review and Shariah audit, respectively.

Limitations and Further Research Directions

This is an exploratory case study on the practices of Shariah review and Shariah audit in an Islamic bank in Malaysia. Thus, it limits itself to these two functions only, and does not address the other functions as stipulated in SGF. Moreover, this study adopts the single case study method and specifically in an Islamic bank in Malaysia. The findings cannot be statistically generalized to the whole population. This study is conducted for a certain period of time in order to finish it on schedule. Hence, only a limited number of people were interviewed for the study. Having in-depth interviews with more respondents and scope of the practices will perhaps provide a more comprehensive picture concerning the practice of Shariah review and Shariah audit in the organizations.

As the study focuses on the practices of Shariah review and Shariah audit, more research can be conducted in the context of the implementation of the other Shariah compliance and research functions like Shariah risk management and control and Shariah research functions. In fact, in practice, there are many units established under the Shariah department, thus those units may also be studied. In addition, the same type of case study or multiple case studies can be conducted in other Islamic banks or in Takaful operators. More interestingly, the study can also take place in other IFIs in other countries like Pakistan or Bahrain that adopt different Shariah governance framework. Moreover, a quantitative research can also be conducted to study the effectiveness of every Shariah compliance and research functions. Moreover, the quantitative study could also the relationship between the functions and their interdependency between the functions in ensuring Shariah compliance in the IFI.

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The Effects of Accounting and Market Indicators Towards Companies' Performance: A Conceptual Framework

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Abstract

The accounting and market indicators have been identified as the key elements to examine companies' performance. The purpose of this study is to initially construct a conceptual framework of accounting and market indicators such as the profitability analysis, credit (risk), valuation and market capitalization affecting companies' performance. Data were collected from secondary sources. The study expects that profitability analysis, credit (risk), valuation and market capitalization could directly affect the companies' performance.

Keywords: Islamic Finance, Companies' Performance, Accounting Indicators, Market Indicators, ASE

1. Introduction

Companies' performance assessment and measurement are two of the key elements of the management control system in organizations. A company's performance assessment provides feedback to help members identify deficiencies in the company's various activities and opportunities to improve future performance. Dalvi & Baghi (2014) argued that the effective performance measurement system must include the basic performance indicators that measure the operation activities of the company from the point of view of clients, management, analysts, users and interested parties in the performance of those organizations. The objectives of corporate management include increasing shareholder wealth and evaluating its economic performance in the market. The accounting performance measures which are based on financial accounting information and the capital asset pricing measurement are used to achieve those objectives (Mohd Dali et al., 2008; Malgwi & Dahiru, 2014). The benefit of financial metrics in assessing the performance of companies is it offers a real perception of the operating, investing, and financing activities. Comparing the performance of these activities from time to time enables the managements to make the necessary decisions. Moreover, explaining the costs of exchanges and exerting sufficient effort in the use of resources enhance goal efficiency and effectiveness which investors aspire (BaniAtta & Marzuki, 2019a; Subramanyam & Wild, 2009).

Profitability indicators, credit (risk), valuation and market capitalization significant factors for a company's performance. There is a strong relationship between high efficiency of profitability and the performance. Credit (risk) is the important factors for evaluating the ability to meet obligations. It's considered a great indicator for the continuity of the company's activity. Valuation and market capitalization are a significant indicator of the company's performance in the financial markets. If the assessment is backed by the accounting and market indicators, then financial performance more controlled to achieve the financial objectives (Alswalmeh & Dali, 2019b; BaniAtta & Marzuki, 2019b).

Problem Statement: Companies' performance indicates a "result obtained in management, economics, accounting and marketing. This printed-features of the company's competitiveness, efficiency and effectiveness and its procedural, structural and administrative" (Verboncu &

Zalman, 2005). According to many previous researches, there exist many common and different factors for a company's performance. Analysts in business companies face challenges to determine factors affecting company's performance. Accounting and market indicators are one of the significant factors that necessary to verify its impact on the company's performance continuously (Nm, 2016). Indeed, Alswalmeh & Dali (2019a) found that many researchers in the world targeted on the accounting and market indicators that can affect toward companies' performance, and their impact on productivity of companies. This study is intend to identify the accounting and market indicators affecting for performance and their impact on a company's performance in the market.

Research Question: Based on the problem statement, this study intend to answer the following question: What are the accounting and market indicators that affecting for company's performance?

Objectives: According to the problem statement and research question, the study aim to:

1. Identify the accounting and market indicators that are determined to affect company's performance.
2. Exploring the accounting and market indicators that drive company's performance and develop the conceptual framework.

2. Materials and Methods

This study focused on determining the accounting and market indicators affecting company's performance on the basis of the investigated variables in the recent literature on the companies' performance to proceed with this research. The secondary data collected in this study include book, journals, and online databases.

Conceptual Framework: The research study conceptualized out on the accounting and market indicators as independent variables, and company's performance as dependent variables as illustrated in Figure (1). Based on the statement, a theoretical framework has been developed to represent the relationship between four different types of accounting and market indicators, namely profitability, credit (risk), valuation analysis and market capitalization with the companies' performance.

Company's Performance: Bourguignon (1995) presented three acceptable approaches of a company's performance. First, performance is the work. This means that performance is a process, not a result which appears every time and its content is almost secondary to its own dynamics. Second, performance is the result of this procedure, a subsequent evaluation of the results. Third, performance means success, is non-existent and is a certified representation of the success of various categories of activities using the accounting information. Accordingly, the term "company's performance" means three interpretations simultaneously, 1) "work" 2) "outcome" and 3) "success". The "work" is related to the purpose of the company, "outcome" represents achievements for the resources used and "success" is considering the environment in which the company is located. In other words, the first concept refers to the mission of the company, the second to the extent of the quality of the company's management of its resources, and the third to the ability of the company to adapt to the context of external factors.

Profitability Analysis: Profitability analysis "is the evaluation of a company's return on investment." Profitability means the ability of companies to obtain profit from all the business activities. It shows how efficiently the management can make a profit using all the resources available (Gibson, 2009). Harward & Upto (1961) defined profitability as "the ability of a given investment to earn a return from its use" that can be distributed to shareholders or reinvested in the company to enhance solvency. A company's overall value is a key determinant of its ability to generate profit on the capital invested. Analysts would consider profitability to be a key focus

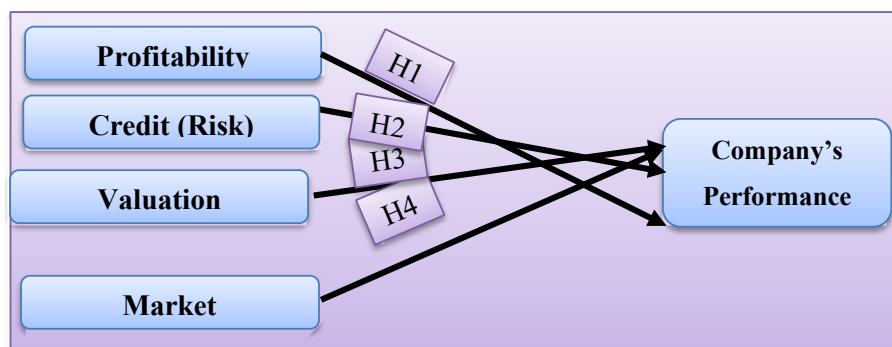
of their analytical efforts. Profitability indicators measure the company's efficiency in achieving profits, policies and investment decisions taken under different situations by management, which are the focus of interest of investors, lenders and management.

Credit (Risk) Analysis: Credit (risk) analysis means to “evaluate the ability to meet obligations.” Robinson, Greuning, Henry, & Broihahn (2009) defined credit risk as “the risk of loss caused by a counterpart or debtor's failure to make a promised payment.” Credit (risk) analysis depends on three major types, liquidity, capital structure and solvency. Subramanyam and Wild (2009) explained that liquidity reflects “the availability of company resources to meet short-term cash requirements at specific time.” Solvency reflects a “company's long-run financial viability and its ability to meet long-term obligations.” Capital structure reflects a company's sources of financing and its economic trait. Liquidity analysis is aimed to evaluate the ability of companies' operating activities to generate profits from sales and working capital requirements.

Valuation Analysis: A valuation analysis provides understanding on the financial profile of companies. It gives investors the ability to choose the appropriate valuation model to make decisions about their investments. The financial analysis also provides useful information to complete the valuation analysis. Fundamental analysis involves valuing the company's equity performance and assess its relative attractiveness as an investment. Robinson, Greuning, Henry, & Broihahn (2009) argued the end product of valuation analysis is often an explanation and recommendation about investment, while the theoretical valuation models are useful in selecting indicators that would be useful in future analysis. Moreover, the rise of these indicators is a positive indicator for all investors, creditors and interested parties.

Market Capitalization: The market capitalization of a company is a factor of the value of the company, but it is an interim metric based on the current stock market. The true value of the company is represented by its balance sheet, product positioning and profits. Other variables may not reflect market capitalization due to asymmetric information. Koller, McKinsey, Goedhart, & Wessels (2010) defined the performance of the stock market as a measure of returns over a period in which stock returns are measured based on personal portfolio of manager's preferences, usually on daily, weekly, monthly and yearly basis. While there are various ways to measure the stock market performance, the common important measure includes the use of market capitalization figures.

Figure (1) Conceptual Framework



Hypothesis Development

Based on the theoretical framework research, research hypothesis as follows:

1. **H1:** Profitability analysis has an impact on company performance.
2. **H2:** Credit (Risk) analysis has an impact on company performance.

3. **H3:** Valuation analysis has an impact on company performance.
4. **H4:** Market capitalization has an impact on company performance.

Proposed Methodology: This study integrates finance theories with the financial analysis theories in explaining the effect of the accounting and market indicators on companies' performance. The term of accounting and market indicators represent the profitability analysis, credit (risk), valuation and market capitalization using the financial ratios. The term companies' performance represents the stock return of the company. A quantitative approach based on secondary data will be used in this study. This involves a correlational study, descriptive and hypothesis testing approach. This study will focus on Jordanian companies that represent the market index, because it has the most shares traded by investors. The data are gathered manually from the annual financial report for each company and the statistical bulletin of the company's return published on the Amman Stock Exchange website. Multivariate regression analysis and structural equation modelling will be used to evaluate the association between the variables.

3. Conclusion

The study proposes a conceptual framework to test the accounting and market indicators towards companies' performance by a review of existing studies and theories. The model fit will be confirmed after the collection of the research data and analysis. This study is important as it offers potential investors a better understanding of the factors affecting the company's performance. Further, investors will be able to appropriately decisions their investments and identify relevant factors that affect performance. The study developed the conceptual framework based on the accounting and market indicators to investigate companies' performance. It is expected that profitability, credit (risk), valuation analysis and market capitalization are a significant factor could directly affect the companies' performance.

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Islamic Trade Financing Facilities: The Conduct of Risk Management in Financial Technology (Fintech) Era

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Abstract

Industrial revolution 4.0 has exposed banks to a whole new risk environment i.e. the digitization risk that is the inevitable result of a convergence of technological capability, commercial drivers and market adoption. This current state requires more rigorous risk identification and management systems along with proficient internal control system especially for international trade and trade financing. It has propelled many financial intermediaries to be more competitive in the future especially in this new financial technology (fintech) era. Service providers, including Islamic banks, must make a strategic decision in committing to the development of digitised channels and propositions, preparing to cede market share to a new generation of providers that have already seized the imperative to respond to market evolution in international trade. Trade financing facilities bridge the gap between importers and exporters which at the same time it also exposes the banks to many inherent risks and now with this new fintech era the risk is escalating. The main aim of this paper is to investigate the conduct of risk management and readiness of Islamic bank in facing this new challenging fintech era in providing efficient trade financing services. The findings suggested that risk management is very critical to be conducted in trade financing processes since it exposes the Islamic banks to many risks due to the nature of cross-country trade transactions.

Keywords: Financial technology (Fintech), Risk management, Islamic banking, Trade finance, International trade

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1. Introduction

It has been more than a decade that Islamic financial industry has set its footing in this region. Its future and sustainability are highly depending on how they would response to the rapid change in the financial world. Globalization and informational technology revolution that has moved into a new era of Fourth Industrial Revolutions (4IR) have expanded the scopes of financial institutions become more dynamic, competitive and complex than ever before. The fast changes towards digitization in banking services in particular has magnifies the challenges which has positioned Islamic banks to equip themselves with the up-to-date management skills and operational systems to cope with this new era.

Due to the new era, financial industry including Islamic banking, has equipped with advanced technology and this movement can be seen from online banking and mobile banking. Berger (2003) examines technological progress and its effects on the banking industries. In his view, technologies could help to facilitate the services sector to increase its efficiency and become one of the factors to become more competitive. They highlight the importance and positive consequences of introducing

innovative financial technologies into this industry (Lavrov, 2011). Clients of these banks can monitor their accounts, credit card expenses, and other financial assets, conducting international online transfer and to certain extent offer investment advice via the internet. However, when the business environment become complex, so does the risk associated with it.

One critical factor that will determine the fate of survival and continuous growth is how well the banks manage their risks exposures as a result from providing Islamic financial services. Risk management processes and techniques enable financial institutions to control undesirable risks and to take benefit of the business opportunities created by the desirable ones. These processes are of important concern for regulators and supervisors as these determine the overall efficiency and stability of the financial systems. However, this industrial revolution 4.0 has exposed the banks to a whole new risk environment, the digitization risk, the inevitable result of a convergence of technological capability, commercial drivers and market adoption. This current state requires more rigorous risk identification and management systems along with proficient internal control system especially for international trade and trade financing. For instance, risk reporting is extremely important for the development of an efficient risk management system.

Trade financing is among the most important services provided by the banks. WTO (2018) highlighted that trade finance serves two fundamental purposes which are credit support and risk mitigation facility. Thus, it has become the heart of international trade where without it, the growth and development of the global economy will be hampered (WTO, 2016; Chauffour and Farole, 2009). The current financial technology (Fintech) era has forced the banks to make strategic decision, committing to the development of digitized channels and propositions or prepare to move market share to a new generation of providers that have already seized the imperative to respond to market evolution in international commerce. The conduct of trade and trade financing had long been supported by trusted processes and familiar proposition. However, this fintech era have made both conventional and Islamic banks to face a significant threat of disintermediation where many commercial clients shifted away from traditional instruments to trade on open account terms with minimal trade documents requirements. Thus, the application of increasingly effective, technology enabled solutions to trade and trade financing certainly pose the latest challenge to the trade banking sector not only local but also worldwide.

2. Trade Financing in Malaysian Banks: An Overview

2.1 Exim Bank

Export and Import bank of Malaysia Berhad which also known as EXIM bank was established on 29 August 1995 with the principal objective to promote reverse investment and export of strategic sectors such as capital goods, infrastructure projects, shipping and value-added manufactured products. It helps to facilitates the entry of Malaysian companies to new markets, particularly to the non-traditional markets. Finally, it also provides financial support for international trade and foreign investment. At the same times it acted as a government owned development financial institution (DFI) through a wholly owned subsidiary of the Minister of Finance Incorporated.

Being a DFI, EXIM bank strives to facilitate Malaysia's global businesses by providing Islamic banking and credit takaful products and services and provide developmental advisory services in fostering Malaysian cross-border business ventures. EXIM's clientele consists of large corporations, SMEs, foreign governments and foreign companies covering all sectors ranging from trading, manufacturing and infrastructure. They are offering products and trade services facilities including contract financing-i, import financing-i, term financing-i, export-credit refinancing-i, trust receipt-i, letter of credit-i, supplier credit-i and many more.

2.2 Commercial and Islamic Banks

Commercial banks act as a financial intermediary that performs the functions of accepting deposits from the general public and giving loans for investment with the aim of earning profit. In general, they finance trade and commerce with short-term loans via charging interest rates from the borrowers for their main source of profit. Trade financing facilities is one of their main products offered beside commercial retail products and corporate services.

On the other hand, Islamic banks also offers similar products services as the commercial banks. The main difference is Islamic banks governed by the underlying principles such as mutual risk and profit sharing between parties, the assurance of fairness for all and their transactions are based on an underlying business activity or asset. These principles are supported by Islamic banking's core values whereby activities that cultivate entrepreneurship, trade and commerce and bring societal development or benefit is encouraged. Activities that involve interest (*riba*), gambling (*maysir*) and speculative trading (*gharar*) are prohibited.

The used of various Islamic finance concepts such as Ijarah (leasing), Mudarabah (profit sharing), Musyarakah (partnership), financial institutions have fostered a great deal of flexibility, creativity and choice in the creation of Islamic finance products. Furthermore, by emphasizing the need for transactions to be supported by genuine trade or business-related activities, Islamic banking sets a higher standard for investments and promotes greater accountability and risk mitigation. These various Islamic finance concepts are become the main concept used in trade financing facilities in Islamic banks.

3. The Future of Islamic Trade Financing Facilities in Fintech Era

3.1 Risks and Challenges

The fact that Islamic banking is having more risk compare to its conventional counterpart, make the risk treatment not only vital but also extra complicated. Current treatment of risk in Islamic bank is still evolving and expanding due to technology upgrading. However, when it comes to digital era where new challenges and new risk are expected makes the risk management process for Islamic banking and financing even more complicated and complex. Obvious strategies to catch up and survive this digital era, Islamic banks need to relook its risk appetite and its risk mitigation approaches that are most suitable to sustain in the market.

Even though often perceived as a submerged sector in the global system, Islamic banking remain critical in providing wide-range of products and services, serving a broad spectrum of consumers and businesses. It has been one of the fastest growing sectors of international financial markets and will continue expanding at an even faster rate in the future. Commendable progress that has been achieved globally spanning across 75 countries, has witnessed significant growth in Islamic banking. By upholding to the fundamental principle of Shariah compliant practices, profit and loss sharing as well as promoting trading activities that generate fair and legitimate profit, Islamic banking stay competitive and unique (Abdul Kader, 2015).

Nevertheless, how long could Islamic banking maintain its sustainability and competitiveness given the challenges in digital age is transporting into the banking industry? Thus, this digital era is co-existence with financial technology (fintech) era. This current state has made trade financing processes in Islamic banks equally vulnerable and exposes to digitization type of risk. The risk is escalating when considering trade financing is involves with many documentations for its financing means. Obviously, several elements need to be considered such as customer expectations, competition and operating expenses.

The Customer Expectations

Going forward, customer expectation become more challenging. They expect more intuitive experiences, they expect to gain access to service at any time of the day on any device and instant decision making as well as customized propositions. To be able to fulfill and deliver all these expectations in trade financing processes, banks need to redesign their business model according to customers perspective and simplify the processes. However, it is critical to note that, simplicity in the process will be accompanied with new risk. Hence, this effort will be co-integrated with the risk function where it will become the most important function for the trade financing and banking business throughout. These increases growth of innovation across the industry and investment in financial technology (fintech) start-ups has and will expose the Islamic banks to more challenging issues. On this ground, where is Islamic banks stand on this? Are they ready and continue to win the fight for their customer relationships in this fintech era? An interesting fact to ponder about.

Competitive Rivals

According to Gutierrez, C. (2017), to stay competitive among their rivals, banks need to ensure effective **decision making** based on big data and advanced analytics. Few other elements must be put in the forefront such as staying connected and relevant to the customers and the whole banking chain, keeping up to date with the automation and technology and of course continuously being innovative in product offering as well as develop a strategic business and operating models.

The banking institutions are facing challenges and competition not only from their counterparts, but also from the newly start-ups with high technological leaning as well as companies such as mobile phone carriers, which are on the lookout for new lines of income stream in financial services sector. The new riders, known as FinTech companies offered their specialised services in foreign exchange, lending, access to capital markets, financial advisory services etc, while the mobile phone carriers have started to offer payment services using these devices. As a point of concern, most of these new entrances have started offering financial services similar to those available in traditional banking at a lower degree, less-uniform or simply non-existent regulations as compared with banking institutions (Cuesta et al. 2015).

The change in customers' preference who demanded for seamless, personalized and convenience banking experience coupled with advancement and innovative technology had forced banking institutions to urgently confront digitalization needs to remain at the competitive edge. The digitalization of banking services through online or mobile devices increased the ability to respond swiftly to the demands of digitally savvy customers. With the increasing number and pace of innovative technology offered by the Fintech players, banking institutions are facing challenges to stay relevant with the 'universal banking model' that typically offered transactions banking, investment and commercial transactions alongside the wealth and asset management (Cortet et al. 2016).

Cost and Operating Expenses

The dispersion of innovative IT solutions which directly involve banking customers has been accelerated driven by extensive recognition of technological innovations on the mobile devices such as smartphones, tablet computers, touch-sensitive screens etc. However, studies conducted on innovative services, such as personal finance management, mobile payment, crowd funding and so on, revealed that these innovations that are valued as "digital natives" are usually not within the scope of the established IT systems offered by banks.

Despite the huge amount has been invested by the banks to enhance their IT infrastructure, develop internal system applications, websites and online platform to support their extended business

spectrum, these systems mainly focus on operational functionalities around established banking products. Alt, R. and Puschmann (2012) opined that this existing system that provide electronic banking platforms for customers is merely an extension of physical counter services, which formed part of customers' retention strategy rather than technological advancement to added value chain of banks.

In this digital era, the need for upgraded technology infrastructure is imperative moreover in the banking operations given the need to maintain strong relationships and as a mean to retain customers. Furthermore nowadays, the way people carry and conduct their living, be it social, personal as well as commercial and economic activities have changed with ramifications for the manner they interact and communicate that matched their life-style. Technology infrastructures are not just critical for the running of banking business, but also vital for banking innovations and future banking structures or business model. Many banks are struggling to respond to the digital threats and facing challenge to seize the opportunities in an increasingly digital marketplace. The legacy IT systems and unstructured legacy processes often weighed down their capacity to experiment with digital innovation (Sia et al. 2016).

The sophistication of technology systems is defined based on their capability and ability to manage, organize, and analyse huge amounts of data with consistency and meticulousness. Huge amount of investment is expected to deploy the system that are capable to undertake more complex analysis of information through the identification of trends and patterns in large data sets which could later drive and structure the decision-making process. In addition, given the increase sophistication of technology offerings, the trend to embed risk management as part of technology solutions is inevitable for reasons of both efficiency and effectiveness (Bamberger, 2009).

As the matter of fact, the cost of investment for technology and system enhancement or deployment of new technology infrastructure contributed a major item in the banks' balance sheets. Notwithstanding this, adequate provision for this cost is required given the large amount of recurring IT spending shall be estimated for the upkeep of major data points as well as telecommunications infrastructure (Alt & Puschmann, 2012). As digital change and technology innovations are unstoppable and constantly responded to the forces of globalisation, banking institutions need to keep pace with rapid integration of new technologies or move with fast-changing environments of business regardless of the cost incurred.

Yes, on the surface, having simplification, standardization and digitization would help the bank to minimize substantial amount of operational expenses. However, on the other hand, to have an up to date in house system, large amount of investment is needed. Hence, bank need to relook strategically on their capital budgeting and return on investment.

In summary, it can be said that as the fintech revolution speeds up, there are also fundamental challenges to its progress such as the privacy and maintaining the secrecy of user data (Okamura and Teranishi, 2017; Park and Park, 2017). The study by Park and Park (2017) shows one way to provide security through a method that implements a security protocol to block and remove blockchain users' data. Questions linked to the authentication of users, especially when they access financial services from mobile devices, is also the origin of concerns with the security of information systems. When the certification of user authentication is insufficient, the opportunity for a third party to invade is greater (Kim et al., 2015).

Another issue is the growth of fraud in online financial services. There are many methods, algorithms and fraud detection systems nonetheless, it is difficult to detect new types of fraud in the services offered by emerging fintech companies (Kim et al., 2015). There are strategic solutions to this growing epidemic, such as investing in antivirus software and common-sense approaches to protecting passwords. Nonetheless, despite all these efforts, cybercrime is still growing (Balan et al., 2017). Thus, in future, companies could simulate the possible scenario to provide intelligence and

knowledge to their internal security teams, validating controls and protections before attempts at attacks compromise their operations.

4. Opportunities and Future Prospects

There are many Fintech activities that could aid the banks in trade financing such as payment and billing technologies, money transfer/remittance and blockchain. Under Fintech, payment and collection companies become faster and accurate because most transaction are in automated form (computerized). All the information on the business transactions is in a real time processing.

Trelewicz (2017) discusses the importance of big data approaches to the financial industry, detailing the challenges to its adoption, as well as future opportunities to develop the technology. The financial markets, especially retail banking and corporate credit, involve massive volumes of transactions and capital resources, making it a promising target for these new IT technologies. Among the applications suggested by Trelewicz (2017) are credit classification by developing applications capable of processing data to generate real time scores for credit applicants or developing adaptive models for standards in market negotiations that could provide information to subsidize investment strategies for buying and selling assets, such as Americans ADRs or in ex-dividend date stocks, i.e. when the stock loses its right to dividends. Tao et al. (2017), using a large sample of operations of one of the largest Chinese online P2P loan platforms, explore how financial and personal information of the borrowers, characteristics of the loans, and loan models affect the financial results of peer-to-peer (P2P) loans and discuss the implications of the work results for this big data based lending market model. According to Paul et al. (2016), the increase in big data analyses by retail banks permits them to estimate more precisely credit risks, as well as the users' disposition toward paying, the propensity to change and the response capacity to marketing offers.

The technology provides solutions to facilitate processing payments for the developers of payments by card (or bank slips) for software tools for billing by subscription. Any money or fund transfer can be made through platforms between banks in different countries in short period of time. Automated web-based consulting especially with robo-advisors helping consumers to choose investments, bank products or insurance policies. All these activities have the potential to reduce operating costs as well as increase the quality and transparency of financial counselling to consumers. Nonetheless, there are questions on how the technology for robotic advisors has evolved? Another interesting question is whether they can totally replace human and make better judgment than human for example in selecting better clients (credit rating).

Another view from Hawlitschek et al. (2018), blockchain ecosystems can be of great interest for new types of platforms and digital services, especially for fintechs active in the Payments/Billing, Transfers/Remittance, Crowdfunding, and Cryptocurrency sectors and that have common challenges to their use. Based on blockchain technology, the peer-to-peer platforms can be implemented as reliable interfaces for shared economy ecosystems or trust-free systems.

Qualitative Research Methodology

Selection of the participants

The study used purposive sampling method to appoint the experts (Mays N, Pope C BMJ, 1995). They were identified based on their extensive experience dealing with trade financing activity and system. Their diversity of expertise and affiliations are years of work experience in the fields of trade financing are also been considered. Some experts were interviewed face to face and some other were contacted by email by one of the researchers. The invitation email to participate in the study contained the background and the purpose of the study, the proposed interview time and date and the suggested

questions to be asked during the session. The actual number of participants contacted were ten, however only five gave their responses to be interviewed. All the five participants contributed rich data to the study to develop proposed themes for the trends in fintech activity of trade financing in participating Islamic bank. The following Table 1 summarised the important demographic of the selected participants which show their credibility as participant in the study:

Table 1: Important Demographic of Expert Interview's Participants

	P1	P2	P3	P4	P5
Age Group	26-35 years old	More than 45 years old	26-35 years old	More than 45 years old	More than 45 years old
Highest Education	Diploma or equivalent	SPM/STPM or equivalent	Degree	Diploma or equivalent	Degree
Working Experience	6-10 years	More than 20 years	11-20 years	More than 20 years	More than 20 years
Current Position	Executive	Executive	Senior Manager	Senior Manager	Top Management
Current Department in the Bank	Group Transaction Banking	Global Trade Centre	Trade Risk and Compliance	Trade Services	Trade Operation & Enablement

Source: Researchers

To reach into (sub)-themes emerged from the interview, the interviewer compared field-notes made during each interview with previous interviews. After five interviews, the data collection was stopped, and several themes were emerged from the sub-themes observed. Data collection was conducted once, hence it is the limitation of this study that it focused only on selected participating banks. Hence generalisation is not recommended.

Interviews

Fintech activity of trade financing in Islamic bank has never been studied previously. Hence, interviews were considered the most appropriate method for collecting data, to gain insights into the views and experiences of individual experts. The semi-open structured interview allowed interviewees to elaborate on areas which they regarded as important. A semi-structured interview protocol containing a set of open-ended questions for gathering expert views was used to discuss the current status of fintech in trade financing, the platforms available and used, and the risk exposures observed and experienced in trade financing activity. The semi-open structured questionnaires were self-developed by the researchers based on the literatures and prior discussion with the officers involved in trade financing activity. The interviews were audio-recorded (for face to face) and some were written data, transcribed verbatim by one of the researchers. Interviewees were asked by mail to verify the classification of background characteristics, their work experience in number of years and the content of the transcribed interview.

Analysis

A thematic analysis was conducted using manual tabling process in Microsoft Words 2016. The coding process involved five phases in creating established, meaningful (sub)-themes and headings. In the first phase, the researchers will read through the transcript to become familiar with the data. Second,

transcripts were read more thoroughly, and the initial codes of themes were applied to sections, sentences or words as they emerged in the data. This was done using the coding protocol based on the field notes made by the interviewer. Third, sub-themes and headings were identified, and fourth, the coding protocol was adapted if necessary. Finally, phases two and three were repeated and if needed new sub-themes and headings were added (Braun V, Clarke V., 2014).

The results are presented for every theme, including a description of results and illustrative quotes. We choose to use illustrative quotes approach to present the results for each theme (Anderson C., 2010). The quotes as raw data were labelled, compiled and analysed for any emerging themes.

Ethical considerations

Participants were approached personally by the researchers and were volunteered to participate in the study. The consent of the respondents was obtained before each interview session. No intervention from the top management of the banks and no data were collected without prior approval from the individual participant. During the interview session, the interviewees were free to stop the interview at any time. Prior to the interview session, the purpose of the study was explained again and informed verbal consent for participation in the study was obtained. All experts were not required to mention their name and their opinions do not represent their banks' opinions. All the transcriptions were shown and verified by the respondents for research ethical consideration purpose. All the five experts preferred to stay anonymous, and the quotes were coded based on numbers. Only the background information of the study population and their level of experience related to the study are provided.

6. Findings on the Conduct of Risk Management in Trade Financing For Selected Islamic Bank: An Analysis of the Experts' Interviews

The study managed to interview five experts who involved directly with fintech activity in trade financing.

General opinion on the need for risk management

In general, all respondents are of the opinion that risk management is important especially for trade financing facilities in Islamic bank. Participant 1 (P1) and Participant 3 (P3) strengthened their views by considering that risk management is in fact not only important but also very crucial to protect bank's interest and ensure its profitability. P1 and P3 for instance stated:

"Risk management is crucial for financial institution to ensure profitability is secured by foresee and avoid potential losses to the institution"

(P1, 6-10 years' experience in Islamic bank)

"Risk management is very crucial in protecting bank's interest as in day to day operations, banks are exposed to risk"

(P3, 11-20 years' experience in Islamic bank)

Participant 5 (P5) furthermore stressed the reason why risk management is important by saying:

"Risk management is important to identify potential problem before occur so that risk handling activities may be planned and invoked as needed"

(P5, >20 years' experience in Islamic bank)

The noticeable finding from all the above conversations is the seriousness and worrisome of all the participants of the need for a proper risk management planning in their banks mainly in the trade financing activities where it involves inter-banks and inter-countries activities. It is not only about performance and profitability of the banks, moreover it is about forecasting problems and losses incurred by the banks.

Risk Management in Trade Financing

Trade financing which involves among others import and export activities mainly in the international trade has huge impact on risk management function. The opinions of all the participants whom most of them possess more than 20 years' experience in Islamic bank have proven and strongly support the above statement. P1 opined that:

"Risk management in trade financing is important to mitigate risk involve in domestic and international trade"

(P1, 6-10 years' experience in Islamic bank)

While P1 generally observed the importance of risk management in trade financing in both local and international trade, P3, P4 and P5 specifically highlighted the types of risks might be faced in trade financing. P3, P4 and P5 deliberately said:

"In trade financing, risk management is utmost important. It consists many types of instruments such as import export documents, guarantees and as well as financing. Since trade finance involves either local or cross-border, risk management in trade finance is very important since we may not aware of where the risk might come. The types of risk that trade finance might be exposed to are country risk, political risk, operational risk, credit risk and market risk"

(P3, 11-20 years' experience in Islamic bank)

"It is important for trade finance operation to have risk management since trade finance operation handles all commercial and financial related transactions which must be verified and thoroughly screen for authenticity and must not involve money laundering or terrorist financing"

(P4, >20 years' experience in Islamic bank)

"Risk management in trade finance operation is very important to the bank in managing its exposure to losses or risk such as technology risk, product risk and operational and etc."

(P5, >20 years' experience in Islamic bank)

The observation of all the above participants is not only about the existing state of risk in trade finance, moreover it goes beyond the future risk that might be faced by trade finance activities especially when fintech comes into the picture. The technology risk is the major issue when it comes to digital era. With the expand of fintech which effects among others technological platforms for trade finance such as trade finance software, payments, financing, foreign exchange and remittance (Muhammad, N.A et. al, 2018) the exposure to risk also is expanding. Moreover, the borderless system and the introduction of bitcoin experienced by Islamic banks today might bring more troublesome in the future if the risks are not managed accordingly.

Participants' Ranking and Suggestion for Managing the Risk Exposure for Trade Finance Facilities

The level of risk exposures for trade finance facilities depends on the types of facilities involved. Currently in the industry, not less than thirteen trade finance facilities offered to the customer. When the interview participants were required to rank the level of risk exposure of each facility, most participants ranked most of the products as high-risk exposure. They also suggested in conclusion three major themes for the implementation of effective risk management in the listed risky area namely as pre-approval screening, staff training and post investigation activities like audit and consultant's check. P1 suggested review, audit and staff training for effectively manage the risky areas as listed in the ranks. P5 however more consider on the operational lapses where it could occur before, during and after the approval process is completed. P4 who ranked invoice financing for both import and export service of trade finance as very high risk suggest a few important points leading to the themes. To manage the above situation, as experienced banker he suggested:

"The risky area as ranked above especially the invoice financing which I ranked as very high risk is suggested to go through proper screening process when screening the applicants. In addition,

training and awareness of risk compliance control is highly required. Periodic external consultant updates of market trend and risk hot spots to focus should be also in place. Moreover, internal audit specific on risk control and effectiveness of process and screening should be given due attention.”

(P4, >20 years' experience in Islamic bank)

P3 who also ranked most trade finance facilities as high risk proposed a few suggestions in order to implement risk management effectively as according to him:

“To effectively manage the risk areas as listed, KYC (know your customer) is to be performed before onboarding and KYCC (know your customer's customer) to be performed in order to know what they are dealing with. plus Anti Money laundering (AML)/Sanction check on every single transaction should be conducted. I also believe that well trained staff in identifying and mitigating the risk is the key. On the top, post surveillance checking is a must”

(P3, 11-20 years' experience in Islamic bank)

7. Conclusion and Recommendation

The main aim of this study is to investigate and explore further the extend of risk management practices and processes of trade financing in Islamic banks. From the analysis, we can conclude that the conduct of risk management is very critical given the fact that this new fintech era is exposing the banks to not only inherent risk but also new types of digital related and cyber risk. It is the duty of Islamic banks to make sure that the processes in trade financing besides its digitization in simplifying the processes it must be properly guided, regulated by having enough trained staffs with knowledge in compliance and risk awareness in order to protect the banks against serious risk.

In trade financing, knowing their customers in and out by thorough checking on customers background and financial history are important. Hence, this study showed that a standard procedure such as Know Your Customer (KYC) and Know Your Customer's Customer (KYCC) are a must do procedure. Furthermore, the findings also indicated that the implementation of effective risk management in the listed risky area namely as pre-approval screening, staff training and post investigation activities like audit and consultant's check have become a concern to all the interviewed participants. Most of the participants have ranked that listed import and export trade facilities are high risk exposures.

The observation done in the expert's interview is not only about the existing state of risk in trade financing, it goes beyond the future risk that might be faced by trade financing processes especially when operating in the era of digitization where fintech risk and digital risk are co-existing exposing the banks to a greater risk exposure. The technology risk is the major issue when it comes to digital era. The overwhelmed growth of fintech which effects among others technological platforms for trade financing processes such as trade finance software, payments, financing, foreign exchange and remittance has made the banks more vulnerable in terms of risk exposure. Moreover, the borderless system and the introduction of bitcoin experienced by Islamic banks today might bring more troublesome in the future if the risks are not managed accordingly.

Therefore, looking at the fact that risk exposure in trade financing processes is escalating due to this new fintech era, it has propelled not only Islamic banks but also its conventional counterpart to have greater resilience when it comes to handling day to day trade financing processes. The need of having proper risk management planning is critical and the findings from this study shows that the Islamic banks are preparing themselves in facing this challenging era and ready to be at par with their conventional counterpart.

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Is Shari'ah Index Membership Risky?

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Abstract

The study explores the Shari'ah index membership effect around index revision period especially to the newly added and deleted constituent stocks (termed as event stocks). This study analysed 40 event stocks for Shari'ah blue-chip index, DJIM Titans Malaysia 25 Index (DJIMY25). The analysis was conducted over a period of seven years (2009-2015) using an event study methodology and the expected returns were estimated using market model (MM). The study divided the event stocks into three groups – additions, deletions due to the index annual rebalancing and deletions due to non-Shari'ah compliance. The findings of this study provide a new evidence on index additions and deletions contrary to the ones reported in the previous studies. Surprisingly, additions to DJIMY25 produces negative results with permanent decreased in stock returns and temporary decrease in trading volumes. The data suggest that Shari'ah sensitive investors may have lost confidence in these stocks possibly because they have been included and excluded from the index repetitively for failing the Shari'ah screening requirement. It shows that these companies were unable to maintain their financial ratios within the prescribed thresholds of Shari'ah compliance in the long run. Investors seemed hesitant to buy these stocks even after re-inclusion to the index. As expected, deletions either due to the index annual rebalancing or non-Shari'ah compliance, have shown negative results with decreased in stock price, temporary decreased in trading volumes and increased in the stock's absolute volatility. The finding of this study implied that index membership in Shari'ah index can induce Shari'ah compliant risk for the firms that unable to maintain their Shari'ah compliant status in the long-term.

Keywords: index effect; Shari'ah index; Dow Jones Islamic Index; event studies

1. Introduction

Shari'ah indexes represent the Shari'ah compliant investable universe and serve as an appropriate benchmark for Shari'ah compliance equity portfolio. The user of Shari'ah indexes are both actively and passively-managed Islamic investment funds. Shari'ah indexes are developed by global Islamic index providers who pre-screen global assets from their set of conventional indices and exclude firms that are not Shari'ah compliant. Therefore, the entire assets in a Shari'ah index is a subset of assets in its corresponding conventional parent index. Consequently, the Shari'ah indexes membership depends on the eligibility requirement of the parent indices and the Shari'ah screening requirement. The inclusion into Shari'ah indexes must fulfil the index eligibility criteria of the parent indices before screening for compliance. The deletion from Shari'ah indexes therefore can be due to either non-compliance or not fulfilling the parent's indices criteria. Stocks deleted due to ranking downgrade are still in the broader Shari'ah index families, but stocks deleted due to Shari'ah non-compliance are completely taken out from the pool of large Shari'ah investments and are disposed from the portfolio of index-linked and actively managed funds benchmarking the index. The worst-case scenario would be the one that is deleted from the parent index, which will be wiped out from the entire index universe.

The findings on conventional index revision effect (henceforth index effect) from developed markets and emerging markets are conclusive, in which the newly added index member experienced positive abnormal return and increase in trading volume, while the reversed for stock deleted from the index. In

the case of Shari'ah index, the index revisions impact on the share prices and trading volume of the event stocks is inconclusive. The positive (negative) effect of inclusion (exclusion) to (from) Shari'ah index is observed in Muslim dominated countries like Malaysia (Abdullah & Bacha, 2001) and GCC countries (Sadeghi, 2008, 2011a, 2011b). However, the negative reaction to Shari'ah index inclusions is also observed in other capital markets like the U.S., Australia and Turkey (Jaballah, Peillex, & Weill, 2018; Sadeghi, 2014; Yildiz & Dia-eddine, 2016). The inconclusive and competing evidence of index effect in Shari'ah index is probably lies in the information content of the newly added firms and deleted firms and different perceptions and risk appetite of investors towards the news².

Furthermore, there is documented evidence of asymmetric index effect from Shari'ah index revision, with deletions having more pronounced reactions compared to inclusions. The asymmetric reaction is based on the premise that news on revisions in Shari'ah index is a price sensitive information regarding the companies' financial health and the exclusion from Shari'ah index requires immediate disposal especially from index funds³. This selling pressure on the stocks deleted from Shari'ah index does provide buying opportunities for conventional investors to accumulate good quality stocks at relatively discounted prices if the securities are widely followed by conventional investors.

The previous studies on the effect of the index revision to constituent stocks and index funds are mostly conducted on conventional tradable indices. This study fills the gap by using Shari'ah tradable indices which are based on Shari'ah screening that excludes exposure to certain industries and embeds strict financial soundness requirements for index membership. Therefore, the Shari'ah screening practice has implication on the nature of stocks added and deleted from the index. There are a few exclusive studies investigate how reconstitution of the Shari'ah due to continuous Shari'ah screening affects the underlying stocks, particularly the addition and deletion stocks. For example, Sadeghi (2011a, 2011b, 2012, 2014) focused on the impact of Dow Jones Islamic Market Index (DJIMI) addition and deletion components at country level i.e. at Kuwait, Oman, Qatar, UAE, Jordan, Egypt and Australia.

This study investigates abnormal return, trading volume and return volatility around index composition changes of DJIMY25 Index. The choice of DJIMY25 Index helps to gauge the reactions of Malaysian investors to index additions and deletions and explores the index effect of blue-chip Shari'ah index, a subset of the Dow Jones Islamic Market World Index (DJIM World). In previous studies, index effect from Shari'ah index focused only on large index particularly the DJIM and DJIM World (Chen & Ngo, 2017; Jaballah et al., 2018; Mazouz, Mohamed, & Saadouni, 2016a, 2016b; Sadeghi, 2011a, 2011b, 2012, 2014).

The choice of Shari'ah blue-chip index in this study also enable to gauge the impact of deletions due to different reasons (ranking downgrade, failing the Shari'ah screening requirement and exclusion from the parent index) which have different implications on the event stocks. This study attempts to distinguish the impact of index membership changes on the underlying constituent stocks under three categories; additions to the index, deletions due to non-Shari'ah compliance and deletions due to annual rebalance. This study hypothesises that different reasons for deletions from Shari'ah index may create different investor reactions.

The findings of this study have important implications for stock issuing firms and investors. For firms that make up the Shari'ah index, the study helps the firms' managers to understand the short-term and long-term implications of being a Shari'ah index member and when excluded from the index due to different reasons. The failure to comply with Shari'ah screening requirement in the long-term pose a Shariah compliant risk in terms of unable to instil investors' confidence even after regaining the Shari'ah compliant status. Next, by understanding the impact of index changes to index new component

² See McGowan & Muhammad (2010) for full discussion of optimistic and pessimistic views on Shari'ah equity portfolios that explain the inconclusive index effects.

³ Actively-managed funds and institutional investors may have some buffer period before disposing of the deleted stocks to avoid losses and to recover the cost of investment of stocks deleted due to non-compliance

and deleted stocks, index fund managers could formulate a trading strategy to avoid transacting at a disadvantageous price, hence striking a balance between return and tracking error of the fund. This study provides empirical evidence about the price of compliance that investors should bear while choosing Islamic equity investments especially the one utilising passive investment strategy like Islamic ETFs and Shari'ah tracker funds.

2. Review of Literature

Evidence from New Zealand (Elayan, Li, & Pinfold, 2000), Japan (Liu, 2006) and other economies like Turkey (Bildik & Gülay, 2008) and Malaysia (Asem & Alam, 2012) conclude that stocks added to an index experienced positive abnormal returns and increase in trading volumes especially from the announcement date (AD) to the effective date (ED) of index changes and the opposite effect for index deletions; the findings were inconclusive with respect to whether the stock price changes are permanent (long-term) or temporary (short-term).

In the context of Shari'ah index, index revision conveys information about the firm's ethical image, mission, and economic prospects. This private information could affect the firm's expected cash flow and required rate of return (Sadeghi, 2014). Once the firm is included in the Shari'ah index, it has a higher chance to attract more capital inflows from Islamic mutual funds, treasury department of Islamic institutions, Muslim retail investors and other ethical investors. The additional capital flow enhances the company's growth prospect that is reflected in an increase in share price.

Furthermore, an inclusion into a Shari'ah index is perceived as good news due to the nature of Shari'ah portfolio constructed based on high quality fundamentals and low D/E ratio. A lower leverage ratio and cash level of newly added stocks can be perceived as indicator of lower bankruptcy risk and good corporate governance and therefore, inclusion to (exclusion from) Shari'ah index should have positive impact (negatively) on added stocks (Jaballah et al., 2018). In addition, the Shari'ah compliance label conveys information about the permissible operation, lawful practices and associated with the good image of the firms, such as quality, safety, environmentally friendly and efficiency (McGowan & Muhammad, 2010).

Retrospectively, exclusion from a Shari'ah index conveys information about the firm's increased risk due to higher debt level. Evidence of index effect of additions on the return and liquidity from the Middle East components of Dow Jones Islamic Market Index (DJIM) (Sadeghi (2011a)), on Egypt and Jordan components of DJIM (Sadeghi (2011b)) concluded that index additions caused short and long term increases in the returns and liquidity of added stocks.

Inclusion into a Shari'ah index could also be perceived as negative news due to limited diversification benefits, high industry concentration and limited sources of external financing, hence reducing the firms' potential returns. Sadeghi (2014) suggests that new additions to Shari'ah index conveys information about Shari'ah screening that limits their investable universe, most likely to forgo better performance and bear significant unsystematic risk due to lack of diversification and lesser selection choices. Yildiz & Dia-eddine (2016) documented negative reaction on additions to Shari'ah index using Turkey's Participation-30 Index, and attributed the findings to the limited products linked with the index and lack of investors' recognition towards the index, the dissatisfaction amongst domestic investors who perceived financial ratio screening not comparable to global standards, and inclusion of firms into the index is by chance rather than by choice.

Firms that increase their leverage in an imperfect capital market with corporate taxes can increase their assets' value (Modigliani & Miller, 1958). It is an incentive for management to use more debt that results in increase in cash flows from tax shield on interest payments. However, higher financial leverage leads to higher default risk. In the case of Shari'ah-compliant companies, borrowing is capped at 33 percent and this contributes to the suboptimal level of capital structure that leads to a higher cost of capital. The

insufficient diversification and the debt constraint in Shari'ah equity portfolio may signal negative information on the newly-added firm into a Shari'ah index.

The empirical evidence from conventional size-based index studies showed that the index effect could be temporary or permanent. In the case of Shari'ah index, the stock price reaction is expected to be permanent for inclusion and exclusion. Chen & Ngo (2017) showed inclusion into DJIM World had persistent positive price and liquidity effect, decrease the cost of equity and increase firms' operating performance. Exclusion from DJIM World had sustained negative price and liquidity effect but no decrease in investors' awareness.

3. Methodology and Data

The study used DJIMY25 Index, a Shari'ah blue-chip index. The index is tracked by MyETF Dow Jones Islamic Market Malaysia Titans 25 (MyETF-DJIM25), introduced in January 2008. The DJIMY25 Index is a subset of the DJIM Malaysia Index that consist of companies domiciled in Malaysia whose stocks are traded on Bursa Malaysia. The eligible constituent of DJIMY25 Index must fulfil three (3) criterion as follows:

- 1) pass rules-based screens for Shari'ah compliance based on the DJIM Index Methodology,
- 2) less than 10 non-trading days over the past quarter,
- 3) follow Malaysia's Shari'ah Advisory Council (SAC) of the Securities Commission (SC) guidelines.

Stocks that fulfil the above criterion will be ranked top-down according to size (market-capitalization) and liquidity (12-months average daily trading volume). The final ranking is determined using equally weighted combination of size and liquidity's ranks.

The index composition of DJIMY25 is reviewed annually in September since 2013. Prior to 2013, the annual index revision was done in June. During annual rebalancing, the investable weight factor (IWF) for each stock is reviewed and updated. The process is based on the market data from the end of July (for September annual review) and April (for June annual review). Besides the annual index revision, the stocks, weights and weighting cap factors are updated quarterly in the month of March, June, September and December. The index is also reviewed on ongoing basis for unusual corporate events such as delisting, bankruptcies, mergers and acquisitions. The companies deleted due to these corporate events will be replaced immediately. In general, no companies are to be added to the index between annual rebalancing, except for replacement for deleted constituents that fail the Shari'ah compliance requirements (Dow Jones Islamic Market Indices Methodology, 2014). In terms of weighting, the DJIMY25 Index is weighted by float-adjusted market capitalization and reviewed quarterly. The weight of each individual constituent is capped at 20% of the index.

The DJIMY25 is rebalanced quarterly where the index component and/or the index weightage is reshuffle. This paper is confined to index revision events of DJIMY25 Index between June 2009 and March 2015. The data to analyse the impact of DJIMY25 Index revision to the added and deleted constituent stocks consists of the date of index revision event of DJIMY25 and the event stocks. The data on the details of index additions and deletions, announcement dates (henceforth AD) and effective dates (henceforth ED) were collected from Bursa Malaysia and MyETF website.

The initial list of each event stocks was subject to screening for events related to change of company's name, delisting, spin-off and mergers and acquisitions (M&A), cleaning for the same event stocks which appear in two consecutive quarters, and ensuring sufficient observations of closing price and trading volume for the estimation and analysis period. After that, a final sample of 19 additions and 21 deletions from the thirteen (13) revisions that were done on DJIMY25 for the period June 2009 to March 2015 were available for analysis. The details of the final sample are summarized in Appendix A.

To test for the possibility of the market reacting differently (asymmetric reaction) to deletion for different reasons and also to test the significance of the ‘compliance effect’, the sample of deletions were split into deletions due to ranking downgrade and deletions due to Shari’ah non-compliance. The first deletions happen during annual review while the later can happen anytime. Stocks that are deleted due to the downgrading (but still Shari’ah compliant) are demoted to regional/country indices, whereas deletions due to Shari’ah non-compliance are removed from the entire Shari’ah compliant index universe which is the DJIM World Index. The sources of data indicated Shari’ah non-compliance as a cause of deletion but did not explicitly indicate deletion due to ranking downgrade. Based on the requirements of the Dow Jones Islamic Market Indices Methodology (June 2014, Jan 2015) that no components are added to a blue-chip index between annual rebalancing, except for replacements for non-compliance and corporate events, and since the companies in the final deletion list were already checked for corporate events, the key assumption in this paper is that “*all sample deletions in between annual rebalance were due to non-Shari’ah compliance*”, that allows to ascertain the impact of deletion due to Shari’ah non-compliance. Since no information was available from the news of DJIM index changes on ranking downgrade, the sample of deletions were identified based on deletions *during* annual rebalance (i.e. in the month of June (2009-2012) and in the month of September (2013-2015)) and deletions *in between* annual rebalance (i.e. in the month of March, September, December (2009-2012) and in the month of March, June, December (2013-2015)). After separation of deletion samples, the final sample was divided into three categories, namely 19 additions, 14 deletions due to annual rebalance and 7 deletions due to non-Shari’ah compliance. Since the sample size for deletion due to non-Sharia compliant became smaller after the sample segregation, the study combined the same category of stocks from other index, DJIM Titans 100 Index (a subset of DJIM World Index) to provide better reliability of findings. After the combination which serve as robustness check, the sample of deletions due to non-Shari’ah compliance became 32.

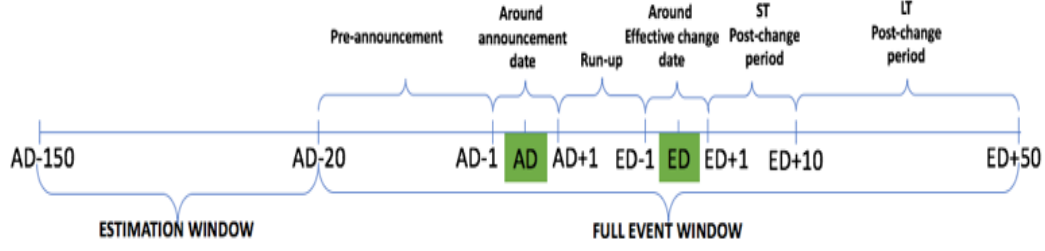
An event study methodology was applied to estimate abnormal return, abnormal volume and abnormal return volatility for event stocks. The abnormal return represents the impact of the event on the value of the firms which is reflected in the firm’s stock price around the announcement date (AD) and the effective date (ED).

Based on the literature of similar studies (Rahman & Rajib, 2014), the event window was designated from 20 days before the AD until 50 days after the ED i.e. (AD-20, ED+50). The estimation window was between 150 days before the AD to 21 days before the AD i.e. (AD-150, AD-21). The estimation window is used to compute the benchmark parameters whereas the event window is used to compute abnormal returns based on the estimated parameters.

To capture different market reaction at different time, the full event window was further segregated into six sub-periods i.e. before the AD (from AD-20 to AD-2) to observe if the market anticipates the component changes in the index and predict the stocks that are likely to be included or removed from the index; around the AD (from AD-1 to AD+1) to measure the impact of the index revision announcement⁷; between the AD and ED (from AD+2 to ED-1) to follow the market reaction from the announcement date until the day before the effective change date when the index funds are trading and arbitrageurs front-running; around ED (from ED-1 to ED+1) to observe price reaction and volume effect on the ED due to index funds’ rebalancing activities; after the ED (short term) (from ED to ED+10) to test the persistency of the impact within ten days after the ED; and after the ED (long term) (from ED+11 to ED+50) to observe the permanent price and volume effect.

The timeline for full event window and the sub-event window is summarized in Figure 1:

Figure 1. Timeline for event windows



3.1. Return Event Study

This study utilised standard market model to estimate the abnormal return. The daily abnormal returns are defined as the excess return on day t over the index return. The daily return R_t is computed as follows:

$$R_t = \ln \left(\frac{P_t}{P_{t-1}} \right) \quad (1)$$

where P_t is the stock/index adjusted closing price at time t and P_{t-1} is the stock/index adjusted closing price at time $t-1$. The expected returns in standard market model, denoted by MM, is computed by estimating a regression using ordinary-least squares (OLS) method:

$$R_{i,t} = \alpha_i + \beta_i R_{m,t} + \varepsilon_{i,t} \quad (2)$$

where return of firm i and return of reference market on day t is denoted by $R_{i,t}$ and $R_{m,t}$, respectively. The DJIMY25 Index are taken as proxies for market. The OLS estimates parameter α_i and β_i in Equation (2) based on the assumption that the error term is homoscedastic with a mean zero and a constant variance were used to estimate the abnormal returns.

The abnormal return for an individual stock i was estimated by taking the difference between the actual return and the expected return on day t surrounding the event date. The abnormal returns are computed as follows:

$$AR_{it} = R_{it} - E(R_{it}) \quad (3)$$

$$E(R_{i,t}) = \alpha_i + \beta_i R_{m,t} \quad (4)$$

where R_{it} is the rate of return on the stock of firm i on day t . Equation (4) is expected return from MM. The average abnormal return (AAR) for day t is calculated as follows:

$$AAR_t = \frac{1}{n} \sum_{i=1}^n AR_{i,t} \quad (5)$$

where n is the number of firms in the sample.

To measure the total impact of an event over a particular event window, the abnormal return for firm i on day t may then be accumulated to create cumulative abnormal return (CAR), computed as follows:

$$CAR(t_1, t_2) = \sum_{t=t_1}^{t_2} AR_{i,t} \quad (6)$$

The cumulative average abnormal returns (CAAR) is further calculated, which represent the mean values for CAR for sample of additions and deletions stock. The CAAR for n firms in additions and deletions group for a sub-event window of length t_1 to t_2 is computed as follows:

$$CAAR = \frac{1}{n} \sum_{i=1}^n CAR(t_1, t_2) \quad (7)$$

where n is number of firms in the sample of additions or deletions group, t_1 is the first day of the sub-event window and t_2 is the last day of sub-event window.

To test the statistical significance of the abnormal returns, cross-sectional t -test (two-tailed) and the non-parametric Cowan's (1992) binomial sign test (z -test) are used. The formulae for t -statistic for testing $H_0: AAR = 0$ is as follows:

$$t_{AAR_t} = \sqrt{N} \frac{AAR_t}{S_{AAR_t}} \quad (8)$$

where S_{AAR_t} is the standard deviation across firms at time t and N is number of stocks in the addition and deletion groups.

$$S_{AAR_t}^2 = \frac{1}{N-1} \sum_{i=1}^N (AR_{i,t} - AAR_t)^2 \quad (9)$$

For CAAR the t -statistic for testing $H_0: CAAR = 0$ is given by

$$t_{CAAR} = \sqrt{N} \frac{CAAR}{S_{CAAR}} \quad (10)$$

where S_{CAAR} is the standard deviation across the sample.

$$S_{CAAR}^2 = \frac{1}{N-1} \sum_{i=1}^N (CAR_i - CAAR)^2 \quad (11)$$

The z -statistic is computed as:

$$z - stat = \frac{\omega - Np}{\sqrt{Np(1-p)}} \quad (12)$$

where ω is the number of stocks with actual positive abnormal returns on day t during the event period, N is the number of stocks in the sample, and p is the expected percentage of positive abnormal returns. Under the null hypothesis of no abnormal returns, the number of stocks with positive abnormal returns is expected to be in line with the fraction p of the positive abnormal returns from the estimation period. The null hypothesis is rejected when the actual number of positive abnormal returns is significantly higher than the expected number.

The fraction p is estimated as

$$p = \frac{1}{N} \sum_{i=1}^N \frac{1}{L_1} \sum_{t=T_0}^{T_1} \varphi_{i,t} \quad (13)$$

where $\varphi_{i,t}$ is 1 if the sign is positive and 0 otherwise. L_1 is the estimation window length with T_0 as the earliest day of the estimation window, and T_1 the latest day of the estimation window relative to the event day.

3.2. Volume Event Study

Harris & Gurel (1986)'s volume event study is used to detect investors' response to abnormal trading activities before, during and after the revision. The rationale to use the volume data associated with the event is to detect the timing of purchase by indexers and other institutional investors, as well as the movement of arbitrageurs. Arbitrageurs' movement should be apparent in the period after the announcement date but before the effective date to realise any significant profit that might be arise due to price pressure associated with the event. Meanwhile, indexers only rebalance their portfolio on the effective date to minimise tracking errors.

The volume ratio measures the security volume relative to the market volume. The volume ratio is supposed to equal 1 as theoretically stock's trading volume relative to the market on any random day should be approximately equal to what it is on average. The volume time series data are divided into an estimation window (AD-90, AD-21) and event window (similar with return event study). The ratio is computed as follows:

$$VR_{i,t} = \frac{V_{i,t}}{V_{m,t}} \cdot \frac{\bar{V}_m}{\bar{V}_i} \quad (14)$$

where \bar{V}_i is the average trading volume (i.e., stock price times number of traded stocks) of stock i during the estimation window; \bar{V}_m is the average trading volume of the market during estimation window; $V_{i,t}$ represents the trading volume of the stock i on day t in the event period; and $V_{m,t}$ represents the market trading volume on the day t in the event period.

The cross-sectional average of volume ratio at each day t in event window denoted by AVR_{it} which is supposed to equal 1 if there is no change in volume during the event period relative to the estimation period.

$$AVR_t = \frac{1}{N} \sum_{i=1}^N VR_{it} \quad (15)$$

Then, the mean of AVR_{it} is calculated as follow:

$$MAVR_s = \frac{\sum_{t=1}^{t_2} AVR_t}{s} \quad (16)$$

where s is the event window length. Two-tailed t -tests will be performed to test the hypothesis that $MAVR_T = 1$. Percentage of firms with $AVR > 1$ will be reported to complement the t -tests as a robustness check.

3.3. Volatility Event Study

To investigate the volatility effect, this study adopts volatility event study of Balaban & Constantinou's (2006) that simultaneously tests the effects of announcement of index reshuffle on the mean and conditional volatility of event stocks. Indirectly this approach helps to calibrates the result from MM described in previous section.

To estimate the abnormal volatility that could be induced by the index reshuffle event, the market model with GARCH errors (Bollerslev, 1986) and dummy variables that represent the event and effective date (both AD and ED) are used in both the mean and volatility functions. For this purpose, the GARCH (1,1) model is employed in this study.

$$R_{i,t} = c_i + \beta_i R_{m,t} + \gamma_i D_{i,t} + \varepsilon_{i,t} \quad (17)$$

$$h_{i,t}^2 = \alpha_{i,0} + \alpha_{i,1} \varepsilon_{i,t-1}^2 + \lambda_i h_{i,t-1}^2 + \delta_i D_{i,t} \quad (18)$$

where $D_{i,t}$ is a dummy variable such that $D_{i,t} = 1$ if day t is announcement day (AD) or effective day (ED) respectively for event stock i , 0 otherwise. $R_{i,t}$ is the return of the firm i on day t and $R_{m,t}$ is the return of the reference market on day t . The abnormal return and abnormal volatility for AD or ED for firm i are captured by γ_i and δ_i , respectively. To estimate the volatility using GARCH, a full data set of daily returns for the period AD-150, ED+50 is used. The pre- and post-event volatilities (AD-50 vs. AD+50, and ED-50 vs. ED+50) were compared to test the changes in volatilities induced by the index revision event.

The cross-sectional test statistics of Brown & Warner's (1980) for abnormal volatility which test whether the conditional volatility on the event dates is different from the other days across the firms is expressed as Eq.19. Whereas the corrected cross-sectional t -statistics of Balaban & Constantinou's (2006) that accounts for firm-specific volatility is shown in Eq.20.

$$t_{AV,t} = \frac{\bar{\delta}}{\sqrt{\frac{1}{n(n-1)} \sum_{i=1}^N (\delta_i - \bar{\delta})^2}} \quad (19)$$

where $\bar{\delta} = \frac{1}{N} \sum_{i=1}^N \delta_i$

$$t_{AVC,t} = \frac{\bar{S}}{\sqrt{\frac{1}{n(n-1)} \sum_{i=1}^N (S_i - \bar{S})^2}} \quad (20)$$

where $\bar{S} = \frac{1}{N} \sum_{i=1}^N S_i$ and $S_i = \frac{\hat{\delta}_i}{\hat{\sigma}_i}$ with $\hat{\sigma}_i$ being the standard deviation of estimated conditional standard deviation series for firm i .

To test whether event dates effect (AD and ED) are significant across the event firms investigated, the study computes the cross-sectional test-statistics for abnormal return expressed in Eq. 21. The corrected version of the test statistics of Balaban & Constantinou's (2006) is expressed as Eq. 22.

$$t_{AR,t} = \frac{\bar{\gamma}}{\sqrt{\frac{1}{n(n-1)} \sum_{i=1}^N (\gamma_i - \bar{\gamma})^2}} \quad (21)$$

where $\bar{\gamma} = \frac{1}{N} \sum_{i=1}^N \gamma_i$

$$t_{ARC,t} = \frac{\bar{S}}{\sqrt{\frac{1}{n(n-1)} \sum_{i=1}^N (S_i - \bar{S})^2}} \quad (22)$$

where $\bar{S} = \frac{1}{N} \sum_{i=1}^N S_i$ and $S_i = \frac{\hat{y}_i}{\hat{h}_{i,t}}$ which standardised \hat{y}_i by the estimated conditional standard deviation $\hat{h}_{i,t}$ of firm i on the event date ($t=0$).

Furthermore, the study also estimates the firm and the market volatility of returns denoted by σ_i and σ_m , respectively, on a pre-event window $[-50, 0]$ and post event window $[0, 50]$. $t=0$ indicates the event dates which are the announcement date (AD) and effective date (ED). For each firm i , the study calculates the pre-event and post-event volatility ratio as follow:

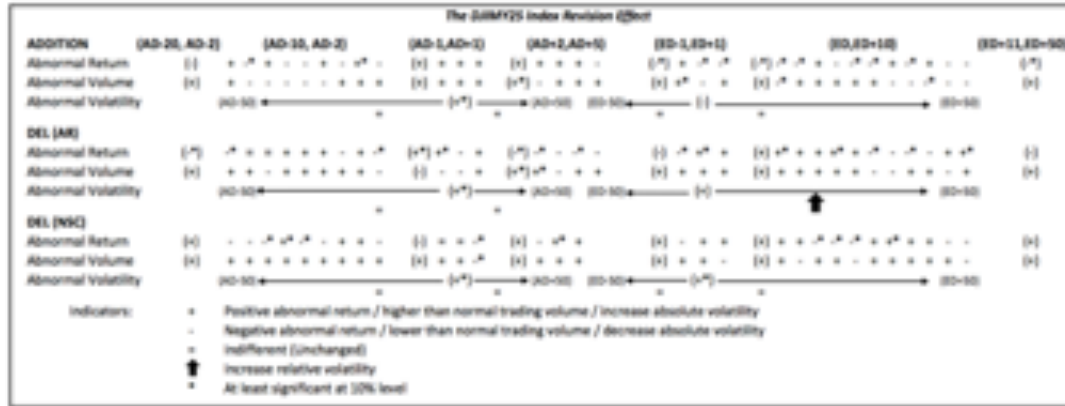
$$\lambda_i^{pre} = \sqrt{\frac{\sigma_i^{pre}}{\sigma_m^{pre}}} \text{ and } \lambda_i^{post} = \sqrt{\frac{\sigma_i^{post}}{\sigma_m^{post}}} \quad (23)$$

The study analyses the changes in return volatility by testing whether the volatility ratios are different in the period before and after index revision event. The two sample t -tests and the counterpart non-parametric test, Wilcoxon Signed Test are employed for testing pre-event versus post-event volatility ratio.

4. Results and Discussion

This section reports the finding of the study on the impact of DJIMY25 Index revision to three categories of event stocks – additions, deletions during index annual review, and deletions due to non-Shari'ah compliance. The event studies are carried out separately to analyse the index effect in the forms of abnormal returns, trading volumes and price volatility during index rebalancing from June 2009 to March 2015. The results for price effect (CAARs and AARs), volume effect (MAVRs and AVRs) and volatility effect (AAR and AAVy) are reported in Appendix B, C and D, respectively. To aid discussion, the three results are summarized in Figure 1 which combine the three metrics in each time line started from the period before the announcement up to the post-effective date.

Figure 2. Summary of Index Effect from DJIM Titans Malaysia 25 Index



Addition stocks in Figure 2 show a surprising response of Malaysian capital market towards the news of inclusion to the DJIMY25 Index. The stock price response negatively to index additions of Malaysia Shari'ah blue-chip index. The negative response starts on the effective date and persists in the long-run. The result is reflected from the significant abnormal returns in the short-term and long-term post-effective period. This is a bit puzzling because the index is tied up to MyETF DJIM Titans 25, the second largest Shari'ah ETF in the world in terms of the asset (as of 2016). As the index is linked to an ETF, it is expected that the ETF will buy the addition stocks near or on the effective date to be added to their portfolio. Usually, index funds manager rebalances their portfolio immediately near the effective date to reduce tracking error. However, the reaction from this passive fund is not strong enough to fully offset the negative response from the market as a whole around the ED. The reason is most probably because MyETF is the only index fund linked to the DJIMY25 Index and has no significant

role to influence the market from its demand. In other words, MyETF is not a market mover but a price taker in this case.

Addition stocks in Figure 2 also show that the volatility has also decreased around the effective date, which suggests that the addition to the DJIMY25 Index does not seem to bring any excitement to the market. This notion corresponds to the absence of any reaction on the announcement date or prior to that. Investigation on trading volume suggests that volume of transaction is significantly higher than normal only before the effective date, suggesting a selling pressure that causes negative abnormal returns on the effective date. The transactions are most probably executed by the institutional investors that sell in large blocks and subsequently affect the securities price. The returns of addition stocks plunged on the effective date with -1.11% losses, on average. This sharp decline in returns is associated with the spike in trading volume of 42% above normal time on ED-1 (see Figure 2 for illustration, Appendix B and C for abnormal return and abnormal volume figures, respectively). What prompt the institutional investors to dispose the addition stocks provide an interesting avenue for discussion.

The study offers possible explanation on the negative price effect for stocks added to DJIMY25 Index. Most of the stocks added to the DJIM25 Index are not the first time and being added more than once. The evidence shows in between June 2009 to March 2015, there were 13 duplicated addition firms, either being deleted in the past or in the subsequent index rebalance. From 13 duplicated addition stocks, 9 are included as sample in this study (see Appendix E). In general, the added stocks to DJIMY25 Index not become the index member permanently and easily violated the index eligibility requirements. The investors could have lost confidence towards the stocks that being added and deleted from the index repeatedly, which indicates the firm's unstable performance. Such stocks also make the index become highly volatile especially for index that have small number of constituents like DJIMY25 Index. The potential investors would be resistant to buy the stocks despite being added to the index. Meanwhile, the existing stockholders did not have incentives to hold the stocks and would sell them as evidenced by higher trading volume prior to the actual date of addition, which lead to decline in price of the added stocks. Ng & Zhu (2016) documented evidence that investors are generally not interested in stocks that repeatedly added and deleted from the FTBM EMAS Shariah Index. An important implication of this finding is that index provider could have some buffer period and margin of exclusion before excluding companies that violated the financial screening ratios to ensure overall index stability.

In brief, the additions to the DJIMY25 Index have induced permanent negative abnormal returns with temporary increased in trading volumes. The trading volumes are significantly higher than normal on ED-1 and remain higher up to 5 days after the actual changes before subsequently decreased. In the context of market efficiency, there seems a delay in the processing the news of addition of stocks to the DJIMY25 index. The selling pressure starts in the run-up period (between the announcement and effective date) with increasing trading volumes, but impacted the price significantly negative only on the effective date. Therefore, in general, the market is lack of efficiency in the short-run with respect to the news of additions to Shari'ah blue-chip index.

Next, although the study found an unexpected impact of index additions in Malaysian capital market, the index deletions effect is in line with the negative impact of deletions from the vast literature on index effect. Overall, the Malaysian stock market responds negatively to index deletions (Abd Karim, 2016; Azevedo, Karim, Gregoriou, & Rhodes, 2014; Kassim, Ramlee, & Kassim, 2017; Ng & Zhu, 2016; Sakti, 2016; Yazı, Morni & Song, 2015). The news of deletions is anticipated as shown by a significant negative price response prior to the announcement. However, the opposite price response is observed around the announcement date with significant positive returns, increased absolute volatility and a plunged in trading volume (see Figure 2 for illustration). After the announcement date, the market continues to react negatively as evidenced by a negative abnormal return in the run-up period. The biggest losses incurred on AD+2 (-1.37%) associated with the spike in trading volume of 68% above normal time. The trading volume starts to pick up significantly causing the stock price to incur negative abnormal return and continue to depreciate. The index fund rebalancing activities to dispose deleted

stocks may have executed before the effective date as there is no significant negative abnormal return on the effective date.

The study provides few possible explanations from the price and volume patterns observed in the deletion of stocks during the DJIMY25 Index annual review. Some investors anticipate the stocks that about to leave the index will be depreciate in values possibly because of two reasons. First, the price will be decreased due to the shift in demand from the MyETF that is going to rebalance its portfolio by selling deletion stocks. Second, the deletions during annual review carry variation of negative information and could impact the price negatively. This is because deletions during annual review have different reasons:

- i) The stocks may be deleted due to ranking downgrade, which therefore will be demoted to a broader index.
- ii) They may be demoted from the parent index, which therefore may result the stocks to be deleted from the entire DJIM and Dow Jones Indexes universe.
- iii) Lastly, the deletion is because the stocks are no longer Shari'ah compliant, which therefore will be deleted from the pool of Shari'ah compliant stocks, the DJIM World Index.

The first and second reasons, may carry similar information as the size-based index, in which deletions signal the unfavourable future prospects of the firms. While the third reason of being non-Shari'ah compliant may signal a private information on the increase in the firm's financial leverage. The investors who are risk-averse may be the first to liquidate their holdings before the price continue declining. The trading volume patterns are steady with mostly higher than normal time in the pre-announcement period, which indicates a continuing downward momentum trading that significantly bring the price down (see Figure 2 for illustration). The investors may be overreacted to the anticipation of negative news causing the deleted stocks to trade less than their fair value. When the investors realised that the stocks are traded less than their fair value, the arbitrageurs might come in and the price adjustment takes place. This will result the price to revert to its fair value as evidenced by positive abnormal return of 1.24%, on average, one day prior to the announcement. Once the announcement of index revision is released to the public, the trading volume of the deleted stocks starts to pick up and visible right after the announcement day. This pattern shows the arbitrageurs movement in attempt to profit from the index revision announcement. The indexer's trading is also apparent during the run-up period that significantly drives down the price of deleted stocks. The result shows that the indexer executes trading near and on the effective date in order to minimise the tracking error. The temporary demand shifts due to index fund rebalancing activities causes a temporary price decrease, which then reverts to its equilibrium price. The price-reversal takes place on the effective date that becomes significant on day 3 after the actual change date. The price appreciates after the effective date as reflected by significant positive abnormal returns and significantly higher trading volumes (see Figure 2).

The empirical evidence found from index deletions during annual rebalancing suggests that the index effect in the Malaysian scenario can be explained by both demand-based hypotheses and information-based hypotheses. The visible anticipation effect and the interactions around the announcement date suggest that index deletions of the DJIMY25 Index have information content. Meanwhile, the interactions in the run-up period, around the effective date and afterwards are due to a temporary shift in demand from the investing fund that tracks the index, thus are more related to demand based hypotheses mainly supporting the price-pressure hypothesis (PPH).

Regarding the index deletions effect from the sample deleted due to non-Shari'ah compliance, the study, at first, found difficulty to conclude the result due to small sample size. However, various robustness tests including a combination of samples from DJIM World confirm the finding⁴. The study concludes that a negative, small, and short-lived abnormal return is observed around the announcement date with

⁴ Robustness result are available upon request.

significantly higher volatility. The negative price effect is started earlier even before the official announcement of deletions.

The scrutiny on the daily abnormal returns and trading volumes suggests that stocks deleted due to non-Shari'ah compliance are highly volatile. Prior to the announcement of exclusion due to violation to the Shari'ah screening ratios, the trading volumes are consistently at higher than the normal level, which is three times as high as the normal time. However, during this period, the abnormal returns show a fluctuation with significant positive and negative abnormal returns. The trading volumes plunge on the day after the announcement (AD+1), to be as low as less than 50% of normal time. The lowest trading volume is associated with the most significant negative abnormal return of -0.44%. The volatile returns pattern continues even after the effective date. The plunge in trading volume right after the announcement of deletions following a momentum trading suggests that there are short of buyers in the market to buy the stocks that are deemed non-Shari'ah compliant. The investors may be resistant to buy the Shari'ah non-compliant stocks resulting in a price decline. In Malaysia scenario, the news on Shari'ah compliant status matters to investors as the information is immediately processed and reflected in the price and trading volume patterns shortly after.

In Malaysia market, the study also found asymmetric responses between additions, deletions (annual rebalance), and deletions due to non-Shari'ah compliant. Although all event stocks experienced negative price effect, the impact of news on deletions from the DJIMY25 Index is more pronounced than the reactions to the additions' news. This can be evidenced by a significant daily loss of -1.37% in the run-up period, with a surge in trading volume to 68% higher than in normal time, for stocks deleted during the index annual review. Meanwhile, the news on additions experienced a significantly smaller loss on the effective date of -1.11%, which is initiated by a surge in trading volume of 42% higher than normal, on the previous day. However, the maximum loss after reclassifies as non-Shari'ah compliant is only -0.44% but trading volume plunges by 50%. The asymmetric reactions could be explained by the rich information content in the news of deletions from Shari'ah compliant index. The asymmetric information of deletion news that translate into asymmetric response in Malaysian market supports the study by Chen & Ngo (2017). Their research empirically discovered that deletions from Shari'ah index reveal more information about the firm's operation and financial situation, especially the firm's operating and leverage characteristics.

Three robustness tests were performed to check if the price effect of the DJIMY25 Index revision holds for different market proxies, different methods to compute abnormal returns, or driven by a specific time period. The market proxies used for this robustness tests are EMAS Syariah Index and Kuala Lumpur Composite Index (KLCI). The other method used is the market model with GARCH (MMG) whereas the period divisions are June 2009 to June 2012 and September 2012 to March 2015. Overall, the significance of price effect of the DJIMY25's event stocks holds for different market proxies and different model specification, but in small cases, are driven by a specific time⁵.

5. Conclusion

Surprisingly, the market reacts negatively on the additions to the DJIMY25 Index, a Shari'ah blue-chip index. In this case, the index additions have induced permanent negative abnormal return and higher volatility but have temporarily increased the trading volume. Shari'ah sensitive investors may have perceived these stocks negatively possibly because they have been included and excluded from the index repetitively for failing the Shari'ah screening process. It shows that these companies were unable to maintain their financial ratios within the prescribed thresholds of being Shari'ah compliant in the long term. Investors seemed hesitant to buy these stocks even after re-inclusion into the index.

The impact of deletions in Malaysia's case is in line with the findings from the vast literature that predict deletions to cause negative abnormal returns. Most investors perceive index deletions as unfavourable

⁵ The robustness check results are available upon request.

news, thus impacted the price negatively. The selling pressure, possibly from index fund rebalancing activities, is visible on the post-announcement period and is settled on the actual change date. The ‘compliance effect’ in Malaysia scenario can be observed more towards the return pattern that is becoming highly volatile around the announcement date through the post-effective date. Notwithstanding, investors should not underestimate the Shari’ah compliance endorsement as it can significantly affect the stock price, the trading pattern, and return volatility of the affected stocks. Shari’ah index membership can pose Shari’ah compliance risk if the company unable to keep the Shari’ah compliant status for certain satisfactory period.

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Appendix A

General information on the final sample of DJIMY25 Index (2009-2015)

INTERVAL	AD	ED	ADDITION	DELETION	TOTAL	Trading days between AD and ED
1	11/06/2009	22/06/2009	3	3	6	6
2	08/06/2010	21/06/2010	1	1	2	7
3	03/12/2010	20/12/2010	0	1	1	9
4	14/06/2011	20/06/2011	4	4	8	3
5	08/06/2012	18/06/2012	3	3	6	5
6	08/03/2013	18/03/2013	1	1	2	5
7	14/06/2013	24/06/2013	1	1	2	5
8	13/09/2013	23/09/2013	0	1	1	4
9	13/12/2013	23/12/2013	2	1	3	5
10	14/03/2014	24/03/2014	1	1	2	5
11	13/06/2014	23/06/2014	0	1	1	5
12	12/09/2014	22/09/2014	2	2	4	4
13	13/03/2015	23/03/2015	1	1	2	5
Total			19	21	40	Mean = 5.23

Notes: The intervals, announcement and effective dates, number of additions and deletions for each period in the sample of DJIMY25 Index between the years 2009 and 2015 are shown in Table 3.4. AD represents the announcement date and ED represents the effective date.

Appendix B

Abnormal Returns of Stocks Deleted and Added to DJIM Malaysia Titans 25 Index									
This table shows the average abnormal return (AAR) and cumulative average abnormal return (CAARs) of additions and deletions of stocks from the DJIM Malaysia Titans 25 Index (DJIMY25) between June 2009 and March 2015. The abnormal returns are calculated using market model. The DJIMY25 Index is used as the market proxy in market model estimation. The null hypotheses are that AAR and CAAR are zero. Statistical significance is determined using cross-sectional t-test and the non-parametric generalized sign z-test. The asterisks, ***, **, * indicate significance at 1%, 5% and 10% level, respectively.									
Days	AAR (%)	t-stat	GS z-stat	AAR (%)	t-stat	GS z-stat	AAR (%)	t-stat	GS z-stat
Panel A: Additions n=19				Panel B: Deletions Non-Shariah Compliance n=7			Panel C: Deletions Annual Rebalance n=14		
AD-10	0.03	0.07	0.23	-0.55	-1.06	-0.41	-1.12	-1.88*	-1.41*
AD-9	-0.55	-1.60*	-1.15	-0.72	-1.15	0.34	0.00	0.01	0.73
AD-8	0.40	1.16	0.23	-0.39	-1.96**	-1.92**	0.00	0.00	-0.34
AD-7	-0.26	-0.80	0.23	0.28	1.54*	1.10	0.37	0.42	-0.34
AD-6	-0.12	-0.35	0.23	-0.44	-2.12**	-1.92**	0.47	0.83	0.73
AD-5	0.15	0.40	0.23	-0.09	-0.18	-1.17	0.28	0.76	0.73
AD-4	-0.26	-0.83	-1.15	0.03	0.08	-0.41	-0.10	-0.27	0.73
AD-3	0.32	1.13	1.62*	0.16	0.56	-0.41	0.05	0.14	-0.88
AD-2	-0.25	-0.99	0.23	-0.03	-0.09	-0.41	-0.58	-1.54*	-1.41*
AD-1	0.08	0.24	-0.23	0.00	0.00	-0.41	1.24	1.76*	1.26
AD	0.03	0.11	1.15	0.00	0.00	-0.41	-0.04	-0.15	1.26
AD+1	0.12	0.47	0.69	-0.44	-2.68**	-1.92**	0.48	1.25	0.19
AD+2	0.05	0.22	0.23	-0.15	-0.26	-0.41	-1.37	-2.61**	-1.41*
AD+3	0.16	0.60	1.15	0.73	2.47**	1.10	-0.30	-0.65	-0.34
							-	-	-
AD+4	0.10	0.23	0.68	0.60	0.97	1.10	-1.04	6.65***	3.02***
AD+5	-0.68	-1.14	-0.41	-0.72	-0.86	-0.41	-1.37	-1.09	-1.04
AD+6	0.37	0.53	0.15				-1.91	-2.18*	-0.95
ED-1	0.28	0.56	1.15	-0.49	-0.57	0.34	-1.00	-2.25**	-1.95**
		-	-						
ED	-1.11	3.33***	2.54***	0.37	0.58	0.34	0.25	0.26	1.80**
ED+1	-0.74	-1.23	-2.08**	0.34	0.57	0.34	0.33	0.68	0.73
					-				
ED+2	0.08	0.28	0.23	-0.34	3.30***	-2.69**	0.70	1.17	0.73
ED+3	-0.08	-0.18	-0.23	-0.34	-2.55**	-1.93**	1.17	1.74*	1.26
		-							
ED+4	-0.56	2.97***	-1.62*	-0.42	-1.46*	-1.17	0.15	0.29	1.26
ED+5	-0.21	-0.73	-2.08**	0.08	0.50	-0.42	-0.70	-1.91**	-0.88
ED+6	0.16	0.59	-0.23	0.66	2.36**	2.61***	-0.44	-1.05	-0.88
		-							
ED+7	-0.62	2.82***	-2.08**	0.16	0.51	-0.42	-0.53	-0.88	-1.95*
ED+8	0.20	0.59	0.23	0.23	0.77	-1.17	-0.52	-0.60	0.19
ED+9	-0.02	-0.07	0.69	-0.09	-0.27	-0.42	0.69	1.17	0.19
ED+10	-0.03	-0.12	0.69	-0.10	-0.31	0.34	0.16	0.58	1.80**
Cumulative Average Abnormal Returns CAARs									
AD-20,AD-2	-1.37	-0.86	-0.23	0.36	0.21	0.33	-2.54	-1.48*	-1.42*
AD-1,AD+1	0.22	0.38	1.15	-0.44	-1.32	-1.18	1.68	2.06**	1.26
AD+2,AD+3	0.21	0.61	0.23	0.59	0.93	0.33	-1.66	3.47***	2.48***
AD+2,AD+4	0.10	0.19	0.68	1.19	1.42	0.33	-2.37	3.97***	2.39***

AD+2,AD+5	-1.08	-1.48*	-0.97	0.47	1.00	1.09	-3.26	-1.95**	-1.04
AD+2,AD+6	-0.41	-0.43	-0.85				-6.66	-2.08*	-1.95**
AD+2,ED-1	0.02	0.01		0.49	1.04		-3.61	3.25***	
ED-1,ED+1	-1.57	-2.13	-1.61*	0.24	0.23	0.33	-0.42	-0.35	1.26
ED, ED+10	-2.93	-	-	0.54	0.41	-0.42	1.27	0.64	-0.34
ED+11,ED+50	-11.75	-	-	0.74	0.23	-0.42	-2.26	-0.56	-0.34
		2.87***	-1.61*						

Appendix C

Abnormal Volume of Stocks Deleted and Added to DJIM Malaysia Titans 25 Index												
This table shows the average volume ratio (AVR) and mean of average volume ratio (MAVR) of additions of stocks (Panel A), deletions of non- Shari'ah compliant stocks (Panel B), and deletions of annual rebalance stocks (Panel C) of the DJIM Malaysia Titans 25 Index between June 2009 and March 2015. The AVR is calculated using Harris and Gurel (1986)'s approach. The AVR is presented from ten days before the addition/deletion announcement (AD-10) to ten days after the actual addition/deletion (ED+10). The MAVR is presented for several event windows: pre-announcement period (AD-20,AD-2); around the announcement date (AD-1,AD+1); the run-up periods (AD+2,AD+3), (AD+2,AD+4), (AD+2,AD+5) and (AD+2,ED-1); around effective date (ED-1,ED+1); short-term post-effective period (ED+1,ED+10) and long-term post-effective period (ED+11,ED+50). Statistical significance is determined using <i>t</i> -test. The percentage of firms with AVR above 1 is given to all sample. The asterisks, ***, **, * indicate significance at 1%, 5%, and 10% level, respectively.												
Days	<i>n</i>	AV R	<i>t</i> -stat	AVR> 1 (%)	<i>n</i>	AV R	<i>t</i> -stat	AVR >1 (%)	<i>n</i>	AVR	<i>t</i> -stat	AVR> 1 (%)
Panel A: Additions				Panel B: Deletions Non-Shari'ah Compliance				Panel C: Deletions Annual Rebalance				
AD-10	18	1.5 0	0.92	50	7	1.1 8	0.45	57	14	1.21	0.91	64
AD-9	18	0.8 8	-0.82	28	7	1.0 3	0.06	14	14	1.11	0.25	21
AD-8	18	0.8 0	-1.49	28	7	1.8 2	1.33	57	14	0.96	-0.23	36
AD-7	18	0.9 1	-0.73	39	7	1.4 5	1.24	71	14	1.18	0.79	50
AD-6	18	0.8 6	-0.91	33	7	1.0 6	0.23	43	14	1.08	0.33	50
AD-5	18	0.9 5	-0.32	39	7	1.0 5	0.31	57	14	1.04	0.15	43
AD-4	18	1.1 3	0.53	39	7	1.7 0	1.60	71	14	2.17	1.13	36
AD-3	18	1.0 5	0.26	44	7	1.7 5	1.55	57	14	1.76	1.36	57
AD-2	18	1.1 6	0.69	44	7	3.0 2	1.23	57	14	0.97	-0.15	36
AD-1	18	1.3 1	1.18	56	7	1.6 5	0.90	43	14	0.95	-0.18	36
AD	18	1.0 9	0.40	44	7	1.7 6	0.96	57	14	0.70	-1.74	21
AD+1	18	1.0 8	0.63	50	7	0.5 0	4.00** *	14	14	1.21	0.56	50
AD+2	18	0.9 9	-0.05	61	7	1.1 2	0.34	43	14	1.68	1.96*	57
AD+3	14	1.1 8	0.88	50	7	1.5 3	0.95	43	14	0.76	-1.31	20
AD+4	12	1.5 4	1.51	67	7	1.7 9	1.15	43	14	1.54	0.85	43
AD+5	3	1.2 6	0.35	33					14	1.13	0.92	50
ED-1	18	1.4 2	1.86*	50	7	1.9 1	1.32	57	14	1.57	1.60	57
ED	18	0.8 8	-0.52	33	7	1.2 1	0.58	57	14	1.28	0.48	29

ED+1	18	1.2 8	1.06	39	7	0.9 3	-0.23	43	14	1.06	0.22	29
ED+2	18	1.3 4	0.66	39	7	1.1 7	0.47	43	14	1.11	0.39	29
ED+3	18	1.7 0	1.11	44	7	1.1 8	0.47	57	14	1.40	0.54	36
ED+4	18	1.0 8	0.26	22	7	0.8 7	-0.48	43	14	1.21	0.50	29
ED+5	18	1.1 4	0.49	33	7	1.2 0	0.54	57	14	0.76	-1.21	29
ED+6	18	0.9 4	-0.48	39	7	1.7 3	0.96	43	14	0.78	-0.99	21
ED+7	18	0.8 7	-0.70	33	7	1.1 2	0.24	29	14	1.53	1.12	36
ED+8	18	0.7 6	-1.76*	33	7	1.4 5	0.68	29	14	1.32	0.77	50
ED+9	18	0.9 9	-0.06	39	7	1.4 0	0.60	43	14	0.96	-0.15	36
ED+10	18	0.9 5	-0.35	39	7	0.9 8	-0.05	57	14	1.06	0.26	43
Mean Average Volume Ratios (MAVRs)												
AD-20,AD-2	18	1.0 3	0.28	50	7	2.0 6	1.30	71	14	1.31	1.22	57
AD-1,AD+1	18	1.1 6	0.95	44	7	1.3 0	0.64	43	14	0.95	-0.26	43
AD+2,AD+3	14	1.0 9	0.67	57	7	1.3 2	1.11	57	10	1.16	0.54	40
AD+2,AD+4	12	1.2 2	1.37	58	7	1.4 8	1.17	57	7	1.42	1.10	57
AD+2,AD+5	3	0.9 1	-0.54	67					4	0.99	-0.21	75
AD+2,ED-1	18	1.2 5	1.73* *	61	7	1.5 1	1.15	43	14	1.43	2.07* *	57
ED-1,ED+1	18	1.2 0	1.08	56	7	1.3 5	0.87	43	14	1.30	0.84	29
ED+1, ED+10	18	1.1 1	0.56	39	7	1.2 0	0.50	43	14	1.12	0.48	50
ED+11,ED+ 50	18	1.0 6	0.50	44	7	1.0 6	0.23	43	14	1.04	0.22	36

Appendix D

Announcement Day (AD) and Effective Day (ED) Effects on Return and Volatility Functions of DJIM Titans Malaysia 25 Index (DJIMY25)

This table shows the return and volatility of event stocks of the DJIM Titans Malaysia 25 Index on the announcement date (AD) and effective date (ED). The event stocks are: additions of stocks (Panel A), deletions of stocks due to non-Shari'ah compliance (Panel B), and deletions of stocks due to annual rebalancing (Panel C). The volatility effect also shows values before and after the announcement. The abnormal volatility is estimated using market model with (1,1) errors and dummy variables that represent the announcement date (AD) and effective date (ED) in both the mean and volatility functions. Statistical significance on the announcement date (AD) and effective date (ED) effects are determined using Test 1 (Brown & Warner's (1980) cross-sectional statistical test) and Test 2 (Balaban & Constantiou's (2006) corrected cross-sectional statistical test) for both abnormal return and volatility. For the difference in volatility before and after the events, statistical significance is determined using a standard *t*-test and the Wilcoxon signed-ranked test, both of which test the null hypothesis that the difference in volatility before and after is zero. The asterisks, ***, ** and * indicate significance at the 1%, 5%, and 10% level, respectively.

	Panel A: Additions <i>n</i> =19		Panel B: Deletions Non-Shari'ah Compliance <i>n</i> =7		Panel C: Deletions Annual Rebalance <i>n</i> =14	
	AD	ED	AD	ED	AD	ED
AAR (%)	0.1258	-1.0070	0.0457	0.3271	0.0085	0.3221
Test 1	0.5089	-3.1464***	0.2066	0.5525	-1.1104	0.3342
Test 2	0.7186	-3.1656***	0.0005	0.6326	-1.0597	0.7336
AAVy	0.0010	-0.0029	0.0005	0.0029	0.0001	0.0096
Test 1			3.5332***	2.0212**	1.8058**	1.3387
Test 2	1.8376*	1.0424	5.7299***	3.7168***	1.8834**	1.3391
Pre-event	2.9684	3.1074	2.3815	2.2325	3.4911	3.4087
Post-event	2.9134	3.0194	2.2400	2.1125	3.8985	3.8751
Difference	0.0550	0.0880	0.1415	0.1200	-0.4074	-0.4664
% firm with post>pre	52.6	52.6	42.9	42.9	57.1	57.1
t-stat	0.2130	0.2649	0.5308	0.2970	-0.8614	-0.8242
z-stat	0.1610	0.7244	0.5669	0.3381	0.9103	1.5380*

Appendix E

List of Malaysia Firms Added and Deleted from DJIMY25 Index

This table contains the companies added to (19) delete due to annual rebalance (14) and deleted due to non-shariah compliant (7) of the DJIMY25 index between June 2009 and March 2015. Names that appear more than one are firms that were added or deleted multiple times.

Added		Deleted due to Non-Shari'ah Compliant	Deleted due to Annual Rebalance
Axiata Group Bhd	1	Batu Kawan Bhd	Axiata Group Bhd
Felda Global Ventures Holdings Bhd	2	Bumi Armada Bhd	IJM Plantations Bhd
Fraser & Neave Holdings Bhd	3	IOI Properties Group Bhd	JCY International Bhd
Hartalega Holdings Bhd	4	Malaysia Marine and Heavy Eng. Holdings Bhd	KNM Group Bhd
IHH Healthcare Bhd	5	PPB Group Bhd	Latexx Partners BHD
IJM Plantations Bhd	6	SP Setia Bhd Group	Lion Diversified Holdings Bhd
IOI Properties Group Bhd	7	Telekom Malaysia Bhd	Malaysian Bulk Carriers Bhd
JCY International Bhd	8		MISC Bhd
KPJ Healthcare Bhd	9		PLUS Expressways Bhd
Latexx Partners BHD	10		Sino Hua-An International Bhd
Malaysia Marine and Heavy Eng. Holdings Bhd	11		Star Media Group Bhd
MISC Bhd	12		TIME dotCom Bhd
Petronas Dagangan Bhd	13		United Plantations Bhd
Supermax Corp Bhd	14		Zelan Bhd
Telekom Malaysia Bhd	15		
TIME dotCom Bhd	16		
UEM Sunrise Bhd	17		
United Plantations Bhd	18		
Westports Holdings Bhd	19		

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Misinterpretation of Shariah Governance Framework (SGF.v1) Reporting Lines of Key Functionalities i.e. Shariah Review: A Systematic Literature Review

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Abstract

Shariah Governance Framework (SGF) play a very crucial role in ensuring Shariah Compliance of the IFIs or any other relevant Shariah compliance organizations. To meet the requirements of being certified as a Shariah-compliant organization, it is important to have a proper reporting line in term of Shariah governance organs i.e. Shariah review/Shariah audit. However, it was evidenced that there are confusions among the management in interpreting this function, mainly CEO of the companies, management representative (MR) or even human resource personnel, whereas they considered that the SGFs' organs are part of the management. The issue of the reporting line's nature, be it the straight line or the dotted line, has become worse phenomena when it turned to be a B.A.U. - business as usual. This study will disclose that phenomenon, which considered it as a serious interference to these key functionalities, and later can jeopardize the SGF functionalities. This will be initiated by performing a Systematic Literature Review (SLR) and later observation on the real cases from the review-able areas and the observations. We of the view that having a proper, direct and yet reporting line for Shariah review in Shariah related organizations is important. This can ensure that the organization can be a fully Shariah-based organization instead of Shariah-compliant products only.

Keywords: SGF; reporting lines; interference; straight line; dotted line

1. Introduction

Members of public probably don't know how bad it is to have a weak and inadequate reporting line, especially in Shariah Governance for Islamic Finance Institutions and other relevant Shariah-compliant such as Halal certified or MS1900:2015 organizations. A weak and inadequate Shariah Governance structure starting with its important function which is the reporting line. It is terrible to have a 'well known' organization or product brand names, renown Shariah scholars but at the same time having a poor Shariah review reporting line.

How bad the institution could be if there is an issue pertaining to its SGF's reporting line? This question remained uncertain except to those who experienced the real untold stories and events took place inside the organizations. Even some Shariah scholars wearing the 'IFIs cap' won't know how bad the situation is because they are not attending the 'working level' experiences as at day to day and an end to end processes. This also has created the puzzles among the practitioners at the working level how to solve the issue. Some of Shariah scholars, for a certain reason, moored with the NDA (non-disclosure agreement) with the organizations they are serving, which has turn out to be the

fortress that covers are limited from sharing the issue therein and how it can be improved for the future benefits.

Shariah review is a critical function of the Shariah related organization, such as Islamic Finance Institutions (IFIs). For this, AAOIFI has set the standard on the Shariah Review and Internal Shariah review under its Governance Standard (Mohd Hairul Azrin Haji Besar & Gunawa, 2009).

Take one example question as to from where does Shariah review officer take his order to prepare it's Shariah review annual plan? Does it come from the chamber of Exco's meeting's room? Or should it be something that in a form of template that circulated throughout the industries from one organization to another, from hands to hands? As usual? Or perhaps, it should be coming from the department of human resource that naturally responsible for preparing manpower and job-description? Isn't it look bad if all these questions are real or vice versa? Whatever it is, the failure of the SGF will determine how IFIs or Shariah-compliant organization are performing.

This research and team will try to look into the proper practice of Shariah review in term of its reporting line by performing a systematic literature review of the earlier research if any, examine cases and observation whilst running a data mining, analyse and projecting the problem occurs therein which later to propose the solution on the findings.

A fully Shariah-compliant or Shariah-based bank takes the compliance with Shariah law a step further, not only do individual products to have meet all the requirements, but all operations within the bank are required to be compliant with Shariah (Natalie Schoon, 2007). So, a fully Shariah compliant organization or Shariah-based bank or Takaful or any others, should started by having a proper and realistic Shariah governance structure and reporting line which should not meet only at least requirement, but something that we cannot take it for granted.

By having this well-planned, organized research but also times consuming and estimated research outcomes in place, it is believed that it can help the IFIs as well as the Shariah-compliant organizations in the sense of real Shariah-compliant institutions, transparency, adequate reporting line, a proper corrective actions taken, to foster the betterment of the SGF itself which entrenching the Shariah objectives in all its teachings.

Shariah compliant objective is to confirm that the management system conforms with all requirements of the audit standard from Shariah perspective other than to verify the application of a system process within an organization is in line with Shariah (Platinum Shaufmantz Veritas, 2017).

Having view of the earlier statements, we have set the ultimate objective of this effort is to unfold the potential issue of misinterpreted the reporting line for critical SGF's organs and functions such as Shariah review.

Shariah review is a critical function and has been recorded in the Holy Quran as follows:

وَقُلْ اَعْمَلُوا فَسَيَرَى اللَّهُ عَمَلَكُمْ وَرَسُولُهُ وَالْمُؤْمِنُونَ وَسَتُرَدُّونَ إِلَىٰ عَالِمِ الْغَيْبِ وَالشَّهَادَةِ فَيُنَبِّئُكُم بِمَا كُنتُمْ تَعْمَلُونَ - 9:105

Meaning: And say, "Do [as you will], for Allah will see your deeds, and [so, will] His Messenger and the believers. And you will be returned to the Knower of the unseen and the witnessed, and He will inform you of what you used to do."

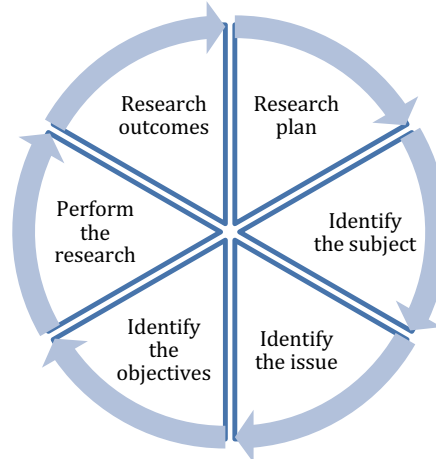
There are a lot of Prophet's Muhammad (pbuh) mentioning about the responsibility for *hisab* or *hisbah* or *muraqabah* which literally means review and monitor all our deeds.

عن عبد الله بن عمر رضي الله عنهما عن النبي صلى الله عليه وسلم قال: (أَلَا كَلَّكُمْ رَاعٍ، وَكُلُّكُمْ مَسْئُولٌ عَنْ رَعِيَّتِهِ، فَالْأَمِيرُ الَّذِي عَلَى النَّاسِ رَاعٍ، وَهُوَ مَسْئُولٌ عَنْ رَعِيَّتِهِ، وَالرَّجُلُ رَاعٍ عَلَى أَهْلِ بَيْتِهِ، وَهُوَ مَسْئُولٌ عَنْهُمْ، وَالْمَرْأَةُ رَاعِيَةٌ عَلَى بَيْتِ بَعْلِهَا وَوَلَدِهِ، وَهِيَ مَسْئُولَةٌ عَنْهُمْ، وَالْعَبْدُ رَاعٍ عَلَى مَالِ سَيِّدِهِ وَهُوَ مَسْئُولٌ عَنْهُ، أَلَا فَكُلُّكُمْ رَاعٍ، وَكُلُّكُمْ مَسْئُولٌ عَنْ رَعِيَّتِهِ) متفق عليه

Meaning: Abdullah ibn Umar reported that the Prophet Muhammad, peace be upon him said: (not to you is a shepherd and each of you is responsible for his flock, the leaders who shepherd people,

is responsible for his flock, and the man is the shepherd of his family, which is their care taker, the wife is answerable after her husband's house and his son, which she is responsible for them, and the servant is a shepherd for the money of his master, which he is answerable for him, and every one of you is answerable for your substitutes (Bukhari & Muslim-vol. 4828).

Figure 1: Research framework and cycle



We also have performed the specific tabulation in bringing the data of the collective practices from the industries and to identify the odd view of it if any. It will later show some significant subject matter ever discussed of the material facts. In this place, is the actual meaning of the straight reporting line and dotted line.

2. Systematic Literature Review

Systematic Literature Reviews (SLR) are a type of literature review that uses systematic and well-organized ways to collect the primary data or sometime the secondary data from authors, later performing the critical appraise research, and produce findings qualitatively or quantitatively. In this research, it will be using the qualitative approach. They are designed to provide a complete, exhaustive summary of current evidence pertaining to relevant research question or subject matter.

A systematic literature review was carried out to identify methods for eliciting public views (Ryan M 1 2001).

Wikipedia has described the SLR as 'Systematic reviews are a type of literature review that uses systematic methods to collect secondary data, critically appraise research studies, and synthesize findings qualitatively or quantitatively (Wikipedia, 2019). Indeed, systematic reviews sit above all other research designs at the top of the 'hierarchy of evidence' because they have the potential to provide the most important practical implications (Siddaway).

To begin with, the research team has selected range of articles from year 2001 until 2019 latest to discover if there any article presented or discussed on the relevant subject, which later can be significant for the later outcomes. This process stands as the lighthouse for our research and observation that has, indeed really put a hope to our research direction, to unfold the issues if any and subsequently to understand the realistic problem in revealed.

Figure 2: Systematic Literature Review and process



It is important to note that document review has play as much as the fuels to our research ad methodology. It can become later, the pathway to design our research and reviewable areas if any. The documents that has been reviewed are various from academic articles, regulator’s guidelines, frameworks, policy documents, IFIs or organization’s manual or internal guidelines and many more. This, however, has limitations as to not disclose the actual source of the organization that we don’t have such permission to do so.

Systematic literature review is something to learn what is already known about all these views (Ellen W. Clayton, 2018). SLR is different from the normal Literature Review (LR) whilst SLR has helped the researchers very much in performing and determining the out-go research conduit. It can be explained in the following figure 2.

Figure 3: Comparison between SLR and normal LR

	Systematic Review	Literature Review
Questions	Focused on a single question	Not necessarily focused on a single question but may describe an overview
Protocol	A peer review protocol or plan is included	No protocol is included
Background	Both provide summaries of the available literature on a topic	
Objectives	Clear objectives are identified	Objectives may or may not be identified
Inclusion & exclusion criteria	Criteria stated before review is conducted	Criteria not specified
Search strategy	Comprehensive search conducted in a systematic way	Strategy not explicitly stated
Process of selecting articles	Usually clear and explicit	Not described in a literature review
Process of evaluating articles	Comprehensive evaluation of study quality	Evaluation of study quality may or may not be included
Results and data synthesis	Clear summaries based on high quality evidence	Summary based on studies where the quality of articles may not be specified. May also be influenced by the reviewer's theories, needs and beliefs.
Discussion	Written by an expert or group of experts with a detailed and well-grounded knowledge of the issues.	

3. Methodology

The normal researchers, member of public, or even practitioners probably might just want to dive in headfirst but stopping just to make sure that they are well verse with all information that they need

which, however, can save them later. This is to say that normal researchers must start with the questions that proving some answers.

Our methodology of undiscovering the issues mentioned in the topic, is started with a lot of questions. Not to forget the second step of it as to develop the protocol on the said questions. These two steps have help us in providing the background and the ground to move forward with our research objectives by selecting the numerous articles and documents for a universal search for some key words i.e. Shariah governance, reporting line, interference and some technical words for both English and Bahasa version. We finally able to design out research objectives and evaluate the article by discussing the findings.

Our focus from document review is to observe the potential prior research or discussion among the scholars or researchers pertaining to actual and absolute reporting line for critical functions of the SGF be if Shariah review, Shariah audit or etc. This will bring us to our ultimate objective as to unfold the potential issue of reporting line for critical SGF's organs and functions. Moreover, the relevant issue raised from within the malfunctions of the SGF.

It is noted that there is an absent of a Shariah review regulation in the Malaysian context (Mohd Hairul Azrin Haji Besar & Gunawa, 2009). We performed the specific tabulation on the specific area mainly to identify the collective issues if any odd view of it. The following problem mapping table shows the reasons why this study is important and how it can complicate the situation if the issues is not resolved.

Table 1: Problems mapping

1. Problems	2. Issues contributed to the problem	3. Factor causing the issues	4. Preventive actions (if any)
Siapa			
Researcher	Absence of actual article referring to the subject matter in precise manner	No field study from academicians pertaining to subject matter	Perform an imperial study on the said matter at the industry level
Regulator	Inadequate definition of the said matter in precise manner	The Shariah governance framework is good but not explicitly mention on the related matter	it is required to have a definitive explanation on the said matter from the regulator or industry players
Shareholders	The industry tend to come out with their own definition on the said matter which shall contradict with the real meaning of it	The regulator leave it to the industry to interpret the matter which has become a problematic and variations from the actual meaning of it	The implimentor shall establish a proper and sound definition on the said matter avoiding disruption and any unnecessary issues day after
Practitioners	Most of time the practitioners face the problem in delivering their duties and functions due to the subject matter as a concern	Most of the time the practitioners are the people who are not able to explain the real meaning of the subject matter and caused them to be in a problem	There is a need to equip the practitioners with the adequate meaning of the subject practically and indetically

The researchers have performed the identical areas which later known as 'reviewable areas' or (RA) as follows:

1. Shariah review.
2. Shariah review reporting line.

3. Straight reporting line.
4. Dotted reporting line.
5. Interference
6. Shariah governance framework.
7. Tadbir urus Syariah – for Bahasa based articles or new papers.
8. Pengurusan halal.
9. Sistem pelaporan halal audit.
10. Pemantauan halal.

All these key words have been used in our universal searching throughout the documents, articles, policies and manuals. The result is very impressive whether the authors intentionally or deliberately discussed on the matter or not.

What is our intention from this research?

It is our most important objective from this research to unfold of any similar, or nearly close discussion on the above-said RA which subsequently will lead to the potential explanation and interpretation of Shariah review reporting line for a certain. This however is not conclusive finding but after we perform the next process which is to ascertain the industry's practices or experiences be it from the regulators i.e. Bank Negara Malaysia, Bankers, Takaful operators, Jataban Agama, Majlis Agama Islam, Pusat-pusat pengurusan Zakat, Baitulmal and Waqaf department or relevant unit. Our observation from the above-said organizations was on the organizational chart and functionalities which was made known to public either via the official websites or annual reports, particularly as at year end 2018 until mid of 2019. This simple, but systematic in nature, will emerge the critical data and significant findings either the standard or the absolute reporting line should it be.

4. Results

Figure 4: Research reviewable areas



4.1. The reporting line of Shariah Governance function of Shariah review.

The diagram illustrates the conceptual model of the proposed research framework. It is structured as follows:

- Overall Entrepreneurship Competence in Islamic Business** (Top Level)
- Islamic Social Entrepreneurship Competence** (Second Level, Left)
- Islamic** (Second Level, Middle-Left)
- Entrepreneurial Mind** (Second Level, Middle-Right)
- Islamic Social Entrepreneurship** (Second Level, Right)
- Islamic Social Entrepreneurship** (Third Level, Center)
- Islamic Social Entrepreneurship Competence** (Bottom Level, Left)
- Islamic Social Entrepreneurship** (Bottom Level, Middle-Left)
- Islamic Social Entrepreneurship** (Bottom Level, Middle-Right)
- Islamic Social Entrepreneurship** (Bottom Level, Right)

Arrows indicate the relationships and flow between these components, showing a hierarchical and interconnected structure.

Whereby on the other hand, Malaysian Standard Department (MSD) in its Malaysian Standard (MS) 1900:2005, mentioned about the need to establish the Shariah Advisory Committee in clause 3.4 to undertake the compliance functions.

Furthermore, the standard was also defined the need to have an adequate Shariah compliance officer at the minimum of two or more personnel in the organization.

Nevertheless, there is no precise explanation on the straight reporting line or dotted reporting line in a precise manner.

No	Topics	Subjects	Authors	Journal/ Year	Topics	Observations
1	Shariah Governance Framework version 1	Definition of the Shariah governance framework, responsibility and accountability of the board of directors, management and Shariah committee	Bank Negara Malaysia	2011	The Shariah governance framework is a set of organisational arrangements through which Islamic financial institutions ensure effective oversight, responsibility and accountability of the board of directors, management and Shariah committee 2011	There is a glance identical definition of the reporting line but not in precise manner
2	Shariah Governance Framework in Islamic banks; Effectiveness and supervision model	The Shariah supervision plays an essential role in the governance of Islamic banks. The Shariah Board (SB) which is peculiar to Islamic banks is considered as the principal component of the Shariah governance framework. The purpose of this paper is to examines the link between Shariah compliance, the form of Sharia supervision and the effectiveness of Shariah governance	Hichem Hamza	International Journal of Islamic and Middle Eastern Finance and Management ISSN: 1753-8394 23/08/2013	The independence of the SB in their mission of supervision and the consistency of Sharia ruling are the principal components of an efficient Shariah governance structure. Centralized Shariah governance system, basically in Malaysia, seems to be beneficial to the industry in term of effectiveness and credibility of the Islamic banks	It represents the SGF mentioning the functions and structures in the Islamic bank in Malaysia. However, there is no critical discussion on the subject matter except on the independence of SAC/SC functions. Close enough to the subject matter but not explicitly explained.
3	Exposure draft of Shariah Governance Framework	Policy document that are intended to reinforce the existing Shariah Governance	(Bank Negara Malaysia, 2019)	2019	Key enhancements in this policy document are intended to reinforce a closer integration of Shariah governance considerations in the business and risk strategies of each Islamic financial institution.	Similarly, but no identical explanation on the subject matter

4	Regulatory Framework of Shariah Governance System in Malaysia, GCC Countries and the UK	Shariah governance system as defined by the IFSB Guiding Principles on Shariah Governance System in Institutions Offering Islamic Financial Services (IFSB-10)	(Zulkifli Bin Hasan, 2009)	Kyoto Bulletin of Islamic Area Studies/ 209	Shariah governance system as defined by The IFSB Guiding Principles on Shariah Governance System in Institutions Offering Islamic Financial Services (IFSB-10) refers to a set of institutional and organizational arrangements to oversee Shariah compliance aspects in Islamic Financial Institutions (IFIs)	There is a brief on the function and reporting structure but without further explanation on the reporting line as oppose to functionality line. This paper also mentioned about a separate function of independent body such as Shariah review but not to Shariah review reporting line.
5	Shariah governance; The regulatory framework for Shariah governance; Shariah governance approaches	Shariah governance; The regulatory framework for Shariah governance; Shariah governance approaches	(Zulkifli Hasan, 2012) Kyoto Bulletin	2012	The author reviews these pluralistic approaches and identifies best practice. With examples, case studies and practical discussions based on IFIs in Malaysia, the GCC countries of Bahrain, UAE, Qatar, Kuwait and Saudi Arabia and the UK. Topics covered include; The theory behind corporate and Shariah governance; The regulatory framework for Shariah governance; Shariah governance approaches; The Shariah Board's role and how it retains its independence, transparency and competence; The operational procedures of Shariah governance; The effectiveness of the Shariah Board and how it could be improved	The word best practice in this article was referring to the various approaches and no identical explanation on the subject matter and what was the issues in the event of some situations for example
6	Risk Management for Islamic Banking	Recent development from Asia and the Middle East practice of Risk Management in Islamic Banking	Imam Wahyudi, Fenny Rosmanita, Muhammad Budi Prasetyo, Niken Iwani Surya Putri John Wiley & Sons, 2015	Book published by John Wiley and Sons/ 2015	Islamic bank's activities must always obey the rules and principles laid out in Islamic Syariah. Islamic banks must always balance risks and return in it business activities	It is a good book and comprehensive but not precise explanation on the subject matter
7	Shariah Governance System in Islamic Financial Institutions: New Issues and Challenges	This article aims to review the Shariah governance system and its practice in Islamic financial institutions internationally and discusses the current issues and challenges facing Shariah governance	Rihab Grassa	Arab Law Quarterly 27 (2), 171-187, /2013	Today, with the significant and rapid growth of the Islamic financial industry worldwide, a strong Shariah governance framework seems to be needed now more than before. Effective Shariah governance is crucial to strengthen the credibility of the Islamic financial industry. Failure to provide efficient Shariah governance may have serious consequences.	The word challenges shall cover the subject matter but unfortunately there is no an extensive explanation on this matter as well

8	Shariah supervisory systems in Islamic finance institutions across the OIC member countries	This paper aims to discuss the different practices and regulatory frameworks of Shariah supervision in Islamic Financial Institutions (IFIs) across Organisation of Islamic Cooperation (OIC) member states and to identify the gaps in current Shariah supervisory practices	Rihab Grassa	Journal of Financial Regulation and Compliance 23 (2), 135-160/ 2015	The paper reveals several findings. First, the authors observe a weak and poor Shariah supervisory system in most OIC member states. Furthermore, the authors detect various gaps in the current Shariah supervisory practices. Most of these shortfalls are linked to the current regulatory frameworks: the roles and the responsibilities of the national Shariah authority, and the institutional Shariah board's duties and attributes	Weak Shariah supervisory could be resulted from the subject matter but there is not enough explanation and real example on the situation
9	Islamic Finance: A Review Of The Literature	This article presents the major themes addressed by literature on Islamic finance and its ability to adapt to changes in the outside world: section 1 distinguishes several phases of the Islamic thought's history, section 2 presents definitions and theoretical foundations, section 3 major financial operations, section 4 deals with Islamic banks, section 5 focuses on the banking and financial regulation and section 6 describes the future prospects.	Jean-Yves Moissoner, Institut de Recherche sur le Développement (IRD), France Bruno-Laurent Moschetto, University of Picardie Jules Verne (CRIISEA), France Frédéric Teulon, IPAG Business School, France	International Business & Economics Research Journal – September/ 2015	In recent years, a number of Islamic banks have been created to cater to the growing demand, driven by globalization and the vast wealth of some Muslim states in the Middle East and Southeast Asia, and Islamic finance has moved from a niche position to become a mainstream component of the global banking system. Islamic banking refers to a financial system which is consistent with principles of Islamic law (or 'sharia') and guided by Islamic ethics. A large amount of research has been undertaken into this subject. This paper presents Islamic finance's role in the new world order	This article contributed much on the overview of the Islamic finance evolutions and not extensive discussion on the subject matter as well

10	Role and status of the Shariah advisory council in enhancing the Islamic Financial system in Malaysia	Section 30(1) Islamic Financial Service Act 2013 Section 124 (3) Banking and Financial Institution Act 1984 and Part VII Central Bank Act 2009, provides that it is compulsory for every institution which operates Islamic financial system and takaful companies to establish their own Shariah Committee.	Mohd Izzat Amsyar Mohd Arif, Ruzian Markom	UKM/Jurnal Pengurusan/ 2013	The aim of this article was to analyse complete court cases in order to identify the role of the Shariah Advisory Council and its status in the Malaysian legal framework. Towards the end, the article suggested few recommendations to upgrade the Islamic financial system as well as the status of Shariah Advisory Council in Malaysia.	<p>This article has a slightly view close to the subject matter but not accurately explain on the in house Shariah governance reporting lines and cases.</p> <p>The recommendations were also not definitive on the subject matter</p>
11	Litigation as dispute resolution mechanism in Islamic finance: Malaysian experience	Litigation as the popular mode of dispute resolution in Islamic finance has proven inadequate in its application and interpretation of Shariah. Trails of Islamic finance cases have shown that civil court judges have no problems deciding on the civil law issues pertaining to Islamic finance, however, they are unsuited for adjudicating the Shariah issues	Ruzian Markom, Noor Inayah Yaakub	European Journal of Law and Economics/ 2015	The objective of this paper is to analyse the role of SAC either as expert ascertain or expert determination of the rulings on Islamic finance. In the course of discussion, s. 55–58 of Central Bank of Malaysia Act 2009 and Article 121(1) of the Constitution are analysed. Findings of the study showed that the role of SAC is merely expert ascertain of the rulings since they have no judicial power. Islamic financial law is divine in nature and different from the man-made laws.	<p>This article discussed a lot on the role of SAC compared the discussion on the Shariah Governance organs namely Shariah review, shariah audit etc.</p> <p>This article also evidenced that Shariah Advisory Committee or the member of SAC has no power except as the expert's opinions which has no legal capacity or effect.</p>
12	Modelling Shariah risk in Islamic finance: A probability approach	The validity of a contract determines the Shariah compliance status of an Islamic financial institution's products and services. The contract is deemed valid and effective provided that all the essential elements and the necessary conditions of the contract are fully satisfied. The purpose of this study is to examine the modelling of Shariah risk in a basis of contract's validity.	Nurul Syazwani Mohd Noor, Muhammad Hakimi Mohd. Shafiai, Abd. Ghafar Ismail	International Journal of Business and Society/ 2018	This study pretends to be a guide to the literature, providing a comprehensive list of references and suggesting different possible extensions for its future development particularly in application of Shariah risk model	<p>This research is considered as an attempt to dig further about Shariah risk whereas it is part of SGF organs</p> <p>However, we found that there is explanation on the said role together with its examples.</p> <p>This also shows that Shariah review reporting line and its meaning left unattended. It also caused dispute among the management on the actual meaning of straight reporting line.</p>

13	Shariah Risk: Its Origin, Definition, and Application in Islamic Finance	Reviews of previous studies normally have its own terminology in research methodology. This section covers the issues of how risk is defined by researchers in various disciplines and therefore, how it is specifically related to Islamic finance through a generic and unique name, that is, Shariah risk.	Nurul Syazwani Mohd Noor, Abd. Ghafar Ismail, Muhammad Hakimi Mohd. Shafiai	SAGE Open/ 2018	This paper is aims to fill the gap of the current literature by showing the need to conduct further research on the derivation of Shariah risk and its potential in determining capital requirements in Islamic financial institutions.	This research is also trying to explore the accurate definition of Shariah risk for example. However it does not open the discussion on the critical part of it, its reporting line whether the active or passive reporting lines, be it straight line or dotted line.
14	Applying the fuzzy Delphi method (FDM) to analyse the expert consensus values for instrument of Shariah-compliant gold investment	The objective of this study is to describe the process of development of Shariah-compliant Gold Investment (SCGI-i) instrument using the Classical Delphi Technique (CDT) and Fuzzy Delphi Method (FDM). The research instrument is based on questionnaire with 4-point Likert scale consisting of three dimensions and 34 items	Najahudin Lateh, Salmy Edawati Yaacob, Siti Noobiah Md Rejab	Pertanika Journal of Social Sciences and Humanities/ 2017	These instruments can be used by Islamic financial institutions to create new products or Sharia audit of existing gold investments to comply with the requirements of Islamic Muamalat.	The authors has the liberty to show some example on how the FDM can be used to analyse the Shariah's scholars on the matter of discussion. However, we found no discussion particularly in SGF organs reporting lines at all. May be the author think that the issue is not a matter since most the researchers are academicians and for the academic purposes.
15	Analysis of heir pre-investigation mechanism: According to Shariah perspective	Determination of the rightful heirs and portions of inheritance is the main objective of Islamic Inheritance Law	Md. Yazid Ahmad, Nor Yani Isa, Anwar Fakhri Omar (	Mediterranean Journal of Social Sciences/ 2014	The main objective of this article is to analyse the position of heir of pre-investigation basic mechanisms and the extent to which they are applied in matters related to Muslim inheritance issues according to Shariah	This article was chosen to identify the subject matter since the topic has open some perspective on the Shariah governance whereas apparently there is not a page or simple chapter discussed on the desired matter.
16	Modelling Shariah risk in Islamic finance: A probability approach	The purpose of this study is to examine the modelling of Shariah risk in a basis of contract's validity.	Nurul Syazwani Mohd Noor, Muhammad Hakimi Mohd. Shafiai, Abd. Ghafar Ismail	International Journal of Business and Society/ 2018	The application shows that Shariah risk can be modelled using the binomial estimation for predicting probability of default of each element considering that the element is independent default	This is a second attempt from this group of researchers talking on the same topic but still no explicit discussion on the SGF reporting line, particularly in Shariah risk.

17	Measuring Shariah non-compliance risk (SNCR): claw-out effect of al-bai-bithaman ajil in default	The purpose of this paper is to examine the meaning, nature and measurement of Shariah non-compliant risk faced by Islamic banks	Saiful Azhar Rosly, Muhammad Arzim Naim, Ahcene Lahsasna	Journal of Islamic Accounting and Business Research/ 2017	Findings: Shariah non-compliant risk will adversely affect bank's earnings when BBA contracts are deemed invalid in the court of law, either in a foreclosure or ruling via court declaration	<p>This research is a closer look into the SNCR or Shariah non-compliant risk.</p> <p>In the middle of discussion, there is a requirement on the SNCR reporting line.</p> <p>However, this research was focusing on the SNCR impact in term of finance instead of the reporting line which is not its attention at all.</p>
18	The dependence of Islamic and conventional stocks: A copula approach	The purpose of this paper is to examine the nature of Islamic stock markets as compared to the conventional practices by using a copula approach	Ruzanna Ab Razak, Noriszura Ismail	American Institute of Physics Inc./ 2015	The objective of this study is to investigate the dependence between financial times stock exchange Hijrah Shariah index and conventional stocks (EMAS and KLCI indices). Using the copula approach and a time series model for each marginal distribution function, the copula parameters were estimated	<p>This research has a lot of ideas in term of stock terminologies and the approaches used therein.</p> <p>For sure, for this kind of research, does not discuss on the SGF requirement be reporting line or any others.</p>
19	Shariah Audit for Islamic Financial Services: The Needs and Challenges	Code of Islamic ethics and the limits of Shariah Advisory Council	Abdul Rahim Abdul Rahman	The Journal of Muamalat and Islamic Finance Research, 7(1), 133-146/ 2010	<p>Institutions that offer Islamic financial services are expected to operate by the code of Islamic ethics and must function within the limits of Shariah</p> <p>The increasing demands of stakeholders that require assurance of Shariah compliance and accountability.</p> <p>The paper also discusses some challenges as pre-requisites to effectively undertake Shariah audit</p>	<p>Shariah audit is an important SGF organs has a direct reporting line to the SAC/SC.</p> <p>This book has describe the need to have that kind of active relation between the SAC/SC and the Shariah Audit (SA).</p> <p>Most interesting part in this book is the challenges faced by the SA in carrying their duties.</p> <p>However, there is no alive or true example to portray the real meaning of SGF reporting line be it active reporting line or passive reporting line.</p> <p>What more on the straight line or dotted line.</p>

20	Post implementation of Shariah Governance Framework: The impact of Shariah audit function towards the role of Shariah Committee	This paper is aims to study on the impact of the Shariah audit function towards the role of Shariah Committee with regards to the post implementation of the Shariah Governance Framework	Shafii Z., Abidin A.Z. Salleh S., Jusoff K., Kasim N.	Middle East Journal of Scientific Research/ 2013	Findings from in-depth interviews reveal that the Shariah audit function has an added value in ensuring the compliance towards the Shariah principles. This study also provides challenging issues faced by the Shariah Committee of the selected establishment	<p>This research is a closer look in the SGF reporting line and functions.</p> <p>This can be understood form its discussion on the challenges were faced by the SA.</p> <p>We found no live or real example and explanation on the concept of straight reporting line in this paper.</p>
21	Shariah Review Manual for Malaysian Electronic Payment System Sdn Bhd (MEPS)	<p>This manual consists of the duties and responsibilities of Shariah Review.</p> <p>It specify the function and the reporting line as well as the reporting standard.</p>	MEPS Internal manual	2015	This is a working manual at the company level.	<p>It described the Shariah review functions together with its effective reporting standards.</p> <p>However, the manual does not stand for academic purpose of explanatory on the real meaning of straight line as oppose to dotted line in a precise manner.</p>
22	Shariah Audit, Evidence & Methodology in Islamic Finance	Studies in Islamic accounting are being conducted at a greater speed, Shariah audit has remained an untouched area of research so far.	Ahcene Lahsasna, Shahul Hameed, Haji Mohamad Ibrahim & Dato Syed Othman al-Habshi	2012	This study is, an attempt to touch upon different aspect of Shariah audit, starting from its definition, its Islamic foundations, the current and challenges, as well as its evidence and methodology, consisting of three phases including planning, examination and documentation.	<p>The conclusions of this paper are nothing to do with the direct or indirect reporting line that distinguish SGF organs from the others.</p> <p>There are few recommendations for different stakeholders of Islamic finance industry have been given at the end of the paper in term of performing Shariah audit.</p> <p>Yet, this paper does not emphasize on the important part of special reporting line of Shariah audit technically or literally</p>

23	The practice of Shariah review as undertaken by Islamic banking sector in Malaysia	Shariah Supervisory Board (SSB) is one of the most important governance mechanisms of an Islamic Financial Institution (IFI) to ensure compliance with Shariah. This paper tries to elaborate the importance of SSB to the establishment of an IFI. It will discuss the roles and responsibilities of an SSB as well as the process of how an SSB reviews the performance of a given IFI. Moreover, it will discuss how the actual Shariah reviews are undertaken in Malaysian IFIs.	Mohd Hairul Azrin Haji Besar, Mohd Edil Abd Sukor*, Nuraishah Abdul Muthalib and Alwin Yogaswara Gunawa	International Review of Business Research Papers Vol.5 No. 1 January 2009 Pp. 294-306	Given that it is not mandatory for the Shariah Review Report to be prepared by the IFIs and the fact that there is no standard format issued by Bank Negara Malaysia on the report to be included in the Annual Report, currently, all the IFIs in Malaysia with the exception of Bank Islam Malaysia Berhad (BIMB) and Bank Muamalat Malaysia Berhad (BMMB) do not provide Shariah Review Report in their Annual Reports. Hence, the Annual Reports of the IFIs only contain the conventional audit report prepared by the External Auditors such as Ernst & Young, KPMG and so forth.	This published article suffices in mentioning the Shariah review function. But the extend of its deliverables only, such as reporting standard. We found there are 18 times the 'reporting' has been mentioned in this article and yet, there isn't any discussion on the reporting line for Shariah review functionalities.
24	Optimal Shariah Governance In Islamic Finance	It is important to have close working relationship between Audit Committee & the internal auditor/Shariah reviewer with the external auditor to enhance the external auditor's capabilities in conducting such Shariah compliance review as part of the audit works (Aznan Hasan, 2007)	Aznan Hasan	Islamic Finance News, 2007	Some Islamic financial institutions have established them own dedicated "Shariah Review and Audit Department" or unit to support Shariah Supervisory Board % Main responsibility of the SSB with the assistance of the department is on – % Ex-ante and ex-post Shariah rulings, and % Monitoring and supervising	There isn't any discussion that come closely to the Shariah review reporting line. What more to the straight line or dotted line. We only found the statement of close relationship between the Shariah Advisory Board and the internal audit or shariah review. This is not sufficing to explain the critical function of Shariah review be it the administrative of functional's reporting in the Islamic bank etc.

5. Discussions

5.1 Shariah review reporting line left unattended by all of the authors

For more than 100 articles and books we examined, we found no direct and clear discussion or citation to any authors that mentioning about the meaning of the straight or dotted reporting line of the Shariah review in the IFIs or other Shariah related organization.

For instance, we found some Shariah scholars shared their concern on Shariah review as the existence of non-Shariah compliant element would not just affect the confidence of the public to Islamic banking & finance (Aznan Hasan, 2007). That is where Shariah review plays its role.

5.2. This has created a vacuum on the actual meaning of the said critical functionalities and subsequently interference into Shariah review function from the management.

It is also important to have close working relationship between Audit Committee & the internal auditor/Shariah reviewer with the external auditor to enhance the external auditor's capabilities in conducting such Shariah compliance review as part of the audit works (Aznan Hasan, 2007).

We believe that the insufficiency of Shariah review function and reporting line will contribute more or less, to the inadequate Shariah governance and subsequently cause some variation to Islamic Finance institution for instance. As to some academician, Islamic Banking activities will not ruin from its operational-based objectives, objective of Islamic original track (Mustafa Omar Mohammad & Syahidawati Shahwan, 2013). But, we somehow found that this statement is not totally correct due to our evidence showing that the internal lacking of Shariah governance organs can make Islamic banking for instances, ruining from its operational-based objectives.

5.3. The physical assessment done by the researchers from the industrial practices indicates that there are many gaps in identifying the meaning of the Shariah review reporting line, be it in Halal industry, Islamic banking, Takaful, Islamic based institutions etc. What could be worse is that, Shariah review has been deployed under the conventional institutions even though it meant to serve the shared service for its sister company that doing Islamic banking or Takaful. This has shown the worse structure ever have and has created inaccurate interpretation about Shariah review reporting line, either straight line or dotted line.

So, what is exactly the meaning of straight reporting line to the Shariah scholars and in particular, Shariah practitioners in IFIs and other institutions? A preliminary study which was based on the interview with few respondents has come out with the following summary in table 2. We have coded for both straight line and dotted line responses into five categories namely (i) All functional, (ii) Administrative, (iii) Functional and administrative, (iv) Reporting subject to the management approval, and (v) All functional but subject to the management.

Table 2: Interpretations of Shariah review reporting lines

No	Respondents	nterpretation	
		<i>Straight line to SC</i>	<i>Dotted line the management</i>
1	<i>Respondent 1 IR manager</i>	<i>All funtional only</i>	<i>Functional and administrative</i>
2	<i>Respondent 2 Shariah advisor 1</i>	<i>All funtional only</i>	<i>Functional and administrative</i>
3	<i>Respondent 3 Shariah advisor 2</i>	<i>All funtional only</i>	<i>Administrative only</i>
4	<i>Respondent 4 Shariah scholar 1</i>	<i>Functional and administrative</i>	<i>Functional and administrative</i>
5	<i>Respondent 5 Shariah scholar 2</i>	<i>Reporting subject to the management approval</i>	<i>All funtional and administrative</i>
6	<i>Respondent 6 CEO 1</i>	<i>Reporting only subject to the management approval</i>	<i>Functional and administrative</i>
7	<i>Respondent 7 CEO 2</i>	<i>All funtional but subject to the management</i>	<i>Functional and administrative</i>
8	<i>Respondent 8 Senior Management 1</i>	<i>Shariah review report but subject to the management</i>	<i>Functional and administrative</i>
9	<i>Respondent 9 Senior management 2</i>	<i>All funtional but subject to the management</i>	<i>Functional and administrative</i>
10	<i>Respondent 10 Certification body</i>	<i>Administrative and funtional</i>	<i>Reporting and administrative</i>

Table 3: Shariah review reporting among the Shariah-based organizations

No.	Organizations	Interpretations/Particulars	Ratings 1. Worse practice 2. Below average 3. Fair 4. Good 5. Excellent
1	O ¹	Shariah review is headed by the exco member of the company which has a stright and daily reporting line to the CEO. Shariah review has is taking the jobs and assingment from the management directly which also affecting its deliverables. This organization is a Shariah-based organization that managing family takaful.	1.33
2	O ²	Shariah review is headed by a qualified Shariah officer who is reporting on its functionalities to the head of compliance in the conventional organization. Physically, Shariah review is part of a conventional organization. This organization is a Shariah-based organization that managing family and general takaful.	2
3	O ³	Shariah advisory board is part of a group and conventional organization. Subsequently the function of Shariah review rest in the same arrangement. There is no identical Shariah review or Shariah audit reporting and functions specified in the Term	1.66 (2)

		of reference of its Audit Committee wheres it sit in the main and most critical function and become the platform of the Shariah review outcomes. This organization is a Shariah-based organization that managing family and general takaful.	
4	O ⁴	Shariah governance function is part of the main group organization. Shariah review rest in the same reporting line which residing in the group conventional. Shariah review only has official straight reporting line to the Shariah advisory board but not in its daily functions and deliverables.	2.66 (3)
5	O ⁵	There is a Shariah committee but outside of the oorganization. It play a legislatif counsel in preparing the Shariah guidelines, fatwas and etc. However, there isn't any internal Shariah governenace function in the organization, what more Shariah review funtion. This organization is a Shariah-based organization that managing zakat.	1.33 (1)
6	O ⁶	There is no explicit organizational function of Shariah review but somehow it has specific board charter mentioning about reivew funtion. This however, does not shows the indepency of Shariah review in this Islamic based organization and in addition the straigh reporting line of the Shariah review. This organization is a Shariah-based organization that managing family and general takaful.	1.33 (1)
7	O ⁷	There is Shariah governance functionalities in the official website of this organization. However, the researhers are not able to obtain the real organization chart and the funtionalities of Shariah review for this organization. This organization is a Shariah-based organization that managing family takaful.	2.33 (2)
8	O ⁸	There is not a single line adressing on the Shariah review funtion in this organization be it in the management level or the board level. It is believed that Shariah reseach functions is sitting on the ouside of the organization whilst the Shariah review or Shariah audit, has no place in this organization which was purely Shariah-based organization that managing waqaf.	1

5.4 Contributing factors to the misinterpretation of the Shariah review function and reporting line. Through our systematic literature review and industry's practices observations, we found that:

5.4.1 No identical function of the SAC

There is no clear and identical functions of the SAC itself with regards to the review functions which subsequently affecting the Shariah review function.

5.4.2 Absence of Shariah compliance review function

Absence of Shariah compliance review function in some of the organizations chart which definitely, at the same time, causing the misinterpretation of Shariah review function and reporting line. What more the need to have a direct and active reporting line. This evidenced some conflict of interest when this function is undertaken by the exco member of the Management Committee (MC) of the company.

5.4.3 Absence of inadequate specific Standard Operational Procedure

For well designed, Shariah compliance ready organizations, we took note that there isn't clear and specific Standard Operational Procedure for the said function.

5.4.4 Absence strong will from the management

We also took note that there isn't a strong will from the management to establish a proper and sound Shariah review function and active reporting line therein.

5.4.5 Absence the definitive function

Absence the definitive function and reporting line for Shariah review personnel together with its policy and procedures. Rest assured that the regulator has established the need to do so, but still the technical meaning of the said critical function as left unattended clearly.

5.5. Impacts of misinterpretation for Shariah review function and reporting line

5.5.1 Poor Communication

Misinterpretation of Shariah review can lead to miscommunication because people might not be sure in priority who needs information or where to send important messages.

5.5.2 Conflicting direction

Shariah review function without clear reporting function and has superiors with conflicting directions, will face difficulty in completing their job effectively and thus reduce the productivity, capability and functionality of the unit.

5.6 Improvement needed

5.6.1 Establish a clear and constructive functions for Shariah compliance review

It is believed that having a clear and constructive explanation of Shariah compliance review will make everyone have a better understanding of its functions. Failing to have one, has been witnessed to have a repeated internal incident and SNCR in some organizations reviewed.

5.6.2. Re-align the reporting line of Shariah review

For some organizations, it was duly noted that there was a Shariah compliance review functions, be it pre or post implementation review. However, it is suggested to have a standard and independent reporting line for the said functions regardless the administrative obligations still remained under supervision of the management.

5.6.3 Specify the meaning of reporting line administratively

What is the meaning of dotted reporting line is something that we found missing from those articles and Shariah scholar's discussions. We of the view that the real meaning of the reporting line to the management are as follows:

- a. Report to duty when the position is offered to the selected candidate.
- b. Commit to the company code of ethics as needed necessary.
- c. Responsible to report on the whereabouts including annual or medical leaves.
- d. Adhere to the annual performance review requirement.
- e. Entitlement for the remuneration.
- f. Responsible for any audit issues pertaining to the SR functions if any.

5.6.4 Specify the meaning of reporting line functionally

In the meantime, we are unable to find the precise meaning of straight reporting line from those articles and Shariah scholar's discussions. We of the view that the real meaning of the reporting line to the SAC are as follows:

- a. Obtain the direction and approval from the SAC for SR annual plan.
- b. Present the report and finding to the SAC, directly as and when it necessary given the fact that the SOP was established and workable.
- c. Discuss on the deliverable of SR from time to time before the final report.
- d. Get endorsement from the SAC for remediations.

6. Conclusions

The authors has made a conclusion on the interpretations with regards to the Shariah review functions which is based on the physical organization charts published in their official websites or published in their term of references or annual reports.

6.1. The actual meaning of the straight line of Shariah review reporting line and function as specified in item no. 5.6.4.

6.2. In addition to the item 5.6.3, the all stakeholders, be it regulators, board directors, management, SAC and QSO, should observe and maintain the actual meaning of the dotted line for Shariah review as

the following requirements:

- 1) To report to duty and workstation as deem necessary.
- 2) To be placed in the dedication work station and field.
- 3) To obtain the necessary training and competency requirements.
- 4) To obtain the remuneration and salary.
- 5) To report to the management on the annual leave, MC leave etc. taken.
- 6) To adhere to the company code of ethics.
- 7) To apply the company vision and mission as a whole.
- 8) To disseminate to the management on the Shariah-non compliant event if any.
- 9) To adhere to job matrix and credit hours as required.
- 10) To assess annual performance from the SC members.
- 11) To inform the management on the termination of employment if any.
- 12) To furnish the succession program and plan as deemed necessary.
- 13) To undertake the internal audit/Shariah audit recommendations if any

6.3 The Shariah-based organizations are responsible to establish the effective Shariah compliance review function and reporting line and publish it in their official websites to facilitate the public to understand the current status of their conformity to Shariah standards etc.

6.4 Assign Self-declaration for the management to adhere the correct and thecnical meaning of the said functions and reporting line.

6.5 Annual assessment to varios stakeholers including the management, SAC and Shariah review personnel by independent entity of the SR effectiveness.

6.6 Apply internal policy on disiplinary actions against the management or respresentative who are failing to adhere to the SR procedure and policy.

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Post-Distribution of *Faraid*: A Proposal for Investing Minor Beneficiaries Inherited Portion

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Abstract

The paper proposes a possible and proper mechanism by non-financial and financial institutions from industry players in Malaysia for the investment of minor beneficiaries' inherited portion after *faraid* distribution. The study is a qualitative-based research. Data is collected through expert interviews by industry players from different fields and analyzed by using thematic analysis. It is found there are two general opinions from respondents' perspectives. The first is an appointment of third party or administrator in the investment activity and second is direct investment by the guardian. All the respondents believe that such activity may be realised if the standard operating procedure (SOP) of the investment are well organized and a proper governance is applied. In Malaysia, the minimum awareness on Islamic wealth management makes the mobilization activity of *faraid* distributed portion belongs to minor beneficiaries which is managed by the administrator or executor is left unattended. In addition, there is no specific discussion on *faraid* investment by administrator or executor is reported by classical and contemporary Islamic scholars. The paper aims to clarify proper mechanism for such investment in Malaysia. It also broadens the Islamic wealth management activity to the management of orphans' wealth.

Keywords: Faraid, investment, minor beneficiaries, faraid planning, estate planning

1. Introduction

Inheritance and *faraid* is a knowledge imbued in the component of Islamic jurisprudence (Fiqh Islami). Most of the times, it falls within the discussion of Fiqh Muamalat (Islamic Financial Law) and also sometimes explained within the context of Fiqh al-Usrah (Islamic Family Law). The component of *faraid* is beautifully designed by Allah (SWT) where He dictated specific calculation for *faraid* in Al-Qur'an. Conceptually, *faraid* is derived from Arabic language, which is from the plural word '*faridah*' means something that is required or the division which has been fixed with their respective ratio.

In addition, Islam views that it is an obligatory to protect the wealth and right of the minor beneficiaries. However, they are incapable of governing their property due to their lack of intelligence. Hence, the responsibility of *faraid* management for them is fall upon the appointed administrator or executor or normally known as guardian. However, in many circumstances, the administrator or executor are in ignorance of conclusive wealth planning including *faraid* management which may lead to possibility of the orphans' wealth to be diminishing. This paper shed light the possibility of faraid investment effort by administrator or executor and gained information from industry players the proper mechanism to deal with such proposal.

2. Islamic Institutions for *Faraid* Management in Malaysia

The most important objective of *faraid* management in Malaysia is to ensure and guarantee that the distributed portion for the minor beneficiaries is distributed to them when they reach the intelligent age (normally 18 years old). It is also aimed to maintain the value of the property by mobilizing the property through various activities including investment activity. In Malaysia currently, there are two types of Islamic institutions related to *faraid* management which are government linked institutions, Amanah Raya Berhad (ARB), Office of Land and Mines (Land Office) and Jabatan Kehakiman Syariah Malaysia; and also private financial institution such as As-Salihin Trustee Berhad, Wasiyyah Shoppe and My Pusaka.

2.1. Government linked institutions

2.1.1. Amanah Raya Berhad (ARB)

Amanah Raya Berhad is an institution owned by Government of Malaysia as Malaysia's premier trustee company. ARB provides a few services such as will services included as well *Faraid* property, trust administration and estate administration. The group has a varied portfolio of businesses within its subsidiary units, which include Corporate Trustee, Asset Management and Real Estate Investment. In the *Faraid* management, ARB is responsible in managing the property and asset belonged to the deceased and safeguard the property until the heirs is reached until 18 years old. Author believes that ARB may upgrade their services in enhancing and mobilizing the value of property belonged to heirs instead of safeguarding the property without any mobilization.

2.1.2. Office of Land and Mines (Land Office)

The department provides *Faraid* management which is based on Small Estate Distribution Act 1955. The small estate is defined as property or asset less than Rm 2 million of the value which consist whole or in part of immovable property within the state. The department provides the inheritance management which belonged to Muslim under *Faraid* Law while Distribution act 1958 for non-Muslim.

2.1.3. Shariah Court of Malaysia (Jabatan Kehakiman Syariah Malaysia)

Every Shariah Court from every state is given authority to distribute the property and asset belongs to the deceased based on the *Faraid* law. The Shariah court will issue a certification after authorized by Shariah judge on the portion of heirs.

2.2. Private financial institutions

2.2.1. As-Salihin Trustee Berhad

As-Salihin Trustee Berhad is a trust company incorporated under the Companies Act 2016 and registered under the Trust Companies Act 1949. It is the first company focusses on Islamic Estate Planning. The purpose of establishment is to carry out the needs of Muslim for management asset which comply with Shariah principles. There are many products and services such as Waqf, Inheritance, Hibah, Guardianship and many more.

2.2.2. Wasiyyah Shoppe

Wasiyyah Shoppe is a private trustee organisation which provides an asset management service according to Shariah with a minimum fee. The asset management services cover on hibah, inheritance asset management, *Mutahabbah*, marital property by spouse and many more. Its vision and mission is to provide assistance to Muslim in Malaysia on the proper asset management according to Shariah. The company consists of many expertise in the respected field who will provide advices and assistance in the asset management services. Therefore, in the knowledge of author, the proposed concept of *Faraid* investment is an ideal practice for fulfilling the vision and mission of Wasiyyah Shoppe.

2.2.3. My Pusaka

My Pusaka is a consultancy firm which provides a few services such as legacy planning and inheritance management. The scopes of services include among others providing awareness related to legacy

planning and inheritance management. The consultant also provides assistance for assets owner to plan their legacy and guard the inheritance and to assist the heirs on *faraid* distribution process. My Pusaka also invites those who are interested in inheritance management or legacy planning to be a part of consultant within the firm.

3. Methodology

The paper applies qualitative methodology in order to achieve the objectives of the paper. The qualitative method is the best move to start with as the solution of problem statement of the topic which is yet discovered by many researchers. The research uses semi-structured expert interview to gather the data and analysed through thematic analysis. The semi-structured expert interview is chosen for gathering in-depth ideas, opinion and recommendation from Shariah experts and industry players to answer the self-designed questions based on research questions provided to them.

4. Respondents

They were chosen based on their respective expertise and field in Islamic economy and they are able to address the issue thoroughly with a good justification. There are seven respondents are from different positions within industry and academic institution which are illustrated in the Table 1.

Table 1

No	Position	Code
1	Consultant of University Madinah	R1
2	Officer of Pejabat Mufti Wilayah Persekutuan	R2
3	Officer of Lembaga Zakat Selangor	R3
4	Shariah Advisor of Bank Islam	R4
5	Lecturer of Faculty Economy and Muamalat	R5
6	Lecturer of Faculty Economy and Muamalat	R6
7	Officer of Amanah Raya Berhad	R7

Source: Authors

R1 and R2 have a good qualification in providing justification in terms of Shariah perspective towards the Faraid investment as all the Shariah principles must be fulfilled. R3, R4 and R7 are industry players who directly involve within Islamic economy industry in Malaysia and these three respondents may give a good thought and recommendation towards the investment. Furthermore, R5 and R6 are expertise in Islamic economy within academic institution and have involved in many activities and programs related to Islamic economy affairs.

5. Interview Questions

5 questions were self-developed purposely to fulfil the objective of the paper. The reference was made to the articles on the mechanism for *faraid* management and wealth management including investment. Table 2 lists down the 5 questions with regards to a proper mechanism for *faraid* investment.

Table 2: 5 questions in regard of a proper mechanism for Faraid investment

No.	Question
1.	Can you suggest any Islamic contracts for the <i>faraid</i> investment?
2.	What is your opinion of using Wadiah contract together with other investment of Islamic Contracts? What kind of Wadiah is suitable for this issue?
3.	What is your opinion, if we able to secure the original amount of <i>faraid</i> as capital by joining ASB investment, public mutual investment or Tabung Haji Investment as medium of investment of <i>Faraid</i> ?

4.	Devising operation and management for <i>Faraid</i> investment based on other financial institutions in Malaysia, what is your opinion?
5.	After thorough deliberation on the issue, what is your opinion on <i>Faraid</i> investment? Is it a good idea?

Source: Authors

6. Data Collection

The data was collected using audio-recording and note-taking activity. It is based on the immediate responses during the expert interview sessions and data confirmation after the interview when transcribing process is conducted. The interview was conducted minimum at 30 minutes each, based on the explanations and experiences shared by the interviewee. Prior to the interview session, permission to record the audios for the purpose of data processing was gained. The interviewee was given consent form and interview protocol which also include the questions to be asked. In interview session, it is the duty of the author to ensure that the respondents explain based on what is required in the question and back into track of the discussion if they divert from the main topic to ensure that the researcher gained the answers perceived. However, besides the given questions, persuasive and on the spot question also has been asked to receive better understanding of the answers.

7. Data Analysis

Every respondent has their own opinions on the issue addressed. Hence, it was categorized for their answers and opinions into a few categories. Before drawing the framework, the author listened the recorded audios repeatedly for transcribing and integrating their opinions and thoughts into organized framework. The identity of the research participants is remained confidential in line with ethical norms and considerations. A code is given to each interviewee to ensure confidentiality of the names, positions and organizations of the research participants. The data collected was analyzed by transcribing and integrating the data into organized framework using textual and thematic analysis.

8. Result

Currently, *faraid* investment of the distributed portion for the minor beneficiaries has not been formally accepted and not officially pronounced in Malaysia. It is only hear-says saying that there is such investment made by the authority (authorized institution) investing the savings put in the institutions but without official clause and explanation. The author thus seeks the opinions of the interviewee for proposing a mechanism to mobilise the pool of *faraid* fund for investment activity. The respondent proposed various opinion and highlighted several limitations for the application. The following Table 3 thematically derived to the following summary on the opinions. Two 2 major themes were evolved which is named as suggestions for the method for *faraid* investment; by the appointment of third party or direct investment by the guardian (administrator or executor).

Table 3.

Group of opinion	General Opinion	Respondents Code		
First Group	Appointment of third party in <i>Faraid</i> Investment	-R1 -R2	-R3 -R5	-R4
Second Group	Direct investment by guardian without the third party	-R6 -R7		

Source: Authors

All the interviewees highlighted a few of Shariah restrictions need to be adhered. It includes among others are legal issue and technical issue like the existing Trustee Act 1949 and also the function of

Amanah Raya Berhad (ARB) towards the *Faraid* management. All respondents are of the opinion that *faraid* investment is possible to be realised with the provision all the standard operating procedure (SOP) of the investment are well organized and proper governance is applied.

R1, R2, R3, R4 and R5 also added some specific requirements for the mechanism in *faraid* investment such as:

- Choosing the best third party among a few established financial institutions in Malaysia such as ASB, Tabung Haji or Public Mutual.
- Shariah compliance Islamic contracts to be applied for the investment
- The investment must be run only within low risk investment

When the respondents were asked on the investment instrument preferably chosen by them, R1 opined that the investment might be conducted based on the concept of *Musyarakah* where he said:

“I believe Musyarakah investment may provide a good result on rate of return compared to Mudharabah investment.”

(Date:6 February 2019)

R2 however is more open where the instruments could be *Musyarakah* or *Mudharabah*, as long as the investment is complied with Shariah principles.

With regards to the risk level of the investment whether low, moderate or high risk, all respondents opined that the *faraid* investment should only tantamount to low risk investment due to the nature of *faraid* management; to retain the rights of rightful owners. R3 who was originally objected the idea of *faraid* investment, however finally changed his stance when he stated:

“Faraid is not meant for a business venture. Faraid must be distributed to the right owners without no questions. In the practical approach, it is not appropriate to appoint established financial institution to be a third party due to high fee need to be paid either appoint the third party either for investment or placement”

...cont'd: *“Faraid’s property may be invest, however it must be invested under low risk investment as to preserve the principal value of the property”.*

(Date:7 February 2019)

Similarly, R7 agreed to the option of low risk investment as applied in financial institution when dealing with philanthropic pool of fund in Malaysia as he mentioned:

“low risk investment is more practical in order to avoid the loss.”

(Date:8 March2019)

Nevertheless, another opinion came across the interview process where two respondents opined that *faraid* investment could be conducted by the administrator or executor (guardian) themselves where R6 stated:

“there is no necessary to appoint a certain financial institution to preserve the Faraid property belonged to orphans together with investments as to enhance the value of orphanage’s property before reaching 18 years old. The guardian can invest the property straight away to ASB or Tabung Haji for example.”

(Date:7 March 2019)

Based on the analysis from the data among all respondents, there is a common finding may be concluded. All the respondents stand by their opinion that *faraid* investment compliances with the objective of *faraid* management and a proper mechanism may be suggested for uplifting the said investment.

9. Discussion

The major finding relates to the mechanism for the investment of *Faraid* in Malaysia. Majority of the respondents believes by appointing the third party among established financial institutions will able to secure the principal of *Faraid* property. The author also is of the opinion that the appointment of credible Shariah compliance investment institution is appropriate as it will ensure the wealth retain and mobilize in proper and secured manner.

10. Conclusion

The paper may contribute to various contributions including contribution to the body of knowledge and industrial impact.

10.1. The body of knowledge

There is no specific discussion on *Faraid* investment in Malaysia. This paper is the first of its kind and it brings another researchable area for researchers and academician especially in solving problems related to fund management of social finance and philanthropic activity in Malaysia.

10.2. Faraid-Linked Agencies

The paper proposes an avenue for debate and discussion for government agencies involved in *Faraid* management or Muslim wealth management such as JAKIM or Fatwa Department to gazette the legal status of *Faraid* investment. The initiative might open the wisdom of thinking and discussion to ensure that more people realize on the importance of *Faraid* management. The current *faraid* manager in Malaysia such as Amanah Raya Berhad (ARB) and other institutions should look at the issue seriously and start initiating the effort towards formal *faraid* investment activities to safeguard and uplift the value of orphans' wealth.

10.3. Industrial Impact

The application of *Faraid* investment can be promoted in Malaysia. The issue of frozen fund so far has no solution. Thus, the industry experts in Shariah compliance investment especially on philanthropic-related funds have a huge role in ensuring that the frozen fund from *faraid* distribution is diminishing and may benefit the larger component of the ummah. A thorough standard operating procedure (SOP) also should be proposed to enlarge the market shares in investment and open more job opportunities such as *Faraid* Wealth planner.

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Development of Integrated Islamic Finance-Based Index of Financial Inclusion: A Study in Malaysia

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Abstract

It is clear that financial inclusion is a priority agenda in many countries. While the importance of financial inclusion index is widely recognized, the literature lacks a constructive discussion on its measurement in the light of Islamic finance since it is believed that only by the incorporation of the Shariah-based instruments, the level of access to finance can be improved. The aim of the study is to develop a methodology for the computation of an integrated Islamic finance-based index of financial inclusion in Malaysia. Based on the current measurement of financial inclusion index (IFI) in Malaysia, this study uses secondary data to measure the integrated Islamic finance based financial inclusion index for the year 2011 and 2015. Zakat and cash waqf indicators are added in the index computation to represent Islamic finance components. It is found that the level of financial inclusion using Islamic finance indicator in Malaysia is moderate. However, the overall index level is increased from 0.49 in year 2011 to 0.55 in year 2015. Interestingly, most of the level of zakat and cash waqf indicator indexes are low which indicate that these channels require specific attention to tackle financial inclusion in Malaysia. It is hoped that the findings would be useful for the development of financial inclusion index using Islamic finance approach and monitoring the impact of zakat and waqf to the society.

Keywords: Financial inclusion, Islamic finance, index, zakat, cash waqf

1. Introduction

The focus of financial inclusion is not only to enhance a country's economic growth but also to eradicate poverty and reduce the gap between the rich and the poor within a country. According to the Malaysian Financial Sector Blue Print (FSBP) 2011-2020, pursuing the financial inclusion agenda means all members of society have the opportunity to participate in the formal financial system. This will continue to be a crucial component of Malaysia's inclusive growth strategy. Access to finance will enable all citizens, including the low-income and rural residents, to have the opportunity to undertake financial transactions, generate income, accumulate assets and protect themselves financially against unexpected adverse events, thus allowing them to benefit from economic progress. This will, in turn, contribute to balanced and sustainable economic growth and development (Bank Negara Malaysia, 2011). These become the underlying vision of financial inclusion framework in Malaysia which is to create 'an inclusive financial system that best serves all members of society, including the underserved, to have access to and usage of quality, affordable essential financial services to satisfy their needs towards shared prosperity' (Bank Negara Malaysia, 2015).

As has been suggested by Iqbal & Mirakhor (2013), conventional finance is not entirely successful in addressing this issue as the existing conventional financial instruments do not really reach the poor. Although there is a microfinance mechanism that supposedly caters such group, its effectiveness is often limited by the profit motive and the refusal of the microfinance provider to take high risks (Elrahman & Saaid (2014).

As the effect of this, those who are extremely poor are usually left behind. However, to achieve the real objective of financial inclusion, not only the role be played by the conventional financial services providers, but also by the Islamic financial system through its various instruments which deemed to be more comprehensive. The concept of financial inclusion is not a strange concept to Islamic finance because Islam itself emphasizes inclusion, equality and justice (Iqbal & Mirakhor, 2013). It is believed that only through the integration of the Shariah-based instrument, the level of access to finance can be improved. It can be said that the Islamic financial system has a more comprehensive framework in addressing financial inclusion, especially involving those 'unbankable' individuals.

Except for Ben Naceur et al. (2015) and Zulkhibri (2016), it is worth noted that although the discussion on the role of Islamic finance in financial inclusion is largely mentioned in the previous studies, those discussions are rather normative than positive. These studies are very much lacking in terms of empirical evidence to support their arguments. In this regard, it could be suggested that the evidence on how Islamic finance deals with financial inclusion remains unclear.

The little empirical research on the impact of Islamic finance towards access to finance may be partially explained by the issue of financial inclusion measurement. Empirically examining the link between the two is particularly challenging given a uniform measure of financial inclusion using the Islamic finance approach does not exist.

The present study is timely in providing a picture of the need for Islamic finance based financial inclusion measurement through wealth distribution pillar i.e., *zakat* and *waqf*, and further proposing the development of the index.

The next section provides a review of literature on the subject matters. The methodology, as well as results and discussion, are presented in the following sections, respectively. The last section concluded this study.

2. Literature Review

2.1 Financial inclusion: Malaysian context

With approximately 2.5 billion people still excluded from financial services [Consultative Group to Assist the Poor (CGAP), 2009], this field of research has attracted many researchers around the world (see, for example, US- (Jacobson, 1995; Caskey, 1997; Hogarth & O'Donnell, 1999; Lee, 2002; Aizcorbe, Kennickell, & Moore, 2003). UK- (Budd & Campbell, 1998; Whyley, McCormick, & Kempson, 1998; Kempson & Whyley, 1998; Rowlingson, Whyley, & Warren, 1999; Kempson et al., 2000; Hayton, 2001; Devlin, 2005). Scandinavia- (Hohnen, 2007). Canada- (Buckland & Simpson, 2008). Australia- (Chant Link and Associates, 2004; Howell & Wilson, 2005). Despite that, Carbo, Gardener, & Molyneux (2007) conclude that many areas of financial exclusion in the developed world have similarities to those in the developing world. The discussions on financial exclusion are now shifting to promote financial inclusion (see for example Beck, Demirguc-Kunt, & Martinez Peria, 2008; Beck, Demirguc-Kunt, et al., 2007; Sarma & Pais, 2011).

Malaysia particularly has taken this matter seriously as financial inclusion acts as an engine to contribute for balanced as well as sustainable economic growth and development. In 2009, in transforming Malaysia into a high-income economy, supported by sustainable growth, the New Economic Model (NEM) is introduced by the Malaysian Government. Inclusiveness, alongside high income and sustainability, is one of the important desired outcomes of this vision. The participation of the bottom 40% of the households based on income stratification in the overall economic and financial sector growth is seen as key in achieving economic prosperity as well as sustaining social cohesion (Bank Negara Malaysia, 2016).

The prime function of Bank Negara Malaysia in promoting a sound, progressive and inclusive financial sector is expressed in the Central Bank of Malaysia Act 2009 to further reinforced Bank Negara Malaysia's strategic focus on driving financial inclusion policies. In fulfilling the financial inclusion mandate, a holistic framework has been articulated within BNM's Financial Sector Blueprint (FSBP) 2011-2020 to improve the overall well-being of communities on the aspects of convenient accessibility, high take-up, responsible usage and high satisfaction of financial services (see Figure 1.0).

The vision of the financial inclusion framework is to create an inclusive financial system that best serves all members of society, particularly the underserved, to have access to and usage of quality, affordable essential financial services to satisfy their needs towards greater shared prosperity. The attainments of the vision are measured through the desired outcomes for customers, namely convenient accessibility, high take-up, responsible usage and high satisfaction of financial services.

The FSBP has acknowledged ten main action plans based on the strategic outcomes via innovative channels and products and services, empowerment of the disfavoured group with financial knowledge and strengthening the financial institutions and infrastructure. The implementation of these action plans is currently being carried out and are at various stages of completion.



Source: Bank Negara Malaysia (BNM)

Figure 1: Holistic Financial Inclusion Framework for 2011-2020

At the international level, BNM has become a strong advocate for the financial inclusiveness agenda. This can be proved by the meaningful contributions and active participation in the Alliance for Financial Inclusion (AFI) and ASEAN Working Committee on Financial Inclusion (WC-FINC). On top of that, BNM has collaborated with the Irving Fisher Committee on Central Bank Statistics, AFI, Organisation for Economic Co-operation and Development (OECD) and World Bank for capacity building programmes, organised for global policymakers on financial inclusion. BNM also has partnered with Asian Banking School in developing leadership and technical training to micro finance practitioners in the region⁶.

With regard to the measurement of financial inclusion, BNM has developed an index of financial inclusion (IFI) to measure the effectiveness of formal financial institutions in delivering financial

⁶ For more details on the activities and achievements from these collaborations, refer http://www.bnm.gov.my/index.php?ch=fi&pg=fi_ovr&ac=471&lang=en

products and services to all members of society. This is an essential mechanism to trace down the progress of initiatives and estimating the impact of policies to have greater access to the financial sector. A nationwide IFI also provides a comprehensive view of the development of an inclusive financial system, further enhancing the transformation efforts made by the government (Abd Rahman, 2013).

The index takes into account the experiences and methodologies developed for the computation of well-known development indexes such as the human development index, the multi-dimensional poverty index and the gender inequality index and work undertaken by the Alliance for Financial Inclusion (AFI), with several new elements. Using the ‘core set’ of indicators formulated by the AFI financial inclusion data working group (FIDWG), BNM constructed the financial inclusion key performance indicators by defining four dimensions of financial inclusion for Malaysia (see Table 1). The index rates the level of financial inclusion, measuring the extent to which the general population has access to financial services by examining access and usage of formal financial intermediaries as well as the quality of financial services. The strengths and weaknesses of each dimension could also be analysed through the sub-indexes underlying the overall IFI. As a result, they serve as a valuable guide for policy-makers and other stakeholders to identify the performance of the respective business environments and prioritise areas that need specific consideration (Abd Rahman, 2013).

Table 1: Key performance indicators for measurement of Index of Financial Inclusion (IFI) in Malaysia

Dimension	Key Performance Indicators
Convenient Accessibility	% of sub-district with at least 2000 population with at least 1 access point
	% of population living in sub-district with at least one access point
	% of adult population with deposit accounts
Take-Up Rate	% of adult population with financing accounts
	% of adult population with life insurance/takaful policies
	% of customers with active deposits
Responsible Usage	% of customers with performing financing accounts
	% of customers who are satisfied – Overall financial services
Satisfaction Level	

Source: Bank Negara Malaysia

Depending on the values of IFI, the results are categorized into the four following categories:

- i. $0.75 < \text{IFI} \leq 1$: high financial inclusion
- ii. $0.5 \leq \text{IFI} < 0.75$: above average financial inclusion
- iii. $0.25 \leq \text{IFI} < 0.5$: moderate financial inclusion
- iv. $0 \leq \text{IFI} < 0.25$: low financial inclusion

Based on a study done in 2011 by Abd Rahman, Z. (2013), the score of financial inclusion for the general population in Malaysia as measured by the IFI is high, i.e., at 0.77. However, the sub-index of access points is lower as compared to the other dimension. Whereas the level of financial inclusion for the low-income group⁷ is reported to have a lower score for IFI i.e., 0.68 compared with the general

⁷ In this scenario, low income is defined as the segment of population that earns less than RM1,000 (\$330) per month.

population in Malaysia. Take-up rate requires specific attention to tackle financial inclusion for this underserved group. In another study, the IFI score for the general population in Malaysia has improved significantly to 0.90 in 2015 from 0.77 in 2011 (Martinez, 2017). Factors contribute to these improvements are increased accessibility to financial access points across the country, more responsible usage of products and higher levels of satisfaction among financial consumers. However, there are still gaps in the utilisation of financial products and services, especially among low-income households (Martinez, 2017).

Nevertheless, as far as the role of Islamic finance towards financial inclusion is concerned, the current measurement framework of IFI is lacking in terms of Islamic finance dimensions which could provide better understanding and tracking purposes on the subject matter. With this regard, the computation of financial inclusion index using Islamic finance dimensions is warranted.

2.2 *Islamic finance promotes financial inclusion*

The main weakness of the conventional perspective of financial inclusion measurement is its failure to acknowledge the concept of wealth redistribution as what had been recommended in Islam. There are also issues in relation to the microfinance industry which has restricted its effectiveness such as the issue of high-interest rates, lack of appropriate product design, diversion of the fund and lacking skills of the recipients (Iqbal & Mirakhor, 2012). These issues are coupled with the issue of voluntary self-exclusion by capable Muslims to engage with the financial system based on religious grounds (Ahmed, 2013). As a result, access to the financial system is not comprehensive and importantly, it does not reach those who are extremely poor. These are the issues ignored in discussing the country's financial inclusion and perhaps the reason that the financial inclusion index is low in most emerging markets that are predominantly with Muslim population (Demirgüç-Kunt, Beck, & Honohan, 2008).

Theoretically, the Islamic financial system plays an important role in promoting welfare in the society through its prohibition of *riba* (interest), speculation and gambling (Chapra, 1992). It places equal emphasis on the ethical, moral, social, and religious dimensions, to enhance equality and fairness for the good of society as a whole. With the application of the work ethic, wealth distribution, social and economic justice and the role of the state, the Islamic financial system considers being more welfare-based financial system as compared to its counterpart. In this regard, it can be suggested that an Islamic-based financial system is theoretically better in promoting financial inclusion.

According to Mohieldin, Iqbal, Rostom, & Fu (2012), financial inclusion from the Islamic perspective can be tackled in two ways: first, inclusion through risk-sharing, and second, through the instruments of redistribution. Risk sharing is claimed to be the objective of Islamic finance (Mirakhor, 2010) and as an alternative to conventional financing which targets both financial and social inclusion simultaneously. It involves the sharing-based contracts, where both lender and borrower are entitled to the realized profit or liable for the loss realized according to their shares specified in the contract (Erbas & Mirakhor, 2010).

However, Hasan (2015) argues that risk sharing is not basic to Islam. Islam approves profit-and-loss sharing; sharing of risk is a consequence of that, not its cause. On a different note, Rosly (2012) states that risk-sharing and risk-taking are basically two sides of the same coin; the former encompasses the financing of capital while the latter involves business operations that create cash flows. This has been the true meaning of *al-bay'* that the Quran intends to convey as opposed to *riba*. When economies under financial crisis are looking for an alternative to interest-based debt financing, embracing Islamic risk behaviour in both forms (i.e., risk-taking and sharing) is the pleasing alternative. This is very much consistent with what has been outlined by Halim (2001) who shed light on the type of contracts involved in Islamic finance. The term *al-bay'* comprises of both risk-sharing contracts (i.e., *al-mudharabah* and *al-musharakah*) as well as risk-taking contracts [i.e., *salam* sale (*bay' al-salam*), sale on order (*bay' al-istisna*), and leasing (*al-ijarah*)]. Thus, by practicing the true essence of risk sharing and risk-taking modes of commerce, it could promote better financial inclusiveness as the system emphasizes the widest distribution of risk and reward through the whole society (Kamali, 2002).

On top of that, the concept of redistribution of wealth is based on the concept of a balanced society in Islam that tried to avoid the occurrence of extreme wealth and poverty. Among the redistribution instruments that can be used are *zakat* and *waqf*. These two instruments are a form of wealth transfer and it reaches to the needy, parallel with the Islamic principles of property rights for all.

Zakat, as one of the pillars in Islam, is an ordained rule for wealth redistribution that targets the needy, which the results can improve their poverty line. It is not charity but an obligation for Muslims. It can be defined as a form of flat-rate social security tax earmarked for redistribution of wealth (Erbas & Mirakhor, 2010). Empirically speaking, the evidence on the impact of access to finance via *zakat* so far is substantial. Results revealed that effective zakat collection and distribution reduces poverty incidence, reduces the extent of poverty, lessens the severity of poverty, reduce income inequalities (Mohd Ali, Rashid, Johari, & Muhammad, 2015; Bashir, 2018), help both the poor and needy to meet their consumption of basic needs (Abdullah, 2018) as well as could improve educational equity among Muslim urban poor students (Mohd Radzi & Kenayathulla, 2017).

Another instrument, the *waqf*, also seeks to mobilize a large number of financial resources in a way which the contributors endow the stream of income accruing to a property for a charitable purpose in perpetuity (Iqbal & Mirakhor (2013). Access to this instrument is recognized to be a powerful tool for poverty alleviation (Abdul Rahman, R. Muhammad, Ahmed, & Amin, 2016; Shaikh, Ismail, & Mohd Shafiai, 2017). With regard to prior discussion and analysis concerning the impact of *waqf*, among others, Mikail, Ahmad, & Adekunle (2017) notes that apart from zakat and micro-takaful, *waqf* provides social securities and socio-economic support to low-income households in societies. Specifically, the strength of *waqf* in the economy has indeed impacted the development of the education system (Mahamood & Ab Rahman, 2015; Mujani et al., 2017; Huq & Khan, 2017) and have great potential to help the poor and needy in meeting their housing needs (Rashid, Mohd Fauzi, & Hasan, 2018) and also access to finance for enterprises (Sahiq et al., 2016).

Therefore, financial inclusion should go beyond conventional, by considering the potential of the Islamic financial instruments in the mission of poverty alleviation and community development. Especially for Muslim countries, where its redistributive instruments are already institutionalized, then the ability of these tools to enhance the access to finance should be considered to create an inclusive financial system. For example, according to a report by (MIFC, 2015), the collection of *zakat* and various Shariah-based microfinance programs offered in Malaysia, Indonesia and Bangladesh have managed to raise the living standards of low-income groups and increase the number of entrepreneurs in these countries, as they helped to increase the involvement of low-income groups in the financial sector. On top of that, it is suggested that *awqaf*, *qard-al-hassan*, *sadaqa*, and *zakah*, can play a role in bringing more than 40 million people, who are financially excluded for religious reasons, into the formal financial system (Zulhibri, 2016).

3.0 Methodology

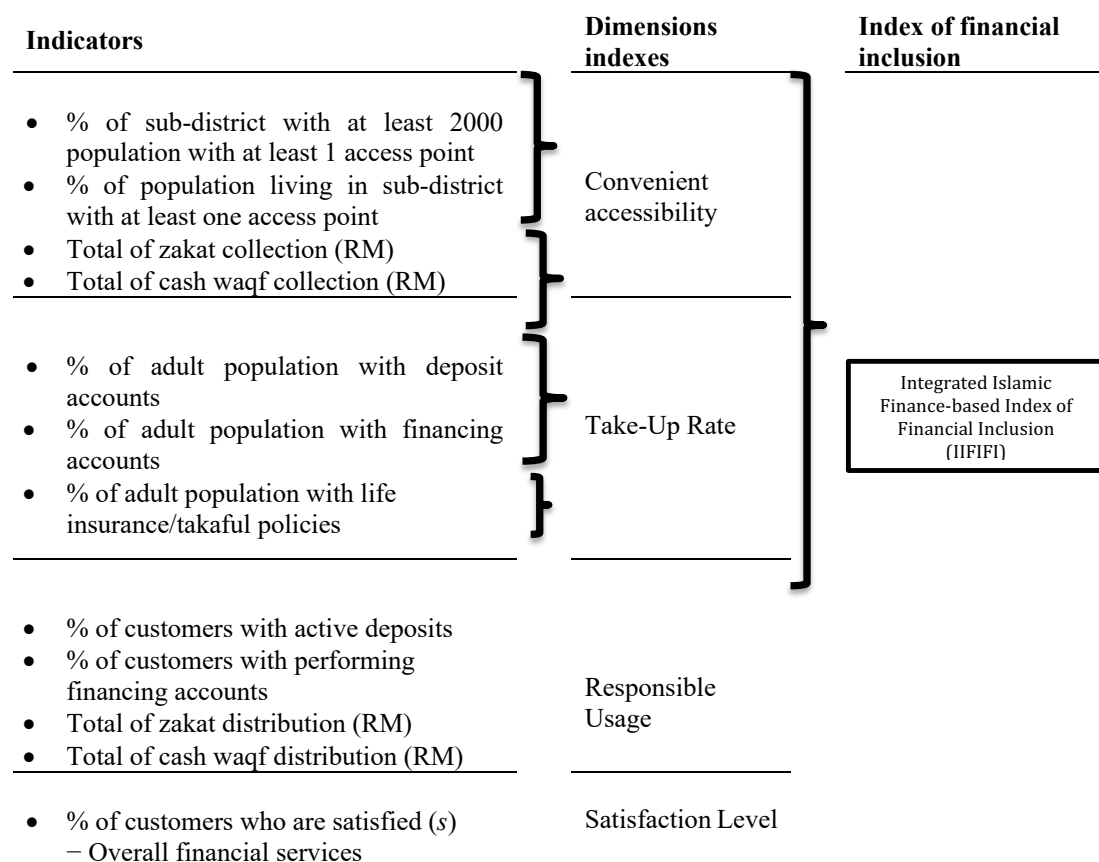
This section presents the construction of the integrated Islamic finance-based index of financial inclusion (hereafter referred to as IIFIFI). It starts by discussing the parameters and development of IIFIFI. Next, data collection is further explained.

3.1 Parameters

Some evidence mentions that the measurement of index needs to include as many dimensions as possible (Sarma, 2008; Kumar & Mishra, 2009; Arora, 2010; Gupte, Venkataramani, & Gupta, 2012). As the benchmark of any of study, these dimensions have to be measureable and answerable. To fulfill this objective, indicators of each of the dimension are essential.

The two parameters in the index computation, i.e., dimensions and indicators, are complementary to one another. The parameters are based on work contributed by Abd Rahman (2013). IIFIFI focuses on four dimensions by integrating two important indicators to represent Islamic finance elements (i.e., zakat and cash waqf) as highlighted in many studies (e.g., Mirakhor & Iqbal, 2012; Mohieldin, Iqbal, Rostom, & Fu, 2012; El-Zoghbi & Tarazi, 2013; MIFC, 2015).

IIFIFI is formulated based on the financial inclusion key performance indicators through four dimensions of financial inclusion for Malaysia which are developed by BNM (see Figure 2). The index measures the state of financial inclusion, indicating the extent to which the general population has access to financial services by examining access and usage of both formal financial intermediaries and Islamic finance institutions and, to certain extent, the quality of financial services. Specific strengths and shortcomings within each dimension can be observed through the sub-indexes that subtend the complete IIFIFI.



Sources: Adopted from Abd Rahman (2013)

Figure 2: Dimensions and indicators for the computation of the integrated Islamic finance-based index of financial inclusion (IIFIFI)

3.2 The suggested index

This study follows a similar methodology and reasoning (i.e., dynamic concept) as employed by Sarma (2008). Hence, for each dimension, n numbers of variables are included:

$$d_i = x_1, x_2, x_3, \dots, x_n \quad (1)$$

where:

d_i = Islamic finance dimension,

X = variable, and

i = individual countries.

IIFIFI is computed by first computing sub-indices for each indicator, i.e., minimum and maximum values (frontiers or targets) for each are determined. Refer Table 2. The distance to frontier approach, which expresses frontier as perfect financial inclusion, is measured from the existing position of financial inclusion.

For each variable, d_i is computed using the Linear Scaling Technique (LST) as follows:

$$d_i = w_i \frac{A_i - m_i}{M_i - m_i} \quad (2)$$

where:

w_i = weight attached to the dimension i , $0 \leq w_i \leq 1$

A_i = actual value of dimension i ,

m_i = minimum value of dimension i , fixed by some pre-specified rule, and

M_i = maximum value of dimension i , fixed by some pre-specified rule.

Next, expressed as a value between 0 and 1, these sub-indices are then weighted based on the importance and aggregated in order to transform these sub-indices of indicators into a dimension index. The dimensions are equally weighted since there no evidence to indicate that one dimension is more important than another. In addition, unlike the case of HDI, there is no consensus made in the literature on which set of dimensions/categories is crucial to calculate financial inclusion. Finally, the IIFIFI is the arithmetic mean of the four-dimension indices.

Table 2 below summarized the suggested indicators for the computation of IIFIFI.

Table 2: Summary of Dimensions and Suggested Indicators for IIFIFI Computation

Dimension	Indicators	Target	Weight	Equal Weighted Dimension
Convenient Accessibility	% of sub-district with at least 2000 population with at least 1 access point	90%	0.25	0.25
	% of population living in sub-district with at least one access point	95%	0.25	
	Total of zakat collection (RM mil)	0.394 (2011) 0.627 (2015)	0.25	
	Total of cash waqf collection (RM mil)	0.500 (2011) 2.000 (2015)	0.25	
Take-Up Rate	% of adult population with deposit accounts	95%	0.5	0.25
	% of adult population with financing accounts	50%	0.25	
	% of adult population with life insurance/takaful policies	40%	0.25	
Responsible Usage	% of customers with active deposits	90%	0.25	0.25
	% of customers with performing financing accounts	97%	0.25	
	Total of zakat distribution (RM mil)	0.394 (2011) 0.627 (2015)	0.25	
	Total of cash waqf distribution (RM mil)	0.250 (2011) 1.00 (2015)	0.25	
Satisfaction Level	% of customers who are satisfied – Overall financial services	80%	1.0	0.25

Depending on the value of IIFIFI, the country is classified into four categories, namely:

- $0.75 < \text{IIFIFI} \leq 1$: high integrated Islamic finance-based of financial inclusion
- $0.5 \leq \text{IIFIFI} < 0.75$: above average integrated Islamic finance-based of financial inclusion
- $0.25 \leq \text{IIFIFI} < 0.5$: moderate integrated Islamic finance-based of financial inclusion
- $0 \leq \text{IIFIFI} < 0.25$: low integrated Islamic finance-based of financial inclusion

3.3 Data Collection

Preferably, one should take into consideration as many as dimensions to arrive at a holistic view on the Islamic finance approach of financial inclusiveness across the country. Currently, there is a major constraint on the availability of data on the Islamic finance dimensions for the index computation (Abu Seman, Jamil, & Mohd Hashim, 2019).

The calculation of IIFIFI combines the data of IFI computation in Abd Rahman (2013, 2017) and data of Islamic finance indicators (i.e., zakat and cash waqf). Data collection on zakat and cash waqf is derived from archival data downloaded from the two important institutions' websites, namely Jabatan Waqaf, Zakat dan Haji (JAWHAR) and Yayasan Waqaf Malaysia (YWM).

4.0 Results and Discussion

Table 6 presents the results of the IIFIFI computation. Using zakat and cash waqf indicators to represent Islamic finance elements, it is found that the level of financial inclusion in Malaysia is moderate. However, the overall index level is increased from 0.49 in year 2011 to 0.55 in year 2015. Remarkably, most of the level of zakat and cash waqf indicator indexes are low. This would suggest that these channels require specific attention to tackle financial inclusion in Malaysia. Issues and problem related to zakat [see, for example Ahmad (2018); Ahmad Razimi, Romle, & Muhamad Erdris (2016); Johari, Ali, & Aziz (2015); Mohd Ali et al. (2015); Ali & Aziz (2014)] and cash waqf [see, for example

Adeyemi, Ismail, & Hassan (2016); Ismail, Muda, & Hanafiah (2014); Osman, Htay, & Muhammad (2012); Md. Shahedur Rahaman Chowdhury (2011)] in Malaysia need to carefully addressed in order to attain positive and meaningful impact on the society through inclusiveness of financial access.

On a different note, there are differences between the existing IFI and suggested IIFIFI as shown in Table 7. The inclusion index without Islamic finance indicators is relatively higher as compared to the index incorporating Islamic finance. This could be explained by the equal weight distributed to all the dimensions include *zakat* and cash *waqf* indicators. Since the importance of those indicators is taken into consideration, the low level of sub-indices for *zakat* and cash *waqf* relatively impact the overall IIFIFI. Further actions on these two access channels should be in place in order to improve the index in the future.

Table 6: Summary of IIFIFI Computation in 2011 and 2015

Dimension	Indicators	Data		Target	Index of each Indicator		Weight	Index of each Dimension		Equal Weighted Dimension	Equally Distributed IIFIFI	
		2011	2015		2011	2015		2011	2015		2011	2015
Convenient Accessibility	% of sub-district with at least 2000 population with at least 1 access point	46%	96%	90%	0.26	0.54	0.25					
	% of population living in sub-district with at least one access point	82%	98%	95%	0.43	0.52	0.25	0.23	0.34	0.25		
	Total of zakat collection (RM mil)	1.641	2.490	0.394 (2011) 0.627 (2015)	0.04	0.04	0.25					
	Total of cash waqf collection (RM mil)	0.396	2.033	0.500 (2011) 2.000 (2015)	0.20	0.25	0.25					
Take-Up Rate	% of adult population with deposit accounts	92%	91%	95%	0.97	0.96	0.5					
	% of adult population with financing accounts	36%	25%	50%	0.72	0.50	0.25	0.71	0.62	0.25	0.49	0.55
	% of adult population with life insurance/takaful policies	18%	16%	40%	0.45	0.40	0.25					
	% of customers with active deposits	87%	92%	90%	0.49	0.51	0.25					
Responsible Usage	% of customers with performing financing accounts	97%	98%	97%	0.50	0.51	0.25					
	Total of zakat distribution (RM mil)	1.388	2.782	0.394 (2011) 0.627 (2015)	0.03	0.04	0.25	0.26	0.34	0.25		
	Total of cash waqf distribution (RM mil)	0.021	1.237	0.250 (2011) 1.00 (2015)	0.02	0.31	0.25					
	% of customers who are satisfied – Overall financial services	61%	73%	80%	0.76	0.91	1.0	0.76	0.91	0.25		
Index ranges from 0-1, with 1 being perfect financial inclusion											1.00	0.00 – 1.00

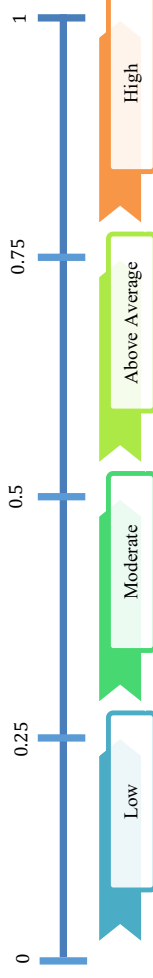


Table 7: Comparison of index of financial inclusion (IFI) and integrated Islamic finance-based index of financial inclusion (IIFIFI) in 2011 and 2015

Index	2011	2015
Index of Financial Inclusion (IFI)	0.77	0.90
Integrated Islamic Finance-based Index of Financial Inclusion (IIFIFI)	0.49	0.55

5.0 Conclusion

Preferably, one should take into consideration as many as possible dimensions to attain a comprehensive and holistic view of the Islamic finance approach of financial inclusion. As evident from the tables, by integrating *zakat* and cash *waqf* to represent Islamic finance indicators, it could provide a better understanding of the financial inclusion level in Malaysia. These channels are typically tailored to the low-income group which considered as an underserved market in the mainstream financial system.

It is found that the level of financial inclusion using Islamic finance indicator in Malaysia is moderate. However, the overall index level is increased from 0.49 in year 2011 to 0.55 in year 2015. Surprisingly, most of the level of *zakat* and cash *waqf* indicator indexes are low which indicate that these channels require specific attention to drive financial inclusion in Malaysia. The sub-indexes are a useful guide for policy-makers and other stakeholders to identify the strengths and weaknesses of the respective business and social environments and could prioritise areas that need further attention. It is hoped that the findings would be useful for the development of financial inclusion index using Islamic finance approach and monitoring the impact of *zakat* and *waqf* to the society.

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The Impact of Achieving “Sejahtera” Level Using Baitul Maal Wat Tamwil Financing on Alleviating Poverty in West Java

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Abstract

This research aimed at measuring micro-business performance of micro-entrepreneur using “sejahtera” measurement and whether this is in line with poverty alleviation on their household, by comparing various well-known poverty alleviation measurements and “sejahtera” measurement which is an adaptation from CIBEST Model. The primary data obtained through in-depth questionnaires in West Java, Indonesia. The overall result shows that there are positive improvement of “sejahtera” level of micro-entrepreneur at their business performance after using BMT financing, and that improvement positively correlated with alleviating poverty of micro-entrepreneurs household. At the end, this research found that after BMT financing, 27.5 percent of respondents achieve “sejahtera” level at their business, 47.75 percent achieve spiritually rich level, 9.25 percent achieve material only and 15.5 percent still at absolute poor level. For their household, after BMT financing 31 percent of respondents still has income below poverty line and 69 percent of them has income above poverty line.

Keywords: Baitul Mal Wa Tamwil (BMT), micro-business, poverty, “sejahtera”

1. Introduction

The United Nations has marked 26 out of 57 member countries of OIC as the least developed countries. According to UNDP, World Bank and IFSC reports (2013), poverty is caused by limited response of poor people to micro financing facilities because of interest and also limited Islamic micro financing facilities provided by Islamic financial institutions. Not to mention the minimal attention and interest of international donor agencies towards Islamic microfinance and this, in return, has thrown the Muslim world into an incident of poverty. It can also be concluded, that exclusion of the poor from the financial system is one of the factors contributing to their inability to participate in the development process (Obaidullah and Khan, 2008).

In Indonesia, Islamic microfinance institutions were established through the presence of Baitul Mal wa Tamwil (BMT), the most popular type of Islamic microfinance institutions. The potential clients of the Islamic microfinance are the micro-entrepreneurs that operates their activities mostly at the traditional markets, known as micro-entrepreneurs. The “sejahtera” level of micro-entrepreneurs become important concerned in Indonesia. According to *Undang-Undang Republik Indonesia No.11 (2009)*, “*Kesejahteraan Sosial*” defines as the condition of fulfilment needs of material, spiritual, and social citizen so they can live a worthy life and improving their self development, to do their social function. The objectives of “sejahtera” is to achieve a proper balance between the material and spiritual goals, a level of *fitrah* that many muslims has trying to achieve in his or her life.

This needs further impact assessment on Islamic microfinance institution in poverty alleviation, especially to achieve “sejahtera” level of micro-entrepreneurs. The impact of the access to BMT financing towards micro-business performance of micro-entrepreneur needs to be evaluated both in material (physical) and spiritual context. Additionally, whether it equally gives impact to the household income of the micro-entrepreneurs also needs to be explored.

Based on figure below, poverty level in West Java has been reduced for the past 10 years but at the same time the reducing level was slowing down. Between 2007 and 2009, the reduction of total poverty level (consisting of urban and rural poverty) is 1.59 percent, from 13.55 percent in 2007 to 11.96 percent in 2009. In 2015, there was an increase in total poverty level from 9.18 percent in 2014 to 9.57 percent in 2015 before reducing again in 2016 to 8.77 percent and 2016 to 7.83 percent.

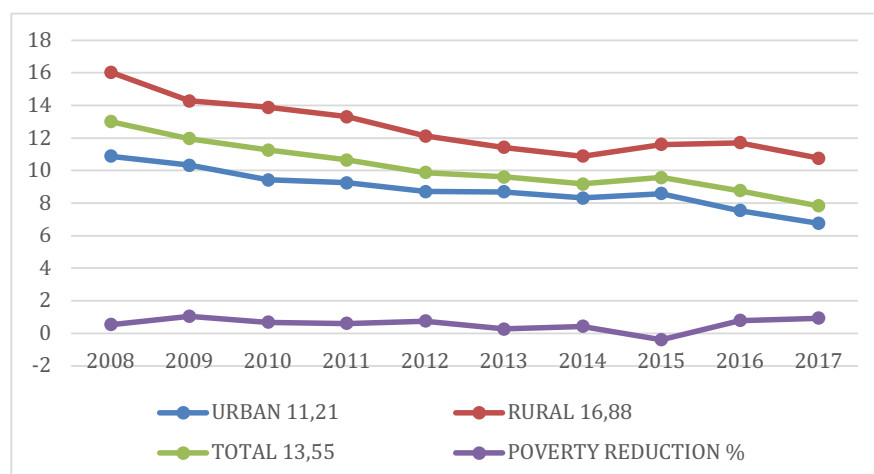


Figure 1.1: The Growth of Poverty Reduction in West Java

Source: Adaptation from Indonesia's Badan Pusat Statistik (National Statistical Agencies)

According to National Statistical Agencies or "Badan Pusat Statistik" (2010), West Java is a province with the biggest population in Indonesia. It has 48,037,600 people in 2017, and 10 percent of them are micro-entrepreneurs. These micro-entrepreneurs are "economically active poor workers" according to World Bank (Robinson, 2001). They earn their livelihoods by being self-employed or by working in microenterprises (very small businesses which may employ up to four people). These micro-entrepreneurs make a wide range of goods in small workshops; engage in small trading and retail activities; make pots, pans and furniture; or sell fruits and vegetables (UNDP, 1999). In Indonesia there are three regions of provinces that has the biggest BMT institutions: West Java, East Java and Central Java. The biggest number of BMT located in West Java with 637 BMTs, East Java has 600 BMTs, while the number of BMT in Central Java is 513 (Muhammad Kholim, 2004).

The growth of BMTs as Islamic microfinance institution seems contradictory to the slowing down of growth of poverty reduction. This raises question: is there any impact of Islamic microfinance establishment to achieve "sejahtera" level and whether it also impacting the poverty alleviation in Indonesia? It is known that Islamic microfinance institutions in Indonesia have 60 percent of their market segment in micro-entrepreneurs. This marks microfinance sector as one of important efforts of the country to reduce poverty.

Using the information from respondents from particular area, in this case West Java, this research seek to determine that the improvement of "sejahtera" level at micro-business performance positively correlated with alleviating poverty of micro-entrepreneurs household, by comparing various well-known poverty alleviation measurements and "sejahtera" measurement which is adapted from CIBEST Model. Furthermore, this will also leads to redefinition of the theory of poverty where it consists of material and spiritual unfortunate. Additionally, this research will also leads to new approach in measuring poverty alleviation, to achieve "sejahtera" level.

2. Literature Review

Poverty is simply about the limited level of income obtained by households or individuals and lack of access to social services. It impacting the inability to participate in society, economically, socially, culturally or politically (Maxwell, 1999). Poverty degrades human dignity, create unemployment, catastrophist and indebttness (ISRA, 2018). According to Asian Development Bank (ADB) (2000), poverty is a condition characterized by lack of access to essential goods, service, assets and opportunities to which human being is entitled.

Islam is unprecedented in the extent of its care for the poor and its zest to solve the problem of poverty whether through directives and recommendations that exhort Muslims to have mercy on the poor, by means of legislation and laws, or through implementation and application (Qardawi, 1981). Poverty in Islam is defined as an insufficiency of income and the inability of fulfilling basic human needs (Johari et al, 2017). Muhammad A. Shahbudin (1997) differentiates the concept of “fakir” and “miskin” (poor) that the two types is part of dhuafa with similar status. Both reflect poor people. The difference is that miskin people relatively have better income while fakir has no income to fulfill their basic needs. Poverty is a condition where a person or community lacks the financial resources and essentials to enjoy a minimum standard of life and well-being that is acceptable in the society (Nawai, 2016). The concept of poverty in Islam does not only represent deprivation of goods and services, but also spiritually poor. Unfortunately, this broader and comprehensive concept of poverty has been largely left out, to only focus on the notion of deprivation in the economic sense or material only (ISRA, 2018).

The various poverty measurements are commonly available. The simplest and most widely used measure of poverty is the *headcount index*. Which measures the share of population that is considered poor.

The formula:

$$P_0 = \frac{1}{N} \sum_{i=1}^N I(y_i < z) = \frac{N_p}{N},$$

where N = total population

(i) = an indicator function that takes on a value of 1 (poor); if the bracketed expression is true, and 0 (non-poor) otherwise

y_i = expenditure

z = poverty line

Another widely known measurement of poverty is the *poverty gap index*, which adds up the normalized (or relative) difference between individuals and the poverty line, and expresses it as a percentage of the poverty line.

The formula:

$$PGI = \frac{1}{N} \sum_{j=1}^q \left(\frac{z - y_j}{z} \right)$$

where N = the total population,

q = the total population of poor who are living at or below the poverty line,

z = the poverty line, and

Y_j = the income of the poor individual j.

In this calculation, individuals whose income is above the poverty line have a gap of zero.

There are also other poverty measurements, such as Lorenz Curve, Gini Coefficient, Sen Index and FGT Index. The Lorenz curve is the graphical representation of income or wealth distribution that indicates the degree of inequality of distribution. Johari in her research in 2004 used the relationship between Lorenz Curve and Gini Coefficients to measure the impact of zakat on poverty alleviation in Melaka. While Lorenz Curve represents the distribution of income in an economy, Gini Coefficient measuring the degree of income inequality. The Gini Coefficient is actually derived from the Lorenz Curve and can be used as an indicator of economic development in a population (Johari, 2004).

Sen Index was developed by Nobel Laureate Amartya Sen, who pioneered a poverty analysis (1976). Sen begins his paper by formulating two desirable properties of poverty indices: the monotonicity axiom, which requires a rise in the overall poverty level if the income of a poor person is reduced; and the transfer axiom, which demands an increase in poverty whenever a pure transfer is made from a poor person to someone with more income (Shorrocks, 1995). The formula is as follows:

$$S = HC [PG + (1-PG) GI]$$

where HC is Headcount Index, PG is the Poverty Gap, and GI is the Gini Coefficient index for income inequality among the poor.

The least popular poverty measurement is proposed by Foster, Greer and Thorbecke (1984). The formula is as follows:

$$FGT = \frac{1}{N} \sum_{i=1}^p \left(\frac{z - Y_i}{z} \right)^\alpha$$

where α is a measurement sensitivity of the index to poverty and the poverty line is z . When parameter $\alpha=0$, the FGT is simply the headcount index. When $\alpha=1$, the index is the poverty gap index, and when α is set equal to 2, FGT is the poverty severity index (Rasiah, 2011).

One of the recent model that attempting to measure poverty and “sejahtera” based on Islamic perspective is the CIBEST Model by Beik and Asryanti (2015). National Zakat Agency (Baznas) has officially used CIBEST model to measure the impact of poverty alleviation from the zakat fund national wide. The use of CIBEST model is applied in Central Baznas, 34 Province Baznas, and 514 Cities and Districts Baznas. This model is approaching poverty by two aspect of needs: material and spiritual aspects, and mainly has been used related to zakat performance. The material aspect of its model is influenced by several approaches on similar study to measure poverty. While the spiritual aspects consist of practicing shalat (prayer), practicing saum (fasting), paying zakat, household environment, and government policy environment.

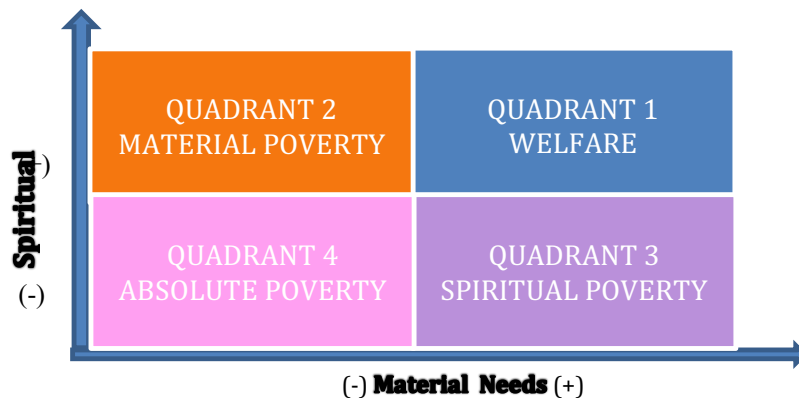


Figure 2.1: The Four Quadrants in CIBEST Model

Source: Beik and Arsyanti (2015)

The model above are influenced this research in terms of analyzing a “sejahtera” level among micro-entrepreneurs. In terms of impact on microfinance field of study, David Hulme (2000) stated that the assessment may not necessarily only be on the household level, but could also be on other “agent” (individual, enterprises, population, policy maker, etc.) which have experienced an intervention against the values of those variables that would have occurred had there been no intervention (Hulme, 2000). Therefore, this study focusing on the enterprise unit analysis or micro-business of the micro-entrepreneurs to measure the “sejahtera” level.

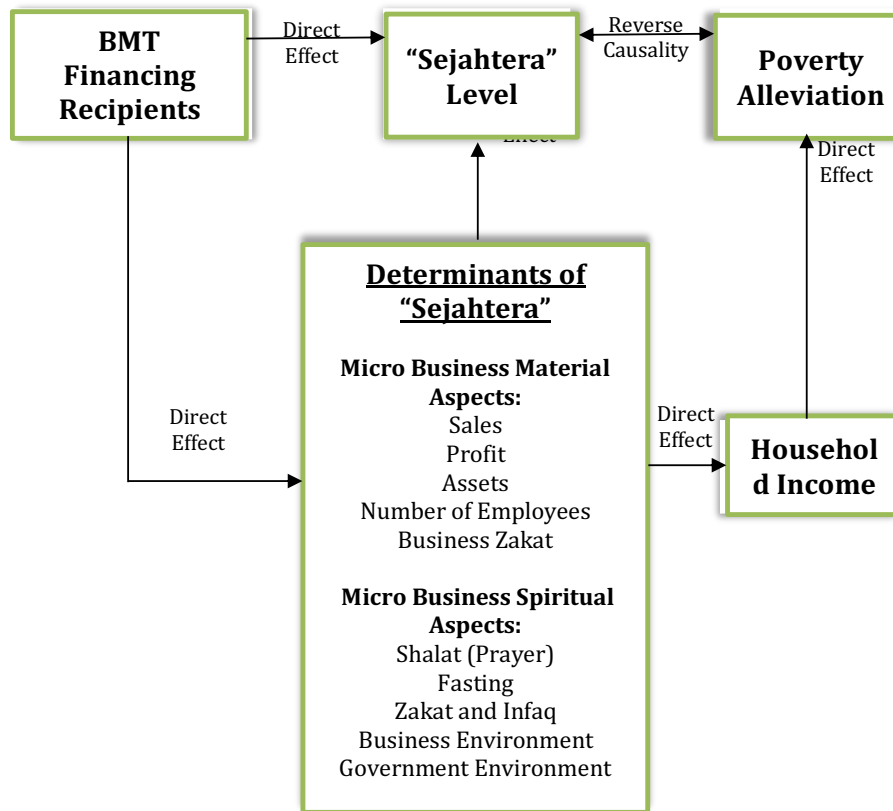
Johansson and Pettersson (2014) stated that the size of the company is a common way of measuring the impact of microfinance programs on micro-business performance. Measurement of enterprise size used in former research are: number of employees, size of total assets, fixed assets, revenues and business profit. (Johansson and Pettersson, 2014). Absari (2017) mentioned that microenterprises play a major role in the macroeconomic of less developed countries. Therefore, microenterprises development is very important in economic development. Because capital is critical element in success of microenterprise, the injection of capital into enterprises constitutes one approach to develop them. Business income, business profit, asset, and job creation constitute important indicators in evaluating the impact of microfinancing programme on business performance (Absari, 2017). David Hulme (2000) stated that microfinance institution provides financing to clients, that would lead to the clients modified their micro-business activities which in turns lead to increased or decreased micro-business income (Hulme, 2000).

According to Beik and Arsyanti (2015), if a person both suffer poverty (material and spiritual needs) it means he or she is at the absolute poor condition. On the other hand, if a person is on a condition that can fullfil both material and spiritual needs, it means he or she has reach the “sejahtera” level of life. For the purpose of this thesis, the researcher adapts the CIBEST model from Beik and Arsyanti (2016), which is used nationwide by National Zakat Agency (Baznas) in 34 Province and 514 Cities, to determine the spiritual aspects of business performance. There are five variables of basic spiritual aspects that could impact the business performance of micro-entrepreneurs: practicing shalat (prayer), practicing saum (fasting), paying zakat, business environment, and government policy environment.

Undang-Undang Republik Indonesia No.11 (2009), defined “*Kesejahteraan Sosial*” as the condition of fulfillment of material, spiritual, and social needs of the citizen so they can live a worthy life and improve their self-development, to do their social function. This research tries to fill the gap in the study of poverty alleviation in general, as well as Islamic microfinance in particular on poverty alleviation of micro-entrepreneur that mostly only measured the material aspect and not cater the spiritual aspect of the recipient financing program. This study is also intended on filling the gap measuring microfinance impact using enterprise unit of analysis, i.e. micro-business performance indicators, and whether this is consistent with BMT impact to the household income of micro-entrepreneurs in poverty alleviation, by comparing various well-known poverty alleviation measurements and “sejahtera” measurement.

Based on literature review and objective of this study, below the theoretical framework of this research. It consists of BMT financing, material and spiritual aspects as part of “sejahtera” level, and poverty alleviation.

Figure 2.1: Theoretical Framework



3. Methodology

Methodology is defined as a general approach to conduct a particular research topic. This research is an impact assessment research, with a mixed between descriptive statistic and qualitative analysis. Any necessary information for this study will be critically analyzed and interpreted using explanatory method.

3.1. Sample Size and Sampling Technique

The population of the study comprises all the poor micro-entrepreneur as recipients of micro-financing from Islamic microfinance (BMT) residents of West Java, Indonesia in six cities: Bandung, Kabupaten Bandung, Cimahi, Garut, Tasikmalaya and Karawang.

The biggest number BMT located in West Java with 637 BMTs (Kholim 2004), or around 15 percent of the total BMTs in Indonesia. According to latest estimates there were 1.5 million micro-entrepreneurs as recipients of micro-financing from BMTs in Indonesia (Thomson-Reuters, 2014). It is estimated the number of micro-entrepreneur in West Java is 15 percent of the 1.5 million or equal with 240,000 micro-entrepreneurs.

Since there is no information available about the population's behavior, the researcher used Slovin's formula to find the sample size. This research will make assessment on the influence of BMT financing program on the business income and household income of micro-entrepreneur, by examining their level condition of poverty before they join BMT financing program and their level condition after they join the BMT program.

Slovin Formula:

$$n = \frac{N}{1 + N_e^2}$$

where : n = sample, N = Population, e = confidence level

This study would use a 95% confidence level, with a population size of 240,000. From the formula, we can get :

$$n = \frac{240,000}{1 + (240,000 \times 0.05^2)}$$

n = 399

The method of data collection involves quantitative data collection based on proportional stratified random sampling technique, though structured questionnaires distributed to micro-entrepreneur that received financing from BMTs from 6 cities willing to participate in this study.

3.2. Location

This research has been taken place at West Java to micro-entrepreneurs who has been receiving financing program from Baitul Maal Wat Tamwil.

3.3. Time of Research

The questionnaire has been conducted from December of 2018 to March of 2019.

3.4. Sample of Research

Sample of this research are the micro-entrepreneurs who has been receiving financing program from Baitul Maal Wat Tamwil as mentioned above. The number of sample is 400 micro-entrepreneurs.

This study used descriptive statistic and quantitative analysis using data analysis tool SPSS Statistical 24. It can help the researcher to manage data, by that it will be easier to analyse.

4. Findings

Based on demographic profile of the respondents, we can conclude that 94.2 percent are male while female only consists of 5.75 percent. Findings of the fieldwork revealed that all of them are on productive age between 16-65 years old. At the age of 25 they started to get married and hence taking responsibility as the head of family.

Table 4.1: Demographic Profile

Demographic Profile				
	Variables	Category	Frequency	%
1	Gender	Male	377	94.25
		Female	23	5.75
2	Age	Below - 15 years old	0	0
		16 - 65 years old	400	100
		Above 66 years old	0	0
3	Type of Business	Micro-trader	222	55.5
		Services	44	11
		Farmer	37	9.25
		Scripture	18	4.5
		Breeder	36	9
		Crafter	43	10.75
		Other		

4	Location	Bandung	80	20
		Kab. Bandung	80	20
		Cimahi	60	15
		Karawang	60	15
		Garut	60	15
		Tasik	60	15
5	Education (Formal)	University Degree	30	7.5
		Diploma	152	38
		High School	139	34.75
		Junior High School	50	12.5
		Elementary	29	7.25
		None		0
6	Education (Non Formal)	Training Course	292	73
		None	108	27
7	Income (Household)	0-1 million	0	0
		1-2 million	155	38.75
		2-3 million	100	25
		3-4 million	100	25
		above 5 million	45	11.25
8	Expenses (Total)	0-500.000	0	0
		500,000 - 1 million	220	55
		1- 1.5 Million	180	45

Source: Primary Data, 2019

In terms of business, there are various types that the respondents do for their livelihood. More than half or 55.5 percent of them are micro-traders at traditional markets, 11 percent of them are in services business, while crafter consists of 10.75 percent of them. The other type of business that they do are farming (9.25 percent), scripture (4.5 percent) and breeder (9 percent).

The location of respondents are vary, consists of six cities in West Java. 20 percent from Bandung, 20 percent from Kabupaten Bandung, while the rest are from Cimahi, Karawang, Garut and Tasik with each of them are consists of 15 percent respectively. In terms of education, the formal one are mostly high school and diploma level with 34.75 percent and 38 percent respectively. Other formal education are junior high school (12.5 percent), elementary (7.25 percent) with university degree only 7.5 percent. While non-formal education mostly joined training courses (73 percent) and the rest of them do not have any non-formal education.

For the household monthly income, there are five ranges of categories. For category below IDR one million, none of the respondents or 0 percent from the total of respondents. The next category is the household monthly income between IDR one to two million which consist of 38.75 percent respondents or equals with 155 respondents. For the middle range category between two to three million, there are only 100 respondents or equals with 25 percent of them. There are also 25 percent of respondents with monthly household income between IDR 3 million to 4 million. Lastly, only 11.25 percent of respondents have more than IDR 5 million every month. In terms of total monthly expenses of the respondents, 55 percent of them are around IDR 500,000 to 1 million, while the rest or 45 percent of them earn IDR 1 to 1.5 million in a month.

4.1. Material Level

The Table 4.2 below describe the level of material aspects of micro-entrepreneurs before and after they receive BMT financing. Using SPSS 24, this research calculates the mean before and after the respondents received BMT financing in terms of business performance material level.

Table 4.2: West Java Material Level Before and After Financing

Paired Samples Statistics Material Before & After								
		Mean		N	Std. Deviation		Std. Error Mean	
		Before	After		Before	After	Before	After
Pair 1	Sales	2.50	3.52	400	0.501	0.5	0.025	0.025
Pair 2	Profit	2.00	3.02	400	0.448	0.464	0.022	0.023
Pair 3	Asset	2.00	3.01	400	0.448	0.564	0.022	0.028
Pair 4	Number of Employees	1.10	2.09	400	0.3	0.283	0.015	0.014
Pair 5	Business Zakat	1.00	2.66	400	0	0.544	0	0.027

Source: Primary Data, 2019

The variables are sales, profit, asset, number of employees and business zakat. While Figure 4.1 below is the graph based on the paired samples statistics of Table 4.2. In general, it shows that all material indicators increase after BMT financing.

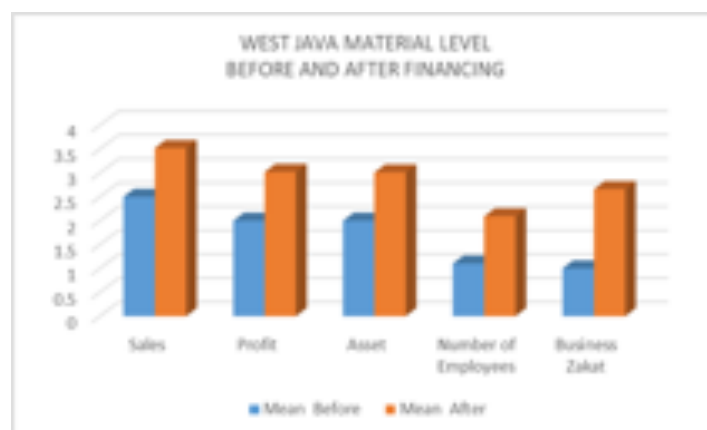


Figure 4.1: West Java Material Level Before and After Financing

Source: Primary Data, 2019

Business sales variables are categorized in 5 scales:

- 1 = No Sales
- 2 = Has sales but less than target expected
- 3 = Sales equal with target expected
- 4 = Sales above target expected but still below IDR 300 million
- 5 = Sales in and above IDR 300 million

In terms of sales, after BMT financing it resides at the level of 3.52. While the previous one resides at 2.50 before they receive BMT financing. It means that they now meet the expected target for sales, an improvement compare from before they received BMT financing. At that time they may have sales but less than target expected.

That will make an impact on the business profit variables that comes with 5 scales:

- 1 = Losses near bankruptcy
- 2 = Losses but still manageable to survive the business
- 3 = Break-even (expenses equal with income)
- 4 = Profit (expenses below income)
- 5 = Profit with potential sustainability in long term

In the profit aspects, after BMT financing it is in level 3.02, (which moves from level 2.00 before BMT financing. That leads them to break-even positions in their business. This is better than before they received BMT financing, when they have to suffer from serious losses even though they are still manageable to survive the business. This is almost the same level as asset after BMT financing that resides at level 3.01.

Based on business performance material indicator, asset variables are categorized in 5 scales:

- 1 = Does not have any asset
- 2 = Asset decreasing
- 3 = Asset still the same level (not increasing or decreasing)
- 4 = Asset increasing below IDR 50 million
- 5 = Asset equal or above IDR 50 million

Before BMT financing their asset basically decreases (at level 2.00), this is due to losses they have to suffer is related with losses in profit variables. After BMT financing their asset basically does not decrease as previously before they received BMT financing, this is due to break even (expenses equal with income) in their profit variables that resides at level 3.01.

In terms of variables of number of employee, the category is divided as follow:

- 1 = self employee
- 2 = 1 employee
- 3 = 2 employees
- 4 = 3 employees
- 5 = 4 employees

For the number of employee variable, the mean level is at 2.09 after the micro-entrepreneurs receive financing from BMT. This is seen as an improvement considering their previous level was at 1.10 level. It means they start to hire one employee to help operate their business and at the same time they also make a contribution in lowering the level of unemployment in their cities.

Lastly, based on business performance material indicator, business zakat variables are categorized as 5 scales:

- 1 = does not pay business zakat because the profit below nisab
- 2 = reluctance to pay business zakat even though the profit already reached nisab
- 3 = pay business zakat in accordance with minimum requirement of nisab
- 4 = pay business zakat above the minimum requirement of nisab
- 5 = not only pay business zakat but also pay shadaqah and waqf

After the micro-entrepreneurs received BMT financing, they sit at level 2.66 for business zakat, which is much better than previously 1.00 level before they received financing from BMT. In other words the profit has already reached nisab, even though they still reluctance to pay business zakat. The findings of the fieldwork has revealed that this is due to low of understanding and knowledge about the importance of zakat in business. Most of them only pay zakat for their personal self and family only. They mostly pay it in the month of Ramadan, known as zakat fitrah.

It can be concluded that the material level of micro-entrepreneurs after BMT financing clearly increases for all of the variables of business performance: sales, profit, asset, number of employees and business zakat.

4.2. Spiritual Level

Table 4.3 describes the level of spiritual aspects of micro-entrepreneurs, before and after they receive BMT financing. Using SPSS 24, this research calculates the mean before and after the respondents received BMT financing in terms of business performance spiritual level.

Table 4.3: West Java Spiritual Level Before and After Financing

Paired Samples Statistics								
		Mean		N	Std. Deviation		Std. Error Mean	
		Before	After		Before	After	Before	After
Pair 1	Sholat	3.8	4.12	400	0.401	0.594	0.02	0.03
Pair 2	Fasting	3.95	4.39	400	0.218	0.59	0.011	0.029
Pair 3	Zakat	4	4.23	400	0	0.418	0	0.021
Pair 4	Business Environment	3.29	4.04	400	0.453	0.707	0.023	0.035
Pair 5	Government Environment	3.37	3.75	400	0.484	0.599	0.024	0.03

Source: Primary Data, 2019

Table 4.3 provides the paired samples statistics result of the spiritual indicators before and after BMT financing, which consists of: sholat, fasting, zakat, business environment and government environment. While Figure 4.2 below is the graph based on the paired samples statistics from Table 4.3. In general, it shows that all spiritual indicators increase after BMT financing.



Figure 4.2: West Java Spiritual Level Before and After Financing

Source: Primary Data, 2019

Shalat (prayer) variables are categorized as 5 scales:

- 1 = Blocking other to pray
- 2 = Against the concept of prayer
- 3 = Performing obligatory prayer but not on regular basic
- 4 = Always performing obligatory prayer but not in congregational prayer
- 5 = Performing congregational prayer for obligatory one and perform recommended prayer

In terms of shalat (prayer), after BMT financing it is at the level of 4.12, it means they always perform obligatory prayer but not the congregational prayer. We can see an improvement in this variable compared to it before BMT financing when it was at the level of 3.80.

In terms of fasting variables, they are categorized into 5 scales:

- 1 = Blocking other to undertake fasting
- 2 = Against the concept of fasting
- 3 = Not fully performing obligatory fasting
- 4 = Performing only obligatory fasting
- 5 = Performing obligatory fasting and recommendable fasting

In the fasting variables, after BMT financing it is in level 4.39, which means that they are performing obligatory fasting. This also an improvement since the previous position before BMT financing when it was in level 3.95, which is actually slightly below level 4 as a standard level of spiritually rich.

Based on spiritual business performance indicator, zakat and infaq variables are categorized as 5 scales:

- 1 = Blocking other to pay zakat and infaq
- 2 = Against the concept of zakat and infaq
- 3 = Not paying infaq at least once a year
- 4 = Paying zakat al fitrah and zakat al maal
- 5 = Paying zakat al fitrah, zakat al maal and infaq

After BMT financing they already paying zakat al fitrah and zakat al maal, which is in level 4.23. There is not much changes compared with before they received BMT financing, which is at that time already resides at level 4.

Based on spiritual business performance indicator, business environment variables are categorized as 5 scales:

- 1 = Forbid ibadah
- 2 = Against implementation of ibadah
- 3 = Consider ibadah as private matter for employee member
- 4 = Support execution of ibadah
- 5 = Creating environment which obligates execution of ibadah

In terms of business environment, the mean level is at 4.04 after the micro-entrepreneurs received financing from BMT, because they started to realize that ibadah does matter and give positive impact on their business environment, so they support the execution of ibadah. The mean level is at 3.29 before the micro-entrepreneurs received financing from BMT.

Lastly, based on spiritual business performance indicator, government policy environment variables are categorized as 5 scales:

- 1 = Forbid ibadah
- 2 = Against implementation of ibadah
- 3 = Consider ibadah as private matter
- 4 = Support execution of ibadah
- 5 = Creating environment which obligates execution of ibadah

After the micro-entrepreneurs received BMT financing, they are at level 3.75 for government policy environment. In other words, they consider ibadah as private matter. This is not much different compared to the condition before they receive BMT financing, which at level 3.37.

It can be concluded that the spiritual level of micro-entrepreneurs after BMT financing is above the level of poor, for all variables: shalat (prayer), fasting, zakat and infaq, business environment are at the level above 4, while government policy environment only slightly below 4.

4.3. “Sejahtera” Index

Table 4.4 and Figure 4.3 show the changes of group in each quadrant of micro-entrepreneurs, both before and after they received BMT financing.

Table 4.4: Group of Micro-Entrepreneur Based on Quadrant

<u>Materially Poor & Spiritually Rich</u>	<u>Sejahtera (Materially & Spiritually Rich)</u>
Before 0	Before 0
After 191	After 110
<u>Absolute Poor (Materially & Spiritually Poor)</u>	<u>Spiritually Poor & Materially Rich</u>
Before 400	Before 0
After 62	After 37

Source: Primary Data 2019

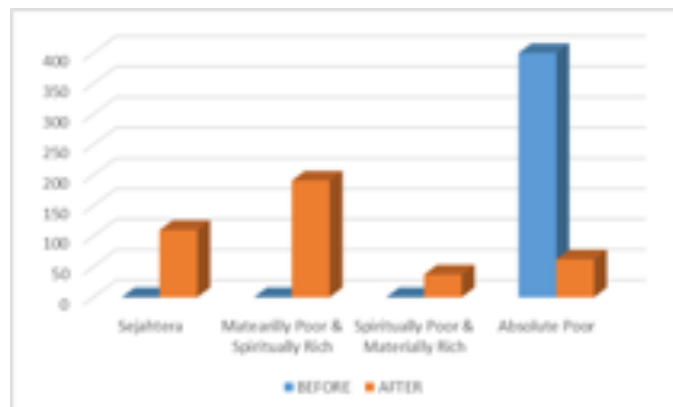


Figure 4.3: West Java Sejahtera Index Before and After Financing
Source: Primary Data 2019

For 1st quadrant, which is the “sejahtera” level (materially and spiritually rich) is the most ideal state of a Muslim, none micro-entrepreneurs shows any point before BMT financing. BMT financing has transformed 110 micro-entrepreneurs afterward. It means that 110 out of 400 micro-entrepreneurs in West Java has successfully reached “sejahtera” level after they received BMT financing.

On the contrary for the 4th quadrant, which is the absolute poor level (materially and spiritually poor), all of micro-entrepreneurs (400) are at this level before they receive BMT financing. After they received BMT financing, only 62 micro-entrepreneurs have left this group. It means that most of micro-entrepreneurs have increased their well-being after receiving BMT financing. However, not all of them manage to reach the “sejahtera” level. Some of them are still below “sejahtera” level even after receiving BMT financing. From 400 micro-entrepreneurs in West Java, 191 of them are at quadrant 2, materially poor but spiritually rich. While 37 of them are at quadrant 3, spiritually poor but materially rich.

Table 4.5: Changes in Index Before and After Financing

INDEX	BEFORE	AFTER	CHANGES (in %)
Sejahtera	0	0.275	27.5
Materially Poor & Spiritually Rich	0	0.4775	47.75
Spiritually Poor & Materially Rich	0	0.0925	9.25
Absolute Poor	1	0.155	84.5

Source: Primary Data 2019

From the above Table, it shows that absolute poor index before micro-entrepreneurs receive financing from BMT stays at the level of 1, because all of 400 respondents are at level materially and spiritually poor. On the other hand, the “sejahtera” index before micro-entrepreneurs received financing from BMT is at zero level, and after they receive financing from BMT it increased to the level of 0.275. This means that after receiving the financing program from BMT the micro-entrepreneurs manage to fulfil their material as well as their spiritual needs. It also shows the effective training for incubation process and comprehensive sustainable assistance conducted by BMT.

The materially poor and spiritually rich index before joining the financing program from BMT is at the level zero. This index has been increasing into 0.4775 after micro-entrepreneur joining the financing program from BMT, due to some of them are changes from absolute poor level (materially and spiritually poor) to getting rich spiritually while materially still at poor. For this level, BMT has successfully increased their spiritual level but still have to work on increasing the material level of micro-entrepreneurs.

The index for spiritually poor and materially rich has been increased from zero level before receiving financing from BMT to 0.0925 after receiving financing from BMT. This number shifting clearly indicates that some of them are at absolute poor level condition before receiving BMT financing, and after BMT financing they become rich materially yet their spiritual side is still at poor level condition. For this level, BMT has successfully increased their material level but still have to work on increasing the spiritual level of micro-entrepreneurs.

4.4. Measuring Poverty Alleviation Using Poverty Measurements

This section provides the results for most commonly used in measuring poverty alleviation.

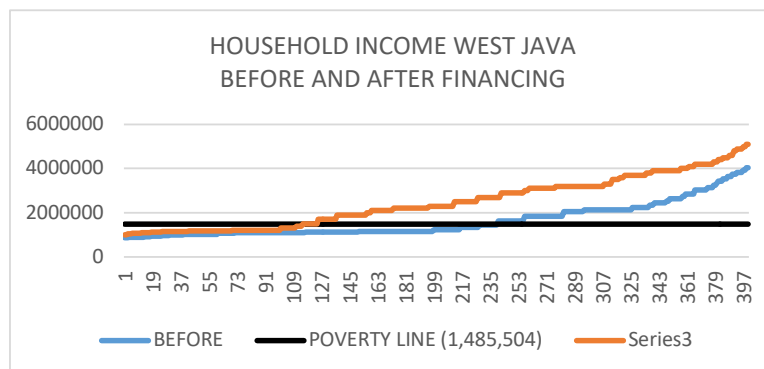


Figure 4.4: Household Income Before and After Financing
Source: Primary Data, 2019

The above Figure describes the household income level, before and after micro-entrepreneurs received BMT financing. Based on the data from Indonesia's National Statistical Board data in September 2018, the household poverty line in West Java are at IDR 1,485,505 or equals USD 104.30 level. Before BMT financing, there are 239 household out of 400 respondents, i.e. micro-entrepreneurs, which has income below poverty line of West Java. While after BMT financing, there are only 124 household of micro-entrepreneurs with the income below poverty line of West Java.

It means the number of poor micro-entrepreneurs in West Java has decreased after they receive BMT financing. Thus, has influencing poverty alleviation among micro-entrepreneurs household.

The Table 4.6 presents the summary of poverty measurements calculated for this research, using formula in literature review.

Table 4.6: Summary of Poverty Measurements

No.	Poverty Measurements	Before BMT Financing	After BMT Financing	Conclusion
1.	Head Count Index	0.59	0.28	Positive Impact
2.	Poverty Gap Index	0.15	0.051	Positive Impact
3.	Gini Coefficient	0.27	0.22	Positive Impact
4.	Sen Index	0.259	0.059	Positive Impact
5.	FGT Index	8.93	1.38	Positive Impact

Source: Author's Calculation

Overall, by comparing various well-known poverty alleviation measurements and linear regression, it can be concluded that the improvement of "sejahtera" level at business performance is positively correlated with alleviating poverty of micro-entrepreneurs household.

Table 4.7 provide the results of linear regression or ordinary least square (OLS), using SPSS Statistics 24.

Table 4.7: Ordinary Least Square Result

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	.914	.046		20.060	.000
"Sejahtera" Spiritual	.279	.050	.269	5.549	.000
"Sejahtera" Material	.049	.045	.053	1.903	.000

Dependent Variable: Household Income (as proxy of poverty alleviation)

Source: Authors Calculation

Based on the above Table, Household Income (as proxy of poverty alleviation) = 0.914 coefficients + 0.279 "Sejahtera" Spiritual + 0.049 "Sejahtera" Material.

The sign is positive i.e. the relationship is positive, it means that there is a relationship on poverty alleviation with spiritual and material aspects in business of micro-entrepreneur, as determinants of "sejahtera". The increase in micro-entrepreneur's business will directly effecting the increase of their household income. Since the increase of household income is representing the poverty alleviation, while the increases of spiritual and material aspects in micro-entrepreneur's business representing "sejahtera"

level, it means that the improvement of “sejahtera” level at business performance is effecting the poverty alleviation of micro-entrepreneurs.

Conclusion

After receiving the financing program from BMT, the micro-entrepreneurs manage to fulfil their material as well as their spiritual needs. This research has found that BMT (has been successfully) in decreasing spiritual poverty more than in decreasing material poverty. Based on the findings, BMT as an Islamic microfinance institution by nature has successfully increased spirituality awareness of micro-entrepreneurs through their activities in their daily business. While for the material parts, it still needs some improvement by BMT through training, mentoring and coaching in management of business.

After measuring “sejahtera” level of micro-entrepreneur, this research construct comparison to the most common poverty measurements. The measurements focusing on household income as their basis to evaluating their poverty level. There are five poverty alleviation measurements this research use. Firstly, this research calculating the Headcount Index (HC) before BMT financing and comparing it with HC after BMT financing. Secondly, using that HC to calculating the Poverty Gap Index (PG) before and after BMT financing. Thirdly, using the data of household income to determine the income distribution inequality before and after BMT financing, and using the results to draw the Lorenz curve. Then, using the results of the aforementioned Lorenz curve, this research calculating the Gini Coefficients Index (GI) before and after BMT financing. Fourthly, using the results form HC, PG and GI this thesis calculating the Sen Index. Lastly, using the PG to calculate the Foster Greer Thorbecke Index (FGT).

The results of the poverty alleviation measurements above are consistently correlated with the “sejahtera” index. This is further strengthened by investigating relationship between micro-entrepreneur’s household income with their business performance’s material level and spiritual level using ordinary least square. Household income as dependent variable, while “sejahtera” spiritual and “sejahtera” material as independent variables. The results shows that the increase in micro-entrepreneur’s business will directly effecting the increase of their household income. Since the increase of household income is representing the poverty alleviation, while the increases of spiritual and material aspects in micro-entrepreneur’s business representing “sejahtera” level, it means that the improvement of “sejahtera” level at business performance is effecting the poverty alleviation of micro-entrepreneurs.

This research is limited to only micro-entrepreneurs in West Java, Indonesia. Though this research provides comprehensive understanding on the impact of BMT in poverty alleviation to reach “sejahtera” level on micro-entrepreneurs in West Java, Indonesia, the findings of this research can only be interpreted within the scope of five indicators of material and five indicators of spiritual on business performance of micro-entrepreneurs as well as their household income. There could be other factors in material and spiritual aspects. Further research could also be expanded to other type of Islamic microfinance other than BMT and outside of Indonesia. Other approaches in poverty alleviation could also use the same measurement of “sejahtera” that can cover both aspects of material and spiritual.

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Conceptual Framework for the Adoption of Islamic Trade Finance Facilities among SMEs in North-West Nigeria

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Abstract

The main aim of this paper is to propose a conceptual framework to investigate and examine the factors that influence Islamic trade finance adoption among SMEs owner-managers' in North-West Nigeria. The study will also investigate whether religious obligation moderates the effect of independent variables in the study on the adoption of Islamic trade finance by SMEs in North-West Nigeria. A colossal amount of literature exists on retail customers' perception and attitude towards conventional and Islamic finance compared to a limited number of academic studies on the perspective of business clients, specifically SMEs. This dearth of studies is even more pronounced in Sub-Saharan Africa. To surmount the trade finance deficit facing SMEs in Sub-Saharan Africa and specifically Nigeria, a comprehensive understanding of trade finance needs from the viewpoint of SMEs is a requirement. Thus, this study intends to employ a modified and integrated model of Diffusion of Innovation Theory (DOI) and Decomposed Theory of Planned Behavior (DTPB) to examine what motivates SMEs owner-managers to adopt Islamic trade finance. To achieve this aim, a quantitative survey study of randomly selected SMEs in North-West Nigeria will be undertaken. Structural Equation Modeling (SEM) will be used to test the hypotheses advanced. Validating the conceptual framework of this research will be useful to Islamic financial institutions, financial regulators and policy makers in Nigeria to devise appropriate strategies commensurate to the needs of this important segment of the economy.

Keywords: Nigeria, Islamic trade finance, SMEs, decomposed theory of planned behaviour, diffusion of innovation theory

11. Introduction

The financial sector is the main facilitator of international trade transactions; it serves as a bridge between exporters and importers; it provides all the necessary support for a smooth, secure and stable international trade cycle (WTO, 2016). International trade growth and development thrives on the support of trade finance wherein banks and other financial institutions play a pivotal role. Trade finance serves two fundamental functions: liquidity provision (i.e. credit support) and risk mitigation facility. Thus, trade finance is said to be the core of international trade, without which growth and development of the global economy will be hampered (WTO, 2016; Chauffour & Farole, 2009).

Access to trade finance is one of the major obstacles to the growth, development and success of SMEs in Africa, particularly Nigeria, where the mortality rate of SMEs is very high (Nwosu et al, 2016; AFDB, 2017; ICC, 2018). SMEs constitute more than 80% of business firms in Africa and above 90% in Nigeria (ICC, 2018; AFDB, 2017; Gbandi & Amissah, 2014). Most SMEs depend on conventional financial institutions for their trade finance needs, which is exorbitantly expensive and largely unmet (ICC, 2018; Nwosu et al., 2016; Bazza, Maiwada & Daneji, 2014; Gbandi & Amissah, 2014; Narteh, 2013). The unmet trade finance deficit in the African continent is between USD 90 billion and USD 100 billion per annum (ICC, 2018; AFDB, 2017). About 58% of SMEs in the continent account for this unmet shortfall (AFDB, 2017; ICC, 2018). Allowing this trend to continue, will be very detrimental to the socio-economic development of the African continent, especially to the 'giant of Africa' Nigeria. Equally, the 2030 Agenda for Sustainability Development, adopted globally, cannot be achieved without a financially inclusive economy, catering for the needs of the underprivileged segments of the society.

Islamic finance as a recent innovation in the country stands out to be a viable alternative solution to the trade finance needs of SMEs in Nigeria. Founded on the principles of social justice, equity and social responsibility; Islamic finance in principle proves to be more attuned to the needs and wants of SMEs (Ali, 2014; Bazza, Maiwada & Daneji, 2014; World Bank, IDB & IRTI, 2015). Unfortunately, despite the suitability of Islamic finance to the needs of SMEs; the majority of them are yet to adopt Islamic trade finance, rather most SMEs in Nigeria, as well as in other developing countries, use conventional financing method (Mohamad Zahid, 2019; Narteh, 2013). A possible cause of this problem might be a lack of awareness among SMEs of Islamic finance products. Another probable reason might be the perceived uncertainty that generally accompanies new innovations.

Consequently, there is a need to investigate and understand what reasons propel SMEs to adopt Islamic trade finance in Nigeria. Thus, the purpose of this empirical survey study will be to investigate and examine the factors that influence Islamic trade finance adoption among SMEs in North-West Nigeria. The study will also investigate the moderating effect of religious obligation on the adoption of Islamic trade finance by SMEs in North-West Nigeria.

12. Literature review

A considerable amount of studies exists on retail customers' perception towards conventional and Islamic finance compared to a handful of academic researches on the perspective of business firms, specifically SMEs (Narteh, 2013; Javalgi, Todd, & Granot, 2011; Zineldin, 1996; Edris and Almahmeed, 1997; Jalaluddin, 1999; Ahmad and Haron, 2002; Osman and Ali, 2008; Gait and Worthington, 2009; Abdulsaleh, 2016; Jaffar & Musa, 2014; Badaj & Radi, 2018; Ahmad, Pyeman, Ali, Rahman, & Khai, 2018; Lam & Burton, 2005; Al Balushi, Locke & Boulanouar, 2018). This dearth of studies is even more pronounced in Sub-Saharan Africa (Narteh, 2013; AFDB, 2017; ICC, 2017). To surmount the trade finance deficit facing SMEs in Sub-Saharan Africa and specifically in Nigeria, a comprehensive and holistic understanding of trade finance needs from the viewpoint of SMEs is a precondition (AFDB, 2017; ICC, 2017). Hence, this study will be built on the premise of existing adoption theories, particularly, Diffusion of Innovation Theory (DOI) and Decomposed Theory of Planned Behavior (DTPB) to investigate what motivates SMEs owner-managers to accept Islamic finance mechanisms.

13. Theoretical framework

Several theories whose foundations originate from Psychology, Economics and Sociology have been utilized by researchers in the field of adoption to investigate the motivation behind the acceptance or rejection of an innovation. Among such theories which have gained wide applicability in the innovation adoption literature are: DOI, TPB and its extension (i.e. DTPB). Diffusion of Innovation theory (DOI) was first propounded by Rogers in 1962. DOI has been applied in a wide range of research settings and had proven to be a robust model in predicting the adoption of an innovation (Yahaya et al., 2014; Gerrard & Cunningham, 2003; Thambiah et al., 2011, Mahdzan et al., 2017; Tan & Teo, 2000; Latip, Yahya & Junaina, 2017). The theory postulates that it is the features of an innovation which affects its adoption rate. Rogers (2003), outlined 5 key features as follows: relative advantage, compatibility, complexity, observability and trialability. The first three main features are generic and apply to a variety of innovations both tangible and intangible ones (Tornatzky & Klein, 1982, Rogers, 2003). However, the last two attributes mostly apply to tangible and observable innovations (Rogers, 2003).

Decomposed theory of planned behavior (DTPB) is an upgraded variant of the theory of planned behavior (TPB) which was espoused by Taylor and Todd in 1995, wherein the monolithic and unidimensional belief constructs were decomposed into multidimensional constructs. Decomposition of the belief structures provides several benefits over the traditional TPB such as ease of operationalization, specification, focus, enhanced explanation and superior predictive power (Mathieson, 1991; Taylor & Todd, 1995). In TPB, behavioral intentions (i.e. intention to adopt) is a function of attitude, subject norm and perceived behavioral control (Ajzen, 1985).

14. Proposed conceptual framework

The constructs of the conceptual framework for this study were in part adapted from Roger's (2003) Diffusion of Innovation Theory and the Decomposed Theory of Planned behaviour by Taylor & Todd (1995). The conceptual framework for the proposed study is presented below:

Framework for the study is presented below:



Fig. 1. Conceptual framework

14.1. Relative advantage

Relative advantage, as defined by Rogers (2003), is the extent to which an innovation is perceived to be better than its substitutes. Relative advantage is perceived by potential adopters in terms of economic benefits, social prestige, convenience and satisfaction (Rogers, 2003). Perceived relative advantage had been tested in quite a large number of researches in the field of adoption of innovation and was found to be one of the major determinants of adoption of new innovations (Yahaya et al., 2014; Gerrard & Cunningham, 2003; Thambiah et al., 2011, Mahdzan et al., 2017; Tan & Teo, 2000; Latip, Yahya & Junaina, 2017). This construct was consistently shown to be positively related to the adoption and use of innovation in different contexts, environments and cultures (Yahaya et al., 2014; Mahdzan et al., 2017).

Relative advantage is a multi-dimensional concept and encompasses all the perceived benefits and advantages the potential adopters see in an innovation. This research seeks to explore relative advantage in terms of six dimensions that comprise financial and non-financial benefits, namely return on investment, cost of service, staff competency and empathy, customized services, ability to obtain finance and convenience. The more innovation is perceived by SMEs to be better than its substitutes, the more will be the adoption rate. Therefore, the following hypothesis is proposed:

H1: Relative advantage positively influences the adoption of Islamic trade finance among SMEs owner-managers in North-West Nigeria.

14.2. Compatibility

Compatibility is the degree to which an innovation is perceived to be in agreement with the values, beliefs, past experience and needs of potential adopters (Rogers, 2003). The more an innovation conforms to the values, experiences and needs of the target market, the higher will be the adoption rate. The significance of compatibility in terms of adoption of an innovation was validated in past studies (Gerrard & Cunningham, 2003; Al-Gaith et al., 2010; Thambiah et al., 2010; Thambiah et al., 2011; Amin et al., 2013; Yahaya et al., 2014; Mahdzan et al., 2017). A study carried out by Amin et al (2013), confirmed the positive influence of compatibility on the adoption of Islamic home finance products in Malaysia. In the context of Islamic trade finance, SMEs owner-managers will be more inclined to patronize products and services that are in consonance with their ethical values, beliefs and experiences. Hence, the following hypothesis will be tested:

H2: Compatibility positively influences the adoption of Islamic trade finance among SMEs owner-managers in North-West Nigeria

14.3. Complexity

According to Rogers (2003), complexity is the degree to which an innovation is perceived as difficult to understand and use. Perceived complexity is closely related to perceived ease of use espoused by Davis (1989) in Technology Acceptance Model (TAM). Innovations that are easy to understand and use tend to be adopted easily than those perceived to be complex and difficult to comprehend. Previous studies have tested this construct and it was found to have a negative relationship with adoption of an innovation (Yusof, 1999; Gerrard and Cunningham, 2003; Thambiah et al., 2013; Jamshidi & Hussin, 2018). Islamic trade finance is a new innovation and therefore if it is perceived by SMEs owner-managers as complex and difficult to understand, then the likelihood of adoption will be low. Therefore, to validate this claim, the following hypothesis will be tested:

H3: Complexity negatively influences the adoption of Islamic trade finance among SMEs owner-managers in North-West Nigeria.

14.4. Perceived risk

Perceived risk is the degree of uncertainty and negative consequences associated with the purchase or use of a service or product (Bauer, 1960). Rogers (2003), identified uncertainty as a common feature of any new innovation. Islamic trade finance as a new innovation inherently creates uncertainty in the minds of potential adopters. Due to its newness, its reliability, genuineness as truly shariah-compliant, and relative riskiness will be called into question by potential adopters. Furthermore, intangible products (i.e. service) are perceived to be riskier than tangible products (Laroche, Bergeron & Goutaland, 2003; Zeithaml & Bitner, 2000; Murray & Schlacter, 1990). An inverse relationship between perceived risk and adoption of innovation was established in previous studies (Kesharwani & Bisht, 2012; Tan & Teo, 2000; Yahaya et al., 2016; Thambiah et al., 2011). Thus, the higher the perceived risk by SMEs owner-managers towards Islamic trade finance, the lower will be the rate of adoption. Therefore, the following hypothesis will be tested:

H4: Perceived risk negatively influences the adoption of Islamic trade finance among SMEs owner-managers in North-West Nigeria.

14.5. Social influence

According to Teo & Pok (2000), social influence is defined as the degree of influence that reference groups have on an individual's decision towards the adoption and use of an innovation. A colossal number of studies had verified the importance of social influence in determining adoption of innovation (Erol & Elbdour, 1989; Erol et al., 1990; Gerrard & Cunningham, 1997; Metawa & Almossawi, 1998; Blankson et al., 2007; Al-Somali et al., 2009; Abdulkadir et al., 2013; Obeid & Kaabachi, 2016; Badaj & Radi, 2018; Al Balushi, Locke & Boulanouar, 2018). Blankson et al, (2007) in a study of bank selection criteria across different cultures and national boundaries in USA, Taiwan & Ghana found that recommendations by parents and peers were important factors in all three countries surveyed.

Additionally, Al Somali et al, (2009) confirmed the effect of social influence on the adoption of online banking in Saudi Arabia. Social influence is the same as normative influence and comprises the opinions of significant others (i.e. consultants, public figures, religious leaders, etc.), other people's recommendations and peer group influence (Taylor & Todd, 1995). Interestingly, social influence has been identified in previous studies as a factor influencing entrepreneurial decision making (Al Balushi, Locke & Boulanouar, 2018; Badaj & Radi, 2018). SME owner-managers rely on both internal (family, staff, friends etc.) and external groups (bankers, auditors, financial consultants etc.) for support, advice and encouragement.

In this study, social influence will be based on the three groups (i.e. significant others, external groups & internal groups) mentioned above. People live in a social system and their attitudes, habits, principles are shaped by the system in which they are part. A positive view and suggestion by these groups will have a favourable impact on the adoption of Islamic trade finance. To substantiate this claim, the following hypothesis will be tested:

H5: Social influence positively impacts the adoption of Islamic trade finance among SMEs owner-managers in North-West Nigeria.

14.6. Awareness level

Awareness level (understanding & Knowledge) is among the major determinants of innovation adoption. Naturally, people are more likely to patronize such products and services that they are aware of and of which they have a certain level of understanding. A large number of studies have been done examining the relationship between awareness and adoption of an innovation (Dusuki & Abdullah, 2007; Thambiah et al., 2011; Haron et al., 1994; Loo, 2010; Awan & Bukhari, 2011; Ringim, 2013; Dalhatu et al., 2015; Mahdzan et al., 2017; Islam & Rahman, 2017; Bodibe et al., 2016; Fada, 2012; Unegbu & Onuoha, 2013). These studies have confirmed that a positive relationship exists between awareness level and adoption rate. Rogers (2003), Kotler & Armstrong (2001) have emphasized that awareness is the first step towards the adoption of an innovation. Quite a number of studies have investigated the influence of awareness on Islamic finance adoption (Ringim, 2013; Unegbu & Onuoha, 2013; Fada, 2012; Dalhatu et al., 2015; Thambiah et al., 2011; Awan & Bukhari, 2011; Yahaya et al., 2016). A high level of awareness of the features, benefits and principles of Islamic finance in general and Islamic trade finance particularly, is sure to have a positive influence on SMEs owner-managers adoption rate. Consequently, to validate this claim, the following hypothesis is proposed:

H6: Awareness positively influences the adoption of Islamic trade finance among SMEs owner-managers in North-West Nigeria.

14.7. Government support

Government Support refers to government actions, policies and political support that favourably influences the decisions of individuals and business firms (Amin et al., 2011). The provision of a favourable macroeconomic environment, sound policies, necessary infrastructures, legal framework and political backing is vital for the survival, development and growth of Islamic finance (Ali, 2013; Lajuni, Wong, Yacob, Ting, & Jausin, 2017; Abubakar, 2018). A very good example of the positive influence of government support can be seen in Malaysia; where Islamic banking and finance has advanced much due to such support (Amin et al., 2011; Lajuni et al., 2017; Nawi, Yazid, & Mohammed, 2013).

Prior studies in innovation adoption field have examined the relationship between government support and adoption (Amin et al., 2011; Lajuni et al., 2017; Nawi, Yazid, & Mohammed, 2013; Echchabi, & Aziz, 2012). Most of the studies found a positive relationship between government support and adoption of an innovation (Lajuni et al., 2017; Nawi, Yazid, & Mohammed, 2013; Echchabi, & Aziz, 2012). However, Amin et al., (2011) found a negative relationship between government support and Islamic finance adoption. Obeid, & Kaabachi (2016), suggested that future researchers should include government support to investigate Islamic banking adoption. In the context of SMEs, the government's favourable disposition towards Islamic finance can have a positive influence on the decision to adopt Islamic trade finance by SMEs owner-managers. To substantiate this assertion, it is hypothesized that:

H7: Government support positively influences the adoption of Islamic trade finance among SMEs owner-managers in North-West northern Nigeria.

14.8. Religious obligation

Religious obligation is the extent to which an individual value and adheres to shariah principles and dictates in the conduct of his affairs (Yasin & Hati, 2017; Jaffar & Musa, 2014; Amin et al., 2011; Kirkpatrick, 2005). Religious obligation has two sides both reinforcing each other. The first aspect is the individual's religiosity and enthusiasm which makes him patronize Islamic finance products (Haron et al. 1994; Metawa & Almossawi, 1998; Kirkpatrick, 2005; Dusuki & Abdullah, 2007; Yasin & Hati, 2017). The second aspect deals with the perception of an individual of the level of adherence to Islamic principles by Islamic financial institutions (Jaffar & Musa, 2014; Amin et al., 2011; Kaakeh, Hassan & Almazor, 2019). Many studies have studied the impact of religion (also known as religiosity, shariah-compliance and religious obligation) on the adoption of Islamic finance products (Haron et al. 1994; Metawa & Almossawi, 1998; Naser et al. 1999; Dusuki & Abdullah, 2007; Echchabi & Abd Aziz, 2012a; Ismail et al. 2014; Amin et al. 2014; Yasin & Hati, 2017; Jaffar & Musa, 2014; Amin et al., 2011; Kaakeh, Hassan & Almazor, 2019). Majority of these studies found a positive relationship

between religion and adoption of Islamic finance (Tara, Irshad, Khan & Yamin, 2014; Haron et al. 1994; Obeid & Kaabachi, 2016; Amin et al., 2011; Jaffar & Musa, 2014).

Thambiah et al. (2013) employed Rogers Innovation Diffusion Theory to study the moderating effect of religion on the adoption of Islamic retail banking products in Malaysia. Findings showed that religion moderates the interaction between Rogers perceived attributes of innovation and intention to adopt Islamic retail banking products. However, the moderating effect of religion on SMEs has not been tested in previous researches.

The more the religious commitment of an SME owner-manager to religious dictates on one hand and the greater his positive perception of shariah-compliance by Islamic financial institutions, the higher will be the rate of adoption of Islamic trade finance. On the other hand, the less the religious commitment of an SME owner-manager and the more his negative perception of shariah-compliance by Islamic banks, the lower will be the adoption rate. Hence, to substantiate this claim, the following hypothesis will be tested:

H8: Religious obligation moderates the relationship between relative advantage and Islamic trade finance adoption.

H9: Religious obligation moderates the relationship between compatibility and Islamic trade finance adoption.

H10: Religious obligation moderates the relationship between complexity and Islamic trade finance adoption.

H11: Religious obligation moderates the relationship between perceived risk and Islamic trade finance adoption.

H12: Religious obligation moderates the relationship between social influence and Islamic trade finance adoption.

H13: Religious obligation moderates the relationship between awareness level and Islamic trade finance adoption.

H14: Religious obligation moderates the relationship between government support and Islamic trade finance adoption.

15. Methodology

A postpositivist approach, that is hypo-deductive and which relies on empirical observation and measurement (Creswell, 2014), will be used in this study. It is a “top-down” approach that starts with a theory in order to confirm or reject hypotheses advanced. This approach follows the scientific method of inquiry. Tangible quantitative data will be collected through a cross-sectional survey and measured so as to substantiate the hypotheses advanced. Survey design is a good way of measuring the relationship between variables (Punch, 2003).

A survey questionnaire will be administered to randomly selected SMEs in North-West Nigeria. This choice is based on several factors such as cost considerations, size of the population, level of privacy and anonymity and the response rate required.

15.1. Data analysis

The analysis will be done in several successive stages (Punch, 2003). First, the data will be cleaned, codified and summarized for simplicity. The collected data will be proofread while missing data and ambiguous responses will be checked. Data will be codified in numerical terms to enable statistical analysis. The cleaned data will be entered into the computer. Second, a descriptive analysis of the distribution of the variables will be done. Percentages, frequencies, Mean, Median, Mode and Standard deviations will be calculated. Third, inferential statistics will be done using a multivariate analysis approach. This approach will involve testing and validating the conceptual framework and hypotheses advanced. A multivariate analysis refers to the simultaneous analysis of more than two variables (Hair et al., 2006; Hair et al., 2014). This approach fits the conceptual framework and research questions which have multiple numbers of variables under investigation.

16. Conclusion

This study will test and validate the applicability of an integrated framework based on DOI, DTPB and religious factor to predict SME owner-managers’ adoption behavior towards Islamic trade finance in a

new context (Nigeria). SMEs constitute almost 95 percent of all businesses in the country. The growth and development of these firms is very crucial to the economy of Nigeria. Access to an accommodative and affordable financial apparatus is one of the major obstacles faced by these SMEs. Therefore, to ensure their success, a financial mechanism that is commensurate to their needs is a prerequisite. Thus, identifying and understanding such needs becomes crucial for the prosperity and sustainability of the SMEs, the Nigerian economy and the Islamic financial institutions in the country.

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The Influence of Political Instability towards Corporate Governance Mechanisms and Earnings Management Practice: The Conceptual Framework

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Abstract

Allah forbade fraud and manipulation of financial transactions in verse 29 Al-Nisa'a Surah. This verse provides at least two dimensions related to the theme of this paper. Firstly, it is considered as evidence to constrain managers in practicing earnings management (EM). Secondly, this verse considered as a command to minimize the conflict between stockholders themselves which in turn improve the performance of the business and decrease EM level as well. Hence, this paper seeks to provide a conceptual framework investigating the role of political instability on the relationship between ownership corporate governance mechanisms (CG) and EM in the Palestinian non-financial listed companies. Indeed, the political environment significantly influences the effectiveness of CG. Based on political theory, political instability can influence the practices of EM and impair the effectiveness of CG mechanisms. CG mechanisms (board of directors' characteristics, audit committee characteristics and ownership structure) play a crucial role in constraining EM practices. In addition, agency theory and political theory were used to develop the hypotheses. Accordingly, it can be observed that the effectiveness of the CG may negatively be affected by political instability particularly in Palestine. Unlike most of the previous works of literature on the developing countries, this paper uses the political instability as a moderating variable to conceptualize the relationship between CG mechanisms and EM practice.

Keywords: Corporate governance, earnings management, political instability, political theory, agency theory, Palestine

1 Introduction

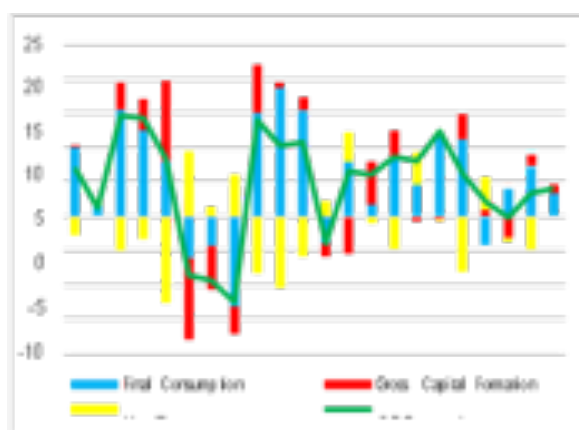
The agency problem was the main issue drove to the appearance of corporate governance(CG) topics (Jensen & Meckling, 1976). As a result, the quality of CG has become very essential matter after the world financial scandals due to the failure of CG systems at several large companies in USA Canada and EU. For example, Enron, WorldCom, Adelphia, Tyco, HealthSouth, Fannie Mae, AIG Nortel, Crocus Parmalat and Royal Ahold, (Bremer & Elias, 2007). Indeed, the issues of CG characteristics, audit committee (AC), ownership structure (OS) and EM practices have received significant attention from government regulators, the auditing and accounting profession, practitioners, policy makers, academic bodies and the public, especially following the high-profile corporate scandals in advanced countries such as the financial scandals in US and Europe. During the last two decades, the financial distress in advanced countries have brought a major sensibility of the need for more transparency and credibility for the sake of protecting the interests stockholders and stakeholders alike (Abbadi, Hijazi, & Al-Rahahleh, 2016; Aziz, Mohamed, & Hasnan, 2017; Fearnley & Beattie, 2004). Roe (2003); Gourevitch (2003) and Pagano & Volpin, (2005) argued that the social and political circumstances in any country affect the company in important and several ways. It elaborated that to which extent the government influences the companies and how the firms react with the political and social environment in order to protect current and prospective investors. La Porta, Lopez-de-Silanes, Shleifer, and Vishny (1998) have argued that agency problems may be at the minimum level due to the strong legal system which in turn protects the investors' rights. Berglöf and Claessens (2006) argued that the absence of

effective legal system due to political instability may lead to replace weak legal system by the CG. Effective CG will constrain managers' ability to abuse the wealth of stockholders. In other words, agency costs depends on the political and social pressures in any country (Mangena, Tauringana, & Chamisa, 2012).

Therefore, the purpose of this paper is to conceptualize the influence of political instability towards CG mechanisms and earnings management practice. The remainder of the article is structured as follows. In Section 1, we provide an overview of the relevant literature regarding CG and earnings management practice under instable political environment. In section 2, we have elaborated the CG and political environment in Palestine. The development of hypotheses and the framework of the study are elaborate in section 3 and 4. Finally, the section 5 is the conclusion of the study.

2 CG, Political, and Economic Environment in Occupied Palestine

Palestine, as an occupied state by Israeli long run occupation considered one of the newest emerging economy in MENA countries. We believe that Palestine offers a unique political and economic characteristic different from those of other emerging economies. One of the important features of the Palestinian business environment is the high degree of political and economic instability. Indeed, the Palestinian economy has been suffering from ups and downs of growth for several years. Following the Oslo Accords and the foundation of the Palestinian Authority (PA), the Palestinian economy have enjoyed strong annual growth with average of %9 between 1994 and 1999, this is due to large inflows of private and public capital and increased the private investment. This case was dramatically interrupted after the outbreak of the second Intifada in 2000 when the Israel as an occupation authority physical, institutional, and administrative restriction that crumb the Palestinian occupied territories into small cantons lacking most forms of economic resources, pushing the annual growth rate to %-9. In the following years, growth picked up to an annual average of %8 between 2008 and 2012 due to large amounts of donor funding, equivalent to 32 percent of Palestinian GDP in 2008. The 2014 war in Gaza and a drop-in donor aid has led to a severe deterioration in the economic conditions in Palestine in recent years. The latest war in Gaza had severe social consequences and a devastating impact on private sector activity causing the Palestinian economy to slip into recession in 2014. However, growth had been slowing since before the war due to a significant drop in donor aid. As a result, real GDP growth slowed down to an annual average of %2 between 2013 and 2016, and dropped to a mere %0.7 in the first quarter of 2017 (0.8 percent in the West Bank and 0.4 percent in Gaza). This drop is a clear sign that the Palestinian economy's growth drivers of the 2007-12 period (world bank, 2017). The figure (1) elaborates the influence of political instability on the Palestinian economy.



Source: The World Bank, 2017.

As a result of aforementioned, Palestine, as a developing country, needs to attract investments and enhance its business sector. Therefore, it is important for Palestinian corporations to be interested about the quality of their financial disclosure, governance and financial information credibility in order to attract new funds to enhance the Palestinian economy to struggle the instable political situation. Palestine Capital Market Authority (PCMA), as a supervisory body, seeks to ensure the availability of

high-quality financial information to the stakeholders. Since its establishment in 2004, (PCMA) has sought to implement appropriate CG mechanisms and transparency rules to enhance the quality of the financial reporting systems of Palestinian corporations. (Asmar, Alia, & Ali, 2018).

It is widely argued that good CG mechanisms can play a fundamental role in improving the value of the firms and stock market efficiency (Black, 2001; Gompers et al., 2003; Klapper and Love, 2004; Beiner and Schmid, 2005). So, PCMA has issued CG in Palestine' in November 2009 and became effective on the same year. Palestinian Monetary Authority (PMA) has also issued a more Stricker code of CG for financial companies (Banking and Insurance companies). The code of 2009 is applicable to the overall public shareholding companies whether financial or non-financial firms. The code covers the following key aspects of the CG: general committee meeting, shareholders compatible rights, corporate management, auditing, disclosure and transparency. It consists of three main types of rules. The first type contains mandatory requirements that companies should adhere to. These mandatory rules are based on valid laws and regulations operative in Palestine. The second type of rules includes good practice guidance that companies are encouraged to adopt. These are voluntary rules that comply with the international corporate governance practices but should not be in conflict with any of the explicit legislative text in Palestine. A third type of rules includes good governance practices that are in-compliance with the international governance policies and not in conflict with the explicit legislative texts. A recommendation has been given by the National Committee for Corporate Governance in Palestine requesting the amendment of such legislation to conform to the practices and rules (Hassan, Naser, & Hijazi, 2016).

Table 1: Demonstrate the application of CG code

	Financial Companies		Non-Financial Companies		Overall Companies	
	2015	2012	2015	2012	2015	2012
Audit Committee Existence%	100	80	45	28	62	43
Governance Committee Existence%	100	53	30	12	52	25
CEO Duality%	26	33	45	54	40	48
Internal Audit Department%	100	100	30	40	52	58

Source: MAS report (2015)

Based on the aforementioned, the current study provides an opportunity to conceptualize the role of CG characteristics and their relation with EM in a context of Palestine which characterized by political instability and high agency conflicts comparing with other developed and developing economies. To the best knowledge of the researchers, very limited studies to date have addressed the CG characteristics and EM in a Palestine. This study will alert the policy makers and the Palestinian Capital Market Authority (PCMA) by shedding the light on the status and the limitations of the current CG code. In addition, the researchers are motivated to help expand the very limited existing research on an environment characterized by severe political and economic circumstances and a lack of control over major economic and fiscal policy instruments (Hassan & Hijazi, 2015). According to the previous arguments and the limitations in the prior literature, we find that Palestine context is a fertile land to study the environment of CG and its relation with EM practices.

3 Literature Review and Theoretical Background

The agency theory has focused on the problems between stockholders and managers. McGuigan et al. (2006) have argued that the agency problems will appear when the interest of stockholders and

managers are not compatible. For example, the primary goal of the stockholders is to maximize profit in order to maximize their wealth, but sometimes the deep conflict will happen between managers and stockholders because of this goal. This destination between ownership and corporate management generates the interest conflicts between managers and owners, which result in costs connected with resolving these conflicts which is called cost of agency (Jensen & Meckling, 1976). Jensen and Meckling (1976) have suggested that agency cost is considered another way to reduce agency conflict. They also identified that agency cost comprises monitoring cost, bonding cost and residual loss. Monitoring costs are the costs that are relating to the hiring of an appropriate manager or external auditors who will control the top management behaviour, such as the roles played by the companies' BOD. The other cost is bonding cost which is related to contracting process in order to guarantee that agents make rational decisions that support the stockholder's wealth. The last cost is residual loss which is the agency. Furthermore, the prior literature is motivated by the proposition that, when managing the agency problems between owners and managers, firm will perform better and be more efficient (Reddy, 2010). Moreover, agency theory stated several mechanisms that should be used to guarantee that managers seek to fulfil the best results that are consistence with stockholders' interest and improve firm performance (La Porta et al., 1997). These mechanisms are divided into external and internal mechanisms. Internal mechanisms include the BOD characteristics and diversity; on contrary the external mechanisms include the OS, legislation and market companions (Reddy, 2010). The BOD characteristics, OS and AC characteristics will be investigated in this paper as the CG mechanisms. Hence, this study focuses on the monitoring roles of BOD, AC and the structure of ownership as a mechanism that mitigate agency conflicts which in turn leads to constrain EM level. The BOD acts on behalf of the stockholders and represents their interests through overseeing managerial functions. Zahra and Pearce (1989) have argued that agency theory is considered the most comprehensive theory that clarifies the BOD' duties and highlights the importance of their controlling role. Consistent with this theory, Hung (1998) has also argued that agency theory is a convincing theory for explaining the boards' monitoring role. Agency theory suggested that CG mechanisms such as board characteristics, AC characteristics, OS and the quality external audit is playing a vital role in enhancing financial reporting quality and firm performance (Alghamdi, 2012). Consequently, Agency theory has expected that BOD will improve the integrity of financial reporting among monitoring the top management (Peasnell et al., 2005). On behalf of AC, agency theory perspective proposes that the key role of AC is to monitor the quality of financial reports and prevent fraudulent accounting statements as well (Klein, 2002). Additionally, based on the theory, greater ownership can assist BOD in enhancing its mentoring function (Yen, et al., 2007).

In conclusion, agency theory is the most common and used theory by CG prior literatures. The theory of agency supposed that there is an interest conflict between owners and managers of the firm, and also suggested that there is a clash between minority shareholders and majority shareholders (Ball, 2013; Bao & Lewellyn, 2017). Agency theory offered a lot of solutions to mitigate the clashes between principals and agents and between shareholders themselves. Corporate governance mechanisms are the main instruments of theory of agency in mitigating the conflicts as aforementioned. Relatedly, shareholders usually tend to appoint a strong and effective BOD to run the business and control the management to meet their expectations such as maximizing profit and restrict the opportunistic behaviour of the managers which leads to constrain manipulating actions in order to decrease EM levels. Consequently, BOD required forming certain committee to assist it in monitoring the management such as AC and remunerations committee. So, agency theory is the most theory relevant to this study as it explains the opportunistic behaviour of management which is very important for interpreting the incentives of EM practices. Besides this, agency theory also realized the importance of the role of the boards, the ACs as internal mechanisms, the external auditors as external mechanism, and the OS in order to mitigate the agency cost and increasing financial reporting quality and mitigating EM practices. Most of CG literatures to EM or firm performance have addressed the agency theory such as Fama and Jensen (1983) and Jensen and Meckling (1976). In this study, employing political theory will be better beside the main theory applied which is agency theory. Political theory has been applied by current study in order to effectively capture the political context where the study has been conducted (Gourevitch, 2003; Roe, 2003).

The political theory which has been first proposed by (Roe, 2003; Gourevitch, 2003; Pagano & Volpin, 2005), argued that the social and political circumstances in any country affect the company in important and several ways. It elaborated that to which extent the government influences the companies and how the firms react with the political and social environment in order to protect current and prospective investors.

La Porta, Lopez-de-Silanes, Shleifer, and Vishny (1998) have argued that agency problems may be at the minimum level due to the strong legal system which in turn protects the investors' rights. Berglöf and Claessens (2006) argued that the absence of effective legal system due to political instability may lead to replace weak legal system by the CG. Effective CG will constrain managers' ability to abuse the wealth of stockholders. In other words, an agency cost depends on the political and social pressures in any country (Mangena et al., 2012).

4 Conceptual Framework and Development Of Hypothesis

4.1 Research Conceptual Framework

The research framework was constructed and developed according to prior studies and CG theories such as agency theory which uses as the main theory in order to explain the association of CG mechanisms with EM practices. Moreover, study adopted the institutional theory to discuss the moderating effects of the unrest political effects on the relationship between CG mechanisms and the level of EM practices in Palestinian non-financial listed companies.

To achieve the research objectives, two relationships will be explored. The first relationship will be clarified in the Figure 4.1 where the agency theory has been used to examine the relationship between the CG mechanisms (namely, Board characteristics and AC characteristics) and EM practices (see Figure 2). In this study EM represents the dependent variable which will be measured by the model of Kothari et al (2005), while CG mechanisms represent the independent variables. Furthermore, Political instability will play as a moderator variable to moderate the relationship between dependent variable and independent variable (see Figure 3).

Figure (2): Elaboration the Direct Relations between CG and EM

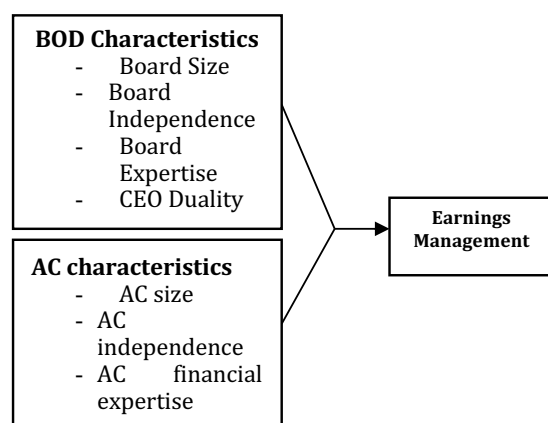
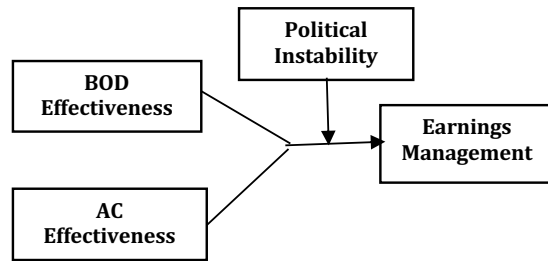


Figure (3): Elaboration the Moderating Effects on the Relations between CG and EM



4.2 The Development of Hypotheses

Based on the aforementioned agency theory, political theory and prior literatures we developed the hypotheses as shown below:

4.2.1 BOD Size

Several studies have been found that larger BODs are associated with minor EM practices (e.g, Alves, 2011; Bala, 2015; Ebrahim, 2007; Ghosh, Marra, & Moon, 2010; Habbash, 2010; Xie, Davidson, Dadalt, Davidson & Dadalt, 2003). In contrary, Moreover, Waweru (2018) have found that the board size has a positive relationship with the practices of EM. According to perspective of agency theory, Alves, (2011) and Ghosh et al. (2010) argued that the large size of the board is leading to reduce agency problems and do more monitoring on management activities. Based on the aforementioned we have drawn the following hypothesis:

H1: There is a negative relationship between the size of BOD and EM practice.

4.2.2 BOD Independence

According to agency theory, the high numbers of independence of the boards form the managements leads to the more board ability of monitoring the management effectively (Davidson et al., 2005). Several of prior studies have documented that there is a negative relationship between the presence of independence directors in the BOD and earnings management practice, discretionary accruals and earnings manipulations (Klein, 2002; Xie, et al. 2003; Peasnell, et al. 2005; Türegün, 2018; Idris, Abu Siam, and Nassar, 2018; Habbash and Alghamdi, 2017). On the other hand, few studies have observed that there is no statistically significant or no significant positive association between board independence and EM practice (Abed et al., 2012; Hsu & Wen, 2015; Soliman & Ragab, 2013). Based on agency theory perspectives, Fama and Jensen (1983) and Fama (1980) argued that the board which is consist of several independent members would be more capability in monitoring managers effectively. Hence, based on the aforementioned discussion we hypothesized that:

H2: There is a negative relationship between board independence and EM.

4.2.3 BOD Financial Expertise

Indeed, one of the most important knowledge and experience should be existed in the BOD is financial or accounting experience. Furthermore, when BOD are well-qualified in financial issues they can understand financial matters easily in particular the financial reports issues. Xie et al., (2003) have found that the firms which their BOD had a financial and accounting background is less likely to engage in EM practice. Additionally, Lin and Hwang (2010) have conducted a meta-analytic study, found that an increasing in the members of the BOD who have financial expertise leads to mitigate EM practices. Thus, consistent with agency theory and based on the above arguments, we argue that the board financial expertise will lead to constraining EM so, the following hypotheses suggested:

H3: There is a negative relationship between board financial expertise and EM in the Palestinian non-financial listed companies.

4.2.4 Board CEO Duality

In accordance with agency theory, the separation between chairperson of the BOD and the position of CEO is necessary (Olusola, & Abiodun, 2013). Agency theory argued that the combination between the role of Chairman and CEO in one individual (CEO Duality) grant the CEO to dominant decision-making process and impair the role of board's directors in monitoring the Chairman as well. Several studies have documented that there is a negative association between CEO duality and the practicing of EM (Roodposhti & Chashmi, 2010). Alghamdi (2012) has found that EM was higher when the chairperson also holds the CEO position. Veprauskaite and Adams (2013) have conducted their study in UK and found that the firm performance in UK firms has been affected negatively by CEO duality which may lead to motivate managers to practice EM due to improve the firm financial performance in UK. In contrast, Klein, (2002) investigated the relationship between EM and CEO duality, he found a significant positive association between the CEO duality and EM practices. In the study by Soliman and Ragab (2013) have supported that there is a significant positive association between CEO duality and EM practices. Similar to Chi et al. (2015) have investigated examines the association of family firms with EM practices in Taiwan, they have detected that the CEO duality has a positive relation with earnings management practices. Thus, consistent with agency theory and based on the aforementioned arguments, the current study argues that the separation between CEO and chairman position will lead to mitigating EM. The following hypotheses suggested:

H4: There is a positive association between CEO Duality and EM.

4.2.5 The BOD Effectiveness

Several of previous studies have argued that the effectiveness of BOD' monitoring drives to increase the financial statement credibility. Thus, it is appropriate to hypothesize that an effective BOD will assist to constrain the EM (Klein, 2002; Anderson, et al., 2004 & AbuSiam et al., 2015). Based on the aforementioned discussion, it is expected of these elements if exist as a bunch, would boost the monitoring role of the board in minimizing the possibility of manipulation of accounting values. Chobpichien, Haron, & Ibrahim (2008); Ward, Brown, & Rodriguez, (2009) and AlQadasi & Abidin (2018) have reported that it is important to deal with governance mechanisms as a group of mechanisms to maintain stockholder interests whereas these CG mechanisms may be supplementary to each other. There are several prior studies have addressed the BOD characteristics as a group and used aggregate measurement in order to measure the BOD effectiveness (see, Amrah et al., 2015; Gillan, 2011; Makhoulf et al., 2018; Siam, 2015 and Hashim & Amrah, 2016). These researchers agreed on the importance of using the composite measure due to three reasons such as: Firstly, it is better to use a comprehensive measure combining the board characteristics with each other to avoid the limitation in using them individually. Secondly, due to the individual mechanism might provide mixed and contradictory results, while the aggregate measure provides accurate results. Finally, there is a complementary relation between the overall mechanisms. Hence, it's better to create a composite measure for the sake of evaluating the board effectiveness due to the mechanisms is intervention variables.

Based on the aforementioned arguments, it is expected that firms with high board quality can mitigate the practices of EM through minimize agency problems and improve monitoring of managerial actions and providing high credible financial reports. Therefore, the following hypotheses suggested:

H5: There is a negative relationship between BOD effectiveness and EM.

4.2.6 AC Size

There are several studies have reported a variant results about the volume of the AC and its relation with EM and financial reports quality (see, Al-najjar, 2011; Ayemere & Elijah, 2015; Siam, Idris, & Okdeh, 2018; Mohamed M Soliman & Ragab, 2014). The study of Al-najjar (2011) has indicated that the larger size of ACs might offer more strong monitoring resources on the top management and increase the quality of financial reports. Ayemere and Elijah (2015) have reported that the EM practices have been constrained by the AC size and they added that there is a significantly inverse relation between committee size and EM. Mohamed et al. (2014) have found that there is no significant

association between the size of ACs and EM (level of discretionary accruals). Hence, based on the aforementioned discussion of agency theory, we have drawn the following hypothesis:

H6: There is a negative association with AC size and EM.

4.2.7 AC Independency

The independence AC is normally associated with effectiveness of AC (Hamid, Othman, & Rahim 2015). Moreover, independence could be important attributes for increasing the quality degree of financial reporting (Dimitropoulos & Asteriou 2010; Siagian & Tresnaningsih 2011). Hamdan, Mushtaha and Al-Sartawi (2016) have found that there was no any relationship earnings quality and AC independence due to ACs in Jordanian industrial companies is not independence. On the other hand, Davidson et al. (2005) have reported that non-executive directors on the AC plays a critical role in reducing the manipulation behaviors and EM practices. Crutchley, Jensen, and Marshall (2007) have documented that fewer independent members on the AC leads to more accounting fraudulent actions. Xie et al. (2003) have reported that the independents on the AC are playing an essential role in constraining any financial reporting irregularities. But, other studies have reported that there no significant association between EM and independence of AC. Lin, Li, & Yang (2006) and Rahman & Mohamed Ali (2006) did not find such a relationship. So, we hypothesize that:

H7: There is a negative association with AC independence and EM.

4.2.8 AC Financial Expertise

Accounting or Financial expertise is considered one of the important characteristics for AC due to its field of work in the firm. Most of prior studies have given a sever attention to the financial expertise and knowledge of AC as an evidence of committee effectiveness. Zalata, Tauringana and Tingbani (2018) were argued that one of the important monitoring mechanisms is financial expertise and gender on AC. They also found that there is a significant relation between financial expertise lower the EM. Accordingly, an a negative association have been found between AC financial expertise and the practices of EM (Ayemere & Elijah, 2015). A study by Bilal, Chen and Komal (2018) The have reported that there is a significant and strong positive association between earnings quality and AC financial expertise. Abu-Siam et al. (2018) have documented in their study that there is a negative and significant relationship was found between AC financial experts and the practicing of EM. Thereby, we draw the following hypothesis.

H11: There is a negative association with AC financial expertise and EM.

4.2.9 AC Effectiveness

AC is an essential player in the firm due to its duties, responsibilities and monitoring job in order to ensure the financial reports quality and enhance the corporate accountability (Carcello & Neal, 2003 & Mohamed & Ragab, 2014). There are several characteristics contribute in enhancing the effectiveness of AC, such as the existence of financial and accounting experts and independent directors (DeZoort, Hermanson, & Archambeault, 2002; Shawtari et al., 2015). According to the study by DeZoort et al. (2002) have suggested that it is better to examine the effectiveness of AC characteristics as a group with combining them in a bundle in order to measure the AC effectiveness. Ward et al. (2009) have argued that investigating the mechanisms of CG as a group rather than individual would be better in the future studies. Zgarni, Hlioui, and Zehri (2016) have investigated the influence of effectiveness of AC and external audit quality on the quality of financial reporting system for the sake of reducing EMs practices in the Tunisian listed firms' pre and post the adoption of financial security law. In order to achieve the purpose of their study, they have established a score to measure the effectiveness of AC based on five characteristics (AC existence, seize, independence, meetings of AC and financial expertise). Empirically, they have found that there a is a supplementary relation between effective AC the specialization of external audit in order to mitigate EM practices. According to aforementioned discussion and evidences, it is worth to conceptualize the AC effectiveness in order to constrain EM. Hence, the hypotheses suggested as below:

H9: There is a negative relationship between AC effectiveness and EM.

4.2.10 The Moderating Effect of Political Instability on the Relationship of CG and EM

Several prior studies addressed the financial crisis, political matter and their effect on EM and income smoothing (eg. Wang 2011; Attia, et al., 2016; Hsiao, et al., 2016; Obaidat 2017; Harymawan and Nowland 2016; Anon 2008; Filip and Raffournier 2014; Habib, et al., 2013 & Harymawan & Nowland, 2016). The study of Hsiao, et al., (2016) finds that USA oil & gas firms have engaged in EM practice during the Arab Spring. Furthermore, Obaidat (2017) indicated that the firms practice income smoothing more likely in the political crises' periods.

Mangena et al. (2012) examined the association between BOD and OS and company's performance in severe political environment and economic crisis. They use the political theory which has been developed by Roe (2003) to investigate the relationship. They find that during the period of post-presidential election, BOD size, executive directors' ownership and ownership concentration increased, while the proportion of non-executive directors decreased. Firm performance is positively related to board size and ownership concentration in the post-presidential election period, but not in the pre-presidential election period. We document that the relationship between performance and executive directors' share ownership is positive in the pre-presidential election period, but negative in the post-presidential election period. Overall, they suggested that large boards and ownership concentration are more important in an environment of severe political and economic crisis. Finally, they recommended the academic bodies to do more studies to examine several issues such as disclosure and EM in the instable political environment. Based on political theory the hypotheses will be suggested as below:

H10: Political instability moderates the relationship between BOD Effectiveness and EM in Palestinian non-financial listed firms.

H11: Political instability moderates the relationship between AC Effectiveness and EM.

5 Conclusions

This paper highlighted the CG characteristics and their relationship with EM practices according to prior literatures. Our objective was to conceptualize the relationship between CG (BOD & AC characteristics) and EM. Indeed, the high effective of CG factors affected the firm performance positively and leads to decrease the level of practicing EM. In contrary, the instable political situation in any country may leads to weaken the CG effectiveness which in turn motivates the firms to engage in EM.

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The Influence of Awareness and Perception of Potential Customers on Willingness to Adopt Islamic Banking in Nigeria

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Abstract

This study examined the influence of awareness, and perception of the potential customers of Islamic bank in Nigeria in relation to willingness to use the products and services provides by the bank. The study employed the use of survey questionnaire to the academic staff of Abdu Gusau Polytechnic. A total of 103 completed questionnaires were retrieved and analyzed using Structural Equation Modeling. The results suggested that awareness and perception of the potential customers are positive and significantly influenced the willingness of the respondents to use the banking products and services. The overall model explained 33.4 percent of willingness to adopt the Islamic banking products and services.

Keywords: Awareness, Perception, Willingness, Islamic Banking.

Introduction

Islamic banking as presented in the modern outlook is of recent origin, despite the fact that, its traditional approach was as old as Islam itself (Hasan, 2014). The element of Islamic banking was practiced by Arab even before the advent of Islam in the form of interest-free financing and later on adopted by Muslims as acceptable form of trade financing (Rammal & Zurbruegg, 2007). In the early Islamic era, there exist trading and financial dealings from which banking system originated. The management of baitul maal, and *Mudarabah* transactions being the famous activities are a good example. *Mudarabah* is known as being practiced by the prophet himself who was said to have partakes as enterpriser engaging the wealth of his beloved wife Khadijat (the financier) in business venture and trading activities.

However, in its modern outlook, Islamic banking could be said to be of recent origin dating back to 1950s with the Pakistan experiment (AbdulGhafar, 2010). But the more renowned effort was the Mitgamr saving in Egypt in 1963 where it operated under cover for political reason (Hasan, 2014). Even though Mitgham was commonly refers to as the root of modern Islamic banking, Shamungam & Zahari (2009) opined that prior to Mitgamr experience, the evidence exist that interest free commercial financial transaction were in place. Anjuman Mowodul Ikhwan of Hyderabad in India 1890, and Anjuman Imdad-e-Bahmi Qarsh Bila Sud- 1923, are the example of some of the institutions providing small loan to small business on a profit-sharing (Shamungam & Zahari 2009 p.3).

Subsequently, the concept of Islamic banking gained momentum to such an extent that a combination of 57 countries, Organization of Islamic Conference known as OIC members created an intergovernmental Islamic bank called the Islamic Development Bank (IDB) with headquarter in Jeddah- Saudi Arabia in 1974. This move was a great development that cleaned the ground for the establishment of many other Islamic banks in different countries around the globe. Some of the countries and their year of establishing Islamic banking are: Dubai in 1995, Kuwait in 1977, Sudan in 1977, Bahrain in 1979, Pakistan in 1979 and Malaysia in 1983 to mention but a few. The Islamic

Development Bank (IDB) as a multilateral development bank was working to achieve so many objectives among which was to foster the economic development and social progress of its 57 member countries and Muslim communities in non-member countries in accordance with the principles of Shari'ah.

Nigeria as one of the members of the OIC had just started the operation of Islamic banking recently in 2011. But prior to that, there was a consistent struggle to establish an Islamic banking in Nigeria since 1961, but the efforts records only a minuscule weight. It started with the trial from Muslim Bank West Africa Limited to provide Islamic banking services, but the effort however, failed with the revocation of its license in 1968 (Auwal, 2003; Dogarawa, 2011). The idea resurfaces with the establishment of Islamic window by the Habib Bank Plc now (Keystone bank plc), (Okeke, 2012). This move, also, recorded not much success due to the low level of awareness and understanding of the potential customers to the Islamic banking products and services (Gusau, 2004).

Between 1993 and 1995 stake holder started applying for banking license to operate Islamic banks, but as of then, their dream was not realized. However, the quest for Islamic banking in Nigeria experienced a breakthrough, locus to the Bank and Other Financial Institutions Decree (BOFID) enacted in 1991 which provides a provision for profit and loss sharing banking. This development paved the way for opening Islamic window by Habib Bank Plc (now, Keystone bank plc) which obtained a provisional license in 1992 and was granted approval by the CBN to operate Interest-free banking window in 1997 and the bank finally commenced business in 1998 with range of financing product offered to the willing customers. The aim was to grow and promote the use of Islamic principles, laws and traditions to the banking transactions and related business affairs (Abikan, 2009).

In further development, in 2009, the Central Bank of Nigeria (CBN) becomes a member of Islamic Financial service board which, is headquartered in Malaysia. CBN further released a draft framework for the regulations and supervision of non-interest banking in Nigeria in same year (CBN, 2009). The guidelines were in accordance with section 28(1) of the CBN Act 2007 and the provision of Bank and other financial institution act (BOFIA) 1991 as amended. Base on the provision of this section and consequential to the increasing demand by those interesting to participate in non-interest financial products and services, the draft was released with categorical explanations on the rules and regulation governing the newly established bank (Sanusi, 2011). After the release of the document as an exposure draft to the public; observations, comments and suggestions (inputs) were generated from the consultation which formed the basis for the final regulatory framework that was released with more comprehensive clarification on the minimum standard of non-interest banks, the product allowed, the capital requirement and the host of others (CBN 2011).

Prior to that, in 2003, Jaiz International bank, now Jaiz Bank Plc was registered to operate Islamic banking and afterward, obtained a regional license from the CBN to operate as a Non-Interest Bank. However, the new policy introduced by CBN of raising the minimum capital requirement of the commercial banks to 25bn halted the realization of Jaiz operation. In August 2010 the CBN releases the new banking model which designated non-interest banks among the specialized banks. The non-interest banking guidelines further categorized the non- interest bank in to two with variation in the required capital base for each category. The first category was the national non-interest bank which shall have a capital base of N10bn and hence rightfully possess the license to operate in every state in the Federation (Nigeria). The second category term as regional non-interest bank was to have a capital based of N5bn upon which it would be able to operate in a minimum of six (6) and maximum of twelve (12) states within at most two geo-political zones.

Based on the above categorization of non-interest bank, and upon meeting the required capital as mandated by CBN non-interest banking guidelines, Jaiz bank become a regional non-interest bank and on the 11th of November 2011, Jaiz bank obtained its license and commences operation as the first full-fledged Non-Interest Bank in Nigeria on the 6th of January, 2012 with 3 branches located in Abuja FCT, Kaduna and Kano. Within the two years of its operations, Jaiz bank was able to extend its branches

from three (Abuja, Kaduna and Kano) to thirteen reaching other states (Borno, Bauchi, Katsina, Gombe, Zamfara and Sokoto).

This study aimed at investigating the influence of awareness and perception of the potential customers in relation to their willingness to adopt Islamic bank. Prior to the adoption of a new product or service by the potential customers, there are certain stages they passed through. This is what was termed as adoption process. The process according to (Rogers, 1963) has five stages starting from awareness to interest forming, through mental evaluation and trial to final adoption which refers to as continued usage of the products and or services (Kotler & Keller, 2012).

However studying adoption of a particular products, services or idea in the sequence of the stages outlined above might required a longitudinal study. This may require a considerable time and resources which a research of this nature cannot accommodate because of the time factor and resources constraint. Perhaps, these reasons are responsible for compelling many studies that include Echchabi & Aziz (2012); Jamshidi & Hussin (2012, 2013); Jamshidi & Rezaei (2012); Thambiah, Ismail, Ahmed, & Khin (2013); Thambiah, Ismail, & Malarvizhi (2011) to either skipped some stages or concentrate on a particular stage in their study of new products/services adoption (Yahaya, 2016).

This study therefore, aimed to determine the extent to which awareness and perception influence the willingness of potential customers to adopt Islamic banking.

Literature Review

Awareness

The first stage of adoption of any product or service is the awareness (Rogers, 1963, 2003). It is therefore inconceivable for adoption of any idea to occur without the individual becoming first aware of that idea. Hence awareness is indispensably serving as the foundation of patronizing Islamic banking products and services as it pave the way for arousing the customers' curiosity on the Islamic banking and consequently leading to the adoption. Without the awareness there would be no initiative from the customer to use the products and the services of Islamic bank. Lai (1991) identified awareness as a strong factor that guide customers' assessment toward acceptance or rejection of a particular product. Accordingly, Kotler and Amstrong (2001) opined that creating awareness among the consumers about the product or service remained a key factor to its adoption.

Creating awareness on any new product or service requires advertisement through which the idea can be communicated to those who are not aware of it so as to attract them to the new products. Lack of awareness and lack of proper understanding kills good innovative idea (Unegbu & Onuoha, 2013). This is because lack of awareness and good understanding can create misconception over an idea. The manifestation of this has been witnessed in Nigeria where the idea of Islamic banking was misconstrue by some of the populace. Abdullah (2012) observed that though Islamic banking is a good idea opened to all and sundry regardless of their religious adherence, lot of Christian misconceived it as strictly Muslims affair and accused the idea as an attempt to Islamizes the country (Aliyu, 2012; Unegbu & Onuoha, 2013). Yet some people alleged that it could be a ground for financing terrorist activities; but all these allegations are contrary to the reality of Islamic banks (Ghannadian & Goswami, 2004). Lawal (2012) observed that lack of knowledge to many Nigerians concerning the model and operation of the Islamic banking was attributable to the controversy experienced on the establishment of the bank in Nigeria.

The link between awareness and the patronage of product and services was examined in different context (Sathye, 1999), and in Islamic banking (Abduh & Omarov, 2013; Naveed, 2010; Rammal & Zurbruegg, 2007). However, limited study tested the customers' awareness in relation to Islamic banking context in Nigeria (Unegbu & Onuoha, 2013). While the research conducted by Unegbu and Onuaha (2013) was restricted to investigating the level of customers' awareness, the current study tries to investigate the influence of awareness on willingness of the potential customers to adopt the banking products and services. Hence, this study hypothesized thus:

H1: Awareness would have a positive influence on willingness to adopt Islamic banking products and services in Nigeria

Perception

Customer perception is a marketing concept that encompasses a customer's impression, awareness and or consciousness about a company or its offerings. Customer perception is defined as the way that customer usually view or feel about certain services and product (www.ask.com) it can also be related to the customer satisfaction which is the expectation of the customers towards the product. Consumer perception theory attempt to explained consumer behavior by analyzing motivations for buying and or not buying a particular item ([Chris, 2014](#)).

Though with different names and connotation from one country to another, Islamic banks provides similar products all over the world. However, empirical studies uncovered the perception of the customers' regarding the products and services mostly offered by Islamic banks as not much different from the conventional banking products and services (Akbar et al., 2012; Islam 2012;). Perhaps this is because the Islamic banks mainly stick to debt based financing or products offering (Lewis & Algaoud, 2001; Dusuki 2007; Amin et al, 2013) as against arguably the main objective of the bank at least in principle, that is "equity based financing" (Dusuki, 2007). In line with this, Islam (2012) suggested for de-emphasizing on the profit maximization in favor of promoting Islamic norms and value to achieve the economic objective as enjoined by *Shariah*. In a reflective manner, Dusuki (2007) argued that main difference between the two parallel banking (Conventional and Islamic) should have been demonstrated in shifting from debt- based to equity-based and profit and loss sharing financial intermediation by the Islamic banks. But the reality of Islamic banking practice in present days proves the opposite as most of its financing are debt-based as against the equity based (Lewis & Algaoud, 2001; Amin et al, 2013).

This study hypothesized that:

H2: Perception would have a positive influence on willingness to adopt Islamic banking products and services in Nigeria

Methodology

This study employed the use of quantitative approach in investigating the influence of awareness and perception on willingness to adopt Islamic banking. Questionnaire were designed and administered to the academic staff of Abdu Gusau Polytechnic Talata Mafara. A total of 103 completed questionnaires were retrieved and analyzed using Partial Least Square - Structural Equation Modeling (PLS-SEM) with the use of Smart-PLS software version 3.0

The questions were base on five point likert- scale format where, 1 represent strongly disagree, 2 = disagree, 3 = neutral, 4 = agree and 5 = strongly agree. The items used in the questionnaire were adopted from the previous studies in the literature with some modifications to suite the context of this study.

The study used one endogenous and two exogenous variables as depicted in the framework below:

Independent Variable

Dependent Variable

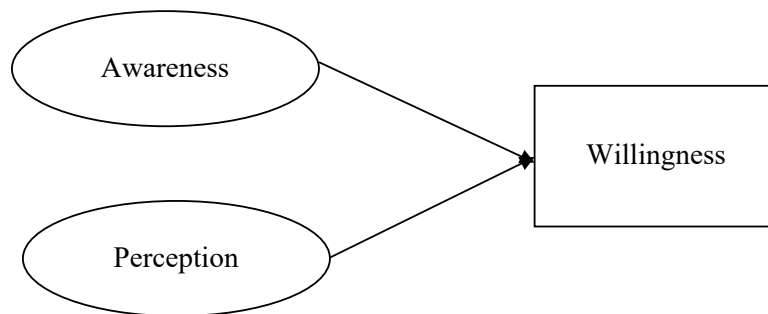


Figure 1: Research Framework

ANALYSIS OF RESULTS

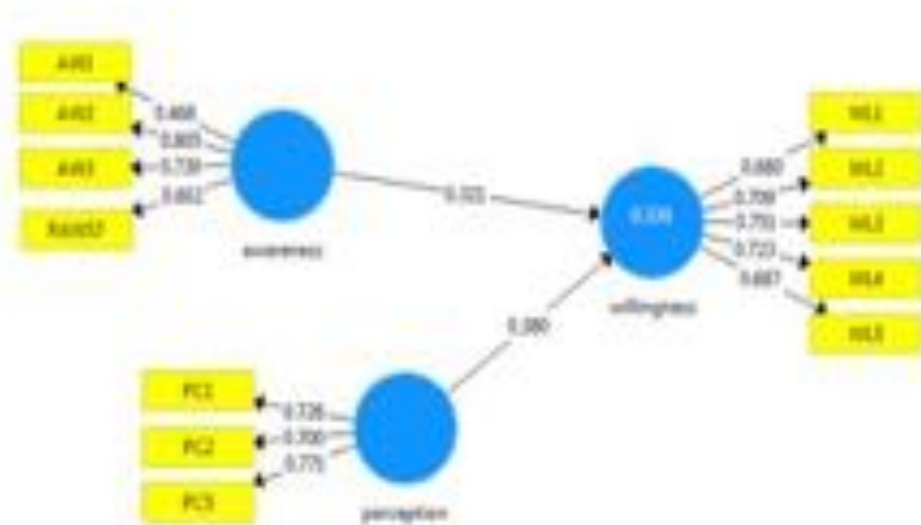


Figure 2: Path Diagram

The path diagram was designed by the use of Smart-PLS version 3.0. The total number of indicators for the three constructs was initially, nineteen (19). Awareness and Willingness each has seven indicators while perception has five indicators. The PLS algorithm, in the first run analysis shows a lower loadings of the indicators AW4, AW5 and AW6; WL6 and WL7; PC3 and PC4 for awareness, willingness and perception respectively. These indicators were all deleted to achieve the required level of Average Variance Extracted (AVE) and composite reliability (Hair, Hult, Ringle, & Sarstedt, 2014). This reduced the number of the indicators for the constructs all together to 12.

The result in the table 1 presents a reliability of the measure used for the study. The composite reliability of generally accepted level of 0.70 was attained for the entire constructs. (Hair, Black, Babin, & Anderson, 2010; Nunnally, 1978). The reliability scores for the variables were 0.75, 0.77 and 0.83 for awareness, perception and willingness respectively, thereby indicating a good reliability of the measure.

Table 1: Assessment of Reliability and Convergent Validity

Variable	Composite Reliability	Average Variance Extracted
Awareness	0.752	0.44
Perception	0.777	0.54
Willingness	0.836	0.51

The validity of constructs was assessed in terms of convergent validity which, measure the degree to which construct that theoretically should be related to each other are, in fact, observed to be related to each other. According to Fornell and Larcker (1981) and Chin (1998), if the Average Variance Extracted (AVE) of each construct is above 0.5, (as indicated in table 1) and loading of each item on its constructs is above 0.6 (as shown in table 2, with the figures in bold) it could be concluded that the model demonstrates sufficient convergent validity.

Table 2: Convergent validity assessment using Cross Loadings

	Awareness	Perception	Willingness
AW1	0.468	0.033	0.207
AW2	0.805	0.178	0.372
AW3	0.730	0.469	0.381
RAWS7	0.602	0.119	0.137
PC1	0.286	0.726	0.329
PC2	0.230	0.700	0.301
PC5	0.264	0.771	0.433
WL1	0.252	0.390	0.680
WL2	0.314	0.331	0.709
WL3	0.394	0.312	0.751
WL4	0.370	0.400	0.723
WL5	0.271	0.311	0.687

Discriminant validity measures the degree to which constructs that theoretically should not be related to each other are, in fact, observed not to be related to each other. The evaluation of discriminant validity by Fornell and Larcker (1981) showed that the square root of the AVE for each construct should exceed all correlations between that construct and other constructs. Table 3 below indicate the achievement of adequate discriminant validity.

Table 3: Discriminant validity Assessment (Fornell-Larcker Criterion)

	Awareness	Perception	Willingness
Awareness	0.664		
Perception	0.354	0.733	
Willingness	0.456	0.493	0.710

Testing the Hypothesis,

Table 4: R² and Path Coefficients

R ² = 0.334	Path	T Statistics	P Values
awareness -> willingness	0.321	3.075	0.001
perception -> willingness	0.380	3.397	0.000

H1: Awareness would have a positive influence on willingness to adopt Islamic banking products and services in Nigeria

The result from the path coefficient shows that awareness has a significant positive relationship with willingness to adopt Islamic banking product at beta value of 0.32, t-statistics of 3.07 and p- value of 0.001. This indicate that hypothesis (H1) was supported at 99% confidence level. The contribution of awareness to the willingness to adopt Islamic banking products and services is indicated by the beta value which, show that 32 percent variance of the dependent variable was attributable to awareness.

H2: Perception would have a positive influence on willingness to adopt Islamic banking products and services in Nigeria

The result in table 4 shows that beta value of perception was 0.38 with the t-statistics of 3.39 and p-value of 0.000 indicating a significant relationship between perception and willingness to adoption Islamic banking products and services in Nigeria. The result supported the hypothesis H2. It further indicates that perception explained 38 percent variance of willingness to adopt Islamic banking products and services among the potential customers.

Conclusion

This study tested and found a strong relationship between awareness and willingness; perception and willingness to adopt Islamic banking products and service. This indicates a statistical significance of these variables: awareness and perception in influencing willingness to adopt Islamic banking products and services. This study observed that despite the successful establishment and the operation of Islamic banking in Nigeria, a lot need to be done in spreading the ideals of this nascent industry in the country. It is apparent that knowledge and awareness concerning the bank and its products is imperative to its adoption. Therefore, more awareness should be created through certain channel over time among the members of the social system.. The adoption of Islamic bank products and services is critically dependent on the relevant information communicated to the potential adopter. Communication in this regard is viewed as a process in which participants create and share information with one another in order to reach a mutual understanding. Going by this, it can be deduce that awareness is created in the course of sharing the information, and of course it may involve different channels but the most important is the creation of the consciousness through whatever means which, mass media could be the most important channel of communication and creation of awareness and knowledge. The proprietors should target a wider coverage as well, so as those willing to patronize the products and services could have access to that effect. They should present the banking operation in such a manner it could lead to positive perception as it is another important factor that influences adoption of Islamic banking products and services.

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M&A in Islamic Banking Sector: An Empirical Analysis on Size Effect, Market Structure and Operational Performance

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Abstract

This paper empirically analyses the impact of M&A on operational performance especially for Islamic banking sector. Mega Islamic banks through M&A could be rival not only for the other Islamic banks but also for the conventional giants which could help to survive in the competitive market, boost the industry growth and enable to be a global leader in Islamic banking sector. This study employs empirical research methods, namely cross-sectional pooled regression and panel data regression to analyze a set of samples consisting of ten Islamic banks which involved in M&A from six countries, drawn from International Monetary Fund (IMF), World Bank, FitchConnect and Bloomberg over the years of 2009 through 2018. The operational performance is estimated using accounting-based measure (i.e., ROA & ROE) while total asset, total deposit and operating income variables are used to represent level of bank sizes (i.e., small, medium and large) and Herfindahl-Hirschman Index (HHI) and concentration ratio are applied to signify market structure. The findings indicate that larger bank and concentrated market structure has greater impact on operational performance for post M&A period. Interestingly, although Islamic banking is concentrated, it is not competitive, not regulated and no anti-trust system. The paper concludes by discussing policy implication for policy-makers for having strategic decision on M&A deal.

Keywords: M&A, Islamic banking, bank sizes, market structure, operational performance

1.0 Introduction

Mergers and Acquisitions (hereafter M&A) is defined as a process of amalgamation of bidder and target. The terminological definition of the merger is the combination of two or more banks whereas either new entity exists or combination of both (e.g. $\text{bank}_A + \text{bank}_B = \text{bank}_C$ or bank_{AB}). Usually, it happens with equal-sized banks “merger of equals”. Whereas, acquisition implies the combination of two or more banks and target bank cease to exist (e.g. $\text{bank}_A + \text{bank}_B = \text{bank}_A$). Normally, an efficient bank acquires an inefficient bank. M&A transactions happen with different payment modes such as cash, stock or combination of both. M&A is a business strategy in which the ownership, business structured, liabilities, assets as well as management of bank are transferred or combined. The main motive or objective of having M&A is to have commercial potentiality such as create more value (Synergy) compared to being on an individual stand. More specifically, M&A refers to the aspect of corporate strategy with the buying, selling or combining of the bank that enables a bank in a given industry to grow rapidly without creating another business entity, (Nicholas et. al., 2015).

In line with that M&A has been in the mainstream news in the recent past (Massoudi and Fontanella-Khan, 2016). The global trend shows a record of 2.5 trillion value of M&A deal in the first half of 2018 which is 61% higher than the first half of 2017 but the number of deals reduced by 10%. Globalization and financial deregulation of the banking sector went through a period of considerable consolidation

during the 1990s. The financial world has experienced the downside of financial innovation and deregulation in the recent global financial crisis which leads to massive bank failures in the developed economies. Moreover, this scenario has been spread in developing countries as well.

In addition, due to the competitive business arena, structural modification of the financial system, financial enlargement, technological innovation, and demand for financial products. Financial institutions have to face numerous problems and need to change their business approach accordingly. With a view to keeping pace with this changing trend of the market, financial institutions need to espouse strategy to survive in the competition as well as structural modification of the business world.

In line with that, as explained by microeconomic theory, a market structure influenced the behaviour of their respective companies, Nurwati, Achsani, Hafidhuiddin, & Nuryartono, (2014). Basically there are two competing hypotheses have been discussed such as structure conduct performance (SCP) hypothesis, also called collusion hypothesis and efficiency hypothesis, Al-Muharrami, & Matthews, (2009), Samad, (2008), Matthews, & Khabari, (2006), Katib, (2004) Maudos, (1998), Molyneux, & Forbes, (1995), Al-Muharrami, Goldberg, & Rai, (1996), Demsetz (1973; 1974). Details are discussed in section 2.1, theoretical underpinning.

Interestingly, from the beginning (i.e., beginning of twenty centuries) of the M&A deal, the research has been done in case of conventional banking sector while for Islamic banking is yet to be found. Although it is concerned from academicians, professional and regulators, Ibrahim & Rizvi, (2017), Zukri Samat (2017), Kandil, et al. (2014) and Iqbal (2008) in-depth research is scarce. With having motives, this paper is going to analyse M&A in Islamic banking sector empirically with the idea of the conceptual design of Ibrahim & Rizvi, (2017), Kandil, et al. (2014) and Iqbal (2008). Moreover, focusing on the level of bank's sizes such as large, medium and small.

The multivariate results of bank sizes, market structure and operational performance of M&A in the Islamic banking sector are reported in Table 4, 5, 6, 7, & 8 respectively. The result is reported in three (3) stages such as pre & post, pre, and post-M&A period. The findings of the study indicate that relatively pre and post M&A result is better compared to all period (pre & post). While the result between pre-M&A period and post-M&A period, Post M&A result is better compared to pre. Similarly, market structure has a direct effect on operational performance instead of mediating. Based on the market structure which shows that market is very concentrated rather highly competitive, highly regulated, and anti-trust system.

The rest of the chapters are structured as follows. The next section presents a brief literature review of M&A i.e., theoretical and empirical underpinning. Section 3.0; represents the methodology of the study while section 4.0 indicates discussion on estimation result. Finally, section 5.0 concludes the paper.

2.0 Methodology and Data

2.1 Theoretical Underpinning

Generally, theories of M&A are divided into two such as shareholder's value maximization (value creation strategy) and shareholders non-value maximization (value reduction strategy), Weitzel & McCarthy (2011). Shareholder's value maximization is explained by efficiency or synergy theory while shareholder's value reduction theory is explained by management entrenchment theory and hubris theory. Other theories are also used by the previous study such as the theory of merger waves, i.e. behaviour theory & neoclassical theory.

Shed light on that, efficiency theory of merger has applied by [Daniya, Onotu, & Abdulrahman, (2016); Weitzel & McCarthy, (2011)] while application of neoclassical theory [Mitchell & Mulherin (1996) and (Polemis & Paleologos (2014), Petmezas (2009))] moreover, behavioural theory [Polemis & Paleologos (2014) and Shleifer & Vishny (2003)] and furthermore, resource dependency theory [Kandil & Chowdhury (2014), Das & Rao (2011), Morris (2004), Kiel & Nicholson (2003)]. On the other hand, shareholder's non-value maximization theory, i.e. management entrance theory is used

by Weitzel & McCarthy (2011) and Shleifer & Vishny (1989) and Managerial hubris theory has used by Tate (2008), Hayward & Hambrick (1997); and Malmendier & Roll (1986)

Specifically, within the sphere of the banking sector, many studies have used the efficiency theory and resource dependence theory (RDT). According to the efficiency theory, mergers are planned, and it will only occur when they are expected to generate enough realizable synergies to make the deal beneficial to the parties, bidder, and target. Similarly, several studies [i.e., Daniya et al. (2016) Wadhwa & Syamala (2015) and Weitzel & McCarthy (2011)] mention that the main motive of M&A is to gain synergy (operating and financial synergy). These synergies could be in the form of the reduction in cost or increase in revenue. It is the symmetric expectations of gains which results in a 'friendly' merger being proposed and accepted. If the gain in value to the target is not positive, it is suggested that the target firm's owners would not sell or submit to the acquisition. Similarly, if the gain negative to the bidders' owners, the bidder would not complete the deal.

Whereas, Resource Dependency Theory (RDT) is defined as an explanation of how the external resources like i.e. skilled worker, total asset, money, technology, and raw materials etc. of an organization affect the behaviour of the said organization. Nair, Trendowski & Judge (2008) claim that the resources of a firm consist of tangible assets, human and other intangible assets which produce productive services planned by the firm. In addition, Rao-Nicholson (2003) notes that board members contribute to important external resources and can maximize the firm's performance. Similarly, Morris (2004) states that RDT could explain the impact of social action and organizational changes towards an organization. RDT offers an externally focused perspective on why an organization might acquire or merge with another organization. Since the issue is not clear and become inconsistency among studies and need efforts to further investigate.

Since the market structure is concerned as well, according to microeconomic theory, a market structure influenced the behaviour of their respective companies, Nurwati, Achsani, Hafidhuddin, & Nuryartono, (2014). Basically, there are two competing hypotheses have been discussed such as structure conduct performance (SCP) hypothesis, also called collusion hypothesis and efficiency hypothesis, Al-Muharrami, & Matthews, (2009). The structure-conduct-performance (SCP) model has been derived from the economic concepts of market structure in the by Mason (1940s) and Bain (1950s). Bain (1950) were the first to develop this model by finding a statistically significant relationship between profitability and concentration of manufacturing industries in the Percent State. Basically, the SCP framework suggests that the level of concentration in a particular market will influence the degree of competition among firms in that market. Markets that are highly concentrated (few large firms dominating the market) are less competitive than markets where concentration is low, Al-Muharrami, Matthews, & Khabari, (2006), Katib, (2004) and Goldberg, & Rai, (1996). While bank in concentrated markets collude to charge higher loan rates, pay lower deposit rates and earn higher profit, Khan, Ahmad, & Chan, (2018), Khan, Ahmad, & Chan, (2018), Samad, (2008), Maudos, (1998), and Molyneux, & Forbes, (1995)

On the contrary, the alternative hypothesis, the efficient structure (ES) model such as Maudos, (1998), Demsetz (1973; 1974), Peltzman, 1977), however, argues that some firms earn higher profits because they are efficient. This firm-specific efficiency is exogenous and reflected in the high profitability and market share, and hence market become concentrated, Heffernan, (1996). In line with that Molyneux, & Forbes, (1995) postulate that firm efficiency will be the driving force behind the process of market concentration. This approach then suggests that market share should be correlated with profits instead of concentration (or market structure). Under the ES hypothesis, higher efficiency and hence, larger market share explain the positive relationship. As explained by Maudos, (1998) market share is a proxy variable for efficiency. Under this assumption, the most efficient firms gain market share at the expense of the less efficient., Samad, (2008).

Market structure is measured by several tools such as HHI, Concentration ratio, Gini coefficient, Rosenbluth Index (ROS), Entropy Index (ENT), Linda Index, Lorenz Curve, Lerner Index, Horwath

Index (HOR), Industrial Concentration Index (CCI), Hausas Indices, U index, Hanna-Keys Index (HKI) etc., Barra., & Zotti, (2019), Galetić, & Obradović, (2018), Ginevičius, & Čirba, (2007), Bikker, & Haaf, (2002), Lloyd-Williams, Molyneux, & Thornton, (1994). Market Concentration is measured based on either total asset or total deposit or loan, Bod'a (2014), Hakim & Chikr (2014), Abdul Kadir et. al. (2014), Sufian & Habibullah (2013), Turk-Ariss (2010), Gajurel (2010), Abdul Majid & Fadzlan (2007a), Abdul Majid & Fadzlan (2007b),

Based on the above mentioned conflicting theoretical underpinning, following empirical analysis is reviewed to analyses whether theses theoretical foundation explains the issue empirically.

2.2 Empirical Underpinning

A positive relationship between bank performance and M&As deal find by Abbas et al., (2014). The study focuses on the US banking sector that finds a direct positive performance on productivity, profitability as well as shareholders' value. Similarly, Daniya et al. (2016), Okpanachi (2011) and Al-Sharkas et al. (2008) analyze and reveal that there is an improved and robust financial performance and cost-efficiency owing to mergers and acquisitions, leading to a financial efficiency in the Nigerian banks. In addition, Okpanachi (2011) implies that between pre and post-M&As, post-M&As period is more financially efficient than the pre-period.

Synergy is one of the important motives of having an M&A deal. Without proper justification, none of the financial organization would engage in the deal. It is strongly argued and explained in M&A, synergy is the main motive. As supported by Smirnova (2014), synergy is one of the best motives for having an M&A deal. Synergy which can be generated by economies of scale and scope, cost minimization strategy, market expansion, innovation and development of products & services, value creation strategy, amalgamation of the human capital, liquidation strategy, reduction of tax liability and adjustment of debt, reduce the number of competitors and ensure corporate growth and strategy have been selected.

According to the analysis of Kwenda, Oyetade & Dobрева (2017), Aladwan (2015), Srairi (2009), and Haron (2004), the impact of size on the performances of the Jordanian commercial banks. The estimation result explains that there is an inverse relationship between size and bank performances, i.e. bank performance tends to increase when bank size decrease. Shed light on that, Kosmidou, Pasiouras, Doumplos, & Zopounidis (2006) argue small banks are better than larger producing more performances. Interestingly, Katib and Mathews (2000) have estimated the efficiency of 20 Malaysian commercial banks from 1989 to 2000 and found that medium-sized banks (total asset) are more efficient than large banks. Surprisingly, Amene, & Alemu, (2019) find that larger banks enjoy better profit than smaller banks in Ethiopia banking sector.

While by applying GMM method, Micco et al. (2007) have conducted the study in Kenya in the commercial banks and finding reveals that the size does not matter in determining bank performance. Similarly, Abduh, & Idrees, (2013), Vong & Chang (2006) and Naceur (2003), have found a negative relationship between bank size and performance. On the contrary, the Nafti et al. (2017), Ruslan, Pahlevi, Alam, & Nohong, (2019) have found that bank size has a positive and significant influence on bank profitability through bank efficiency (mediating effect). Fang, C. K. Lu, Tan, & Zhang, (2019) have conducted a study in Chania and found that there is a relationship between the bank's sizes and the bank's performance.

Sufian (2011) mentions that the reason to have M&As deal is to achieve economies of scope rather than economies scale. Mustafa et al. (2017) and Piloff & Santomero (1998) who mention that M&As reduce earnings volatility as well as uncertainty through the scale and scope of economies potentially support these. Whereas, Focarelli et al. (2002) state that acquisition is made for 'improving the quality of the portfolio of acquired banks. Shed light on that Linder & Crane (1993) explain that the acquirer banks are able to have both economies of scale i.e., by reducing manpower, shrinking the operation and reducing the cash and securities and economies of scope i.e., by the large volume of financing.

Since M&A is concerned, Mode of financing is another explanatory factor for M&A transaction. There are different methods of payment i.e. cash, stock or both also have a great impact on the performance of M&A. According to the recent study by Oyetade & Dobрева, (2017) and Iankova (2014), involving parties can exchange cash, stock or both of them but more precisely when the value of the stock of acquirer is overestimated in the market then better to offer stock otherwise cash. Interestingly the study of the André & L'Her (2004) has investigated the relationship between post-M&A performance and the method of payment. They have proved that, in general, the M&A deals financed by stocks have a weaker performance in the long-run. Most of the cases cash rather stock has a positive impact on the performances of the target and acquirer.

On the contrary, several studies have examined and revealed that M&As deal has less impact on the performance of the banking industry. Among the researchers, Kandil, et al. (2014), Gattoufi et al. (2014), and Ismail et al. (2011) state that M&As activities have no significant impact on the operational performance of the banks involved. In the similar vein, Goyal & Joshi (2011) and Piloff et al. (1998) argue that acquisitions often have a negative impact on employees' behaviour resulting in counterproductive practices, absenteeism, low morale, and job dissatisfaction. It appears that an important factor affecting the successful outcome of acquisitions is the top management's ability to gain employee trusts, Amihud et al. (2002).

In addition, M & A activity contributes to the abnormal returns and show the negative impact on profitability, efficiency, liquidity, leverage, size and employee behaviour on the banking industry, Banal-Estanol & Ottaviani, (2006, 2007). According to the earliest studies of Firth (1980) and Malatesta (1983), the result has shown and revealed that shareholders of the acquiring firm face the situation of value reduction during the period of both announcement time and over the following years of the merger. Shed light on those Sufian et al. (2012) have explored and investigated an interesting result. It shows that banks' revenue efficiency has not significantly improved during the post-merger compared to the pre-merger period.

On top of that mixed result also found in several studies. By using information from public listed companies from the ASEAN countries, R. Rao-Nicholson et al. (2016) find the negative effect of M&As deal on the performance of the banks. However, with respect to domestic consolidation, they argue that friendly deals help the integration process between the two companies and managers can work proactively to derive synergistic gains from the M&As activity. In the case of domestic deals, it can be quite costly to integrate institutions that are dissimilar in terms of their loan, earnings, and cost, deposit and size strategies. As for cross-border mergers, differences between merging partners in their loan and credit risk strategies are conducive for higher performance, whereas diversity in their capital and cost structure has a negative impact from a performance standpoint, Antoniadis et al. (2014) and Altunbaş & Marqués (2008).

Furthermore, using data on Malaysian Banks, Sufian & Habibullah (2014) and Jatkar (2012) explore and investigate that the acquiring banks have relatively more productive as compared to the target banks. Malaysian financial sector consolidation can be traced back to the early 1990s when Bank Negara Malaysia (BNM) introduces a two-tier banking system as an incentive to promote mergers among the small domestic banking institutions. While Antoniadis et al. (2014) review and highlight the literature for M&As in the European banking sector and state that there are positive abnormal returns for target banks due to investors' expectations for better utilization of their assets.

In line with the market structure and competition, there are two competing hypothesis namely structure conduct performance (SCP) hypothesis and efficiency hypothesis. Based on these two competing hypothesis, several researchers have found mixed and contradictory results such as Khan, Ahmad & Chan (2018), Jumono, & Mala, (2017), Yee Chia, Keoh, & Lim, (2015), Nurwati, Achسانی., Hafidhuddin & Nuryartono, (2014), Bhatti, & Hussain, (2010), Al-Muharrami & Matthews (2009), McLeay & Molyneux (1989), Lloyd-Williams, Molyneux, & Thornton, (1994) and Molyneux & Forbes (1995), they have found SCP is statistically significant rather than efficiency hypothesis. Meaning that the market is more concentrated rather highly competitive, highly regulated and anti-trust system.

On the other hand, there are some studies that have found that SCP hypothesis does not enough to explain the bank's performance meaning that the efficiency hypothesis is explained better for the bank's performance. For example, Seelanatha, (2010) suggests that traditional structure conduct performance argument is not held in the banking industry in Sri Lanka and the bank's performance does not depend on either market concentration or market power of individual firms but on the level of efficiency of the banking per cent. Samad, (2008) also find that in Bangladesh there is no significant impact of SCP hypothesis while EH has a significant impact.

Interestingly, few papers have found a negative relationship between market structure and operational performance. Concerning market structure represented by concentration ratio is negatively related to bank performance but statistically insignificant, Jaouad & Lahsan (2018), Maniatis, (2006), and Smirlock (1985).

However, on the basis of the above theoretical as well as empirical analysis, the impact of M&A on the operational performance is lacking, inconclusive, controversy and mixed. It needs to revise, re-examine and further efforts are needed. Therefore, this paper analyses operational performance for Islamic bank based on ROA & ROE. While a number of explanatory variables are also included i.e., bank's specific variables such as level of bank sizes, financial intermediary role, non-financial intermediary role, capitalization, liquidity, and credit risk, macro-economic variables such as GDP & Inflation, and market structure theory as well as empirically to investigate the issue.

3.0 Methodology and Data

3.1 Data Collection

This paper employs a panel data of ten acquirer banks⁸ out of six countries⁹ from the year Q1- 2009 to Q4-2018. Panel data techniques such as static model i.e., fixed effect and random effect are used. FE is also known as within estimator or least square dummy variable estimator or covariance estimator. Fixed effects (fe) regression is used to control for omitted variables that differ between cases but are constant over time. Therefore, this is the benefit of FE to observe the effect of omitted independent variables on the dependent variable. It imposes equality of all slop coefficients and error variance across the variance and only the intercept across units such as firms or banks or country are allowed to vary.

On the other hand, Random effect (re) model is the estimator if we believe that some omitted variables that are constant over time and differ across the cases and other may be fixed between cases and vary over time. It is the less restrictive estimator. It also imposes the equality of all slop coefficients but allows error variances and intercept to differ across countries. It assumes random intercepts, the mean of which is captured by the constant term and the variance of which is captured by the variance of the error term.

Since there are arguments that OLS result might be biased due to the failure to control time-invariant heterogeneity. Hausman test is used to select between fixed effect and random effect. Furthermore, the mediator effect is analysed by using SEM. Data is collected from several secondary sources such as Bloomberg, FitchConnet database, Financial statement of bank, IMF and World Bank database. After filtering, 23 banks are omitted from the data set due to outlier, missing financial information and data range do not fall within the selected time.

⁸ Ithmaar Holding BSC, Al Salam Bank-Bahrain BSC, Warba Bank KSCP, Kuwait Finance House KSCP, Meezan Bank Ltd, Masraf Al Rayan QSC, Qatar International Islamic Bank QSC, Al Rajhi Bank, Dubai Islamic Bank PJSC, and Abu Dhabi Islamic Bank PJSC.

⁹ Bahrain, Kuwait, Pakistan, Qatar, Saudi Arabia, and Urinated Arab Emirate

Using this sample, data is divided into three categories such as pre & post M&A deal (e.g., Q1-2009 to Q4-2018 M&A period), pre M&A deal (e.g., an average of three years before M&A deal) and post M&A deal (e.g. an average of three years after M&A deal) M&A operational performance of acquirer bank is measured. Three years are chosen due to unavailability of the longer data set. Moreover, this range (e.g., average of three year) is selected after reviewing many papers such as Abbas Hunjra, Azam, Ijaz, & Zahid (2014), Al-Sharkas et al. (2008), Said, Nor, and Low & Rahman (2008), Yener & Ibáñez (2004), and Achtmeyer (1994).

3.2 Variables

The endogenous variables such as Return on asset (ROA) and return on equity (ROE) are used as a proxy for operational performance. While, a number of explanatory variables such as focal variables; level of bank sizes (dummies), i.e., large, medium and small based on total asset, total deposit and operating income, financial intermediary role is measured by cost to income (economies of scale) & loan to deposit (economies of scope) and non-financial intermediary role is measured by non-interest expense to non-interest income. Similarly, several control variables are applied such as liquidity ratio, capitalization ratio and credit risk, Macroeconomic variables such as GDP & inflation, dummy variable cash to stock and last but not least market structure based on HHI and concentration ratio.

3.2.1 Model Specification

Following models have designed for the analysis

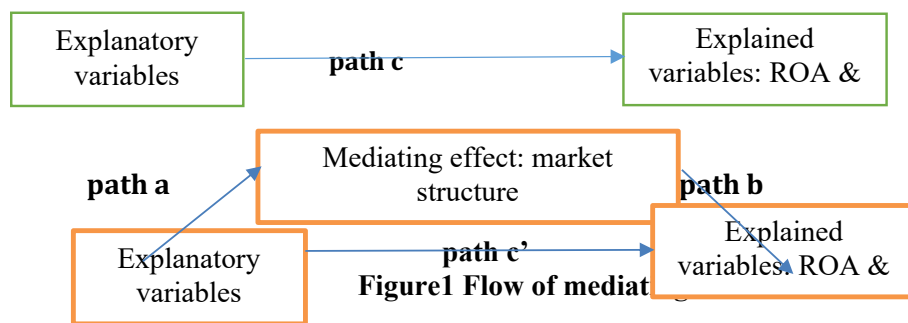
(a) Return on Asset (ROA)

$$ROA = \alpha + \beta_1 BSA + \beta_2 BSOI + \beta_3 BSTD + \beta_4 BSA_{LMS} + \beta_5 BSOI_{LMS} + \beta_6 BSTD_{LMS} + \beta_7 Escal + \beta_8 Escop + \beta_9 NFIR + \beta_{10} FIN + \beta_{11} LIDY + \beta_{12} CAP + \beta_{13} CR + \beta_{14} GDP + \beta_{15} INF + \beta_{16} MC_HHI + \beta_{17} MC_CR3 + \mathcal{E} \dots \dots \dots (1)$$

(b) Return on Equity (ROE)

$$ROE = \alpha + \beta_1 BSA + \beta_2 BSOI + \beta_3 BSTD + \beta_4 BSA_{LMS} + \beta_5 BSOI_{LMS} + \beta_6 BSTD_{LMS} + \beta_7 Escal + \beta_8 Escop + \beta_9 NFIR + \beta_{10} FIN + \beta_{11} LIDY + \beta_{12} CAP + \beta_{13} CR + \beta_{14} GDP + \beta_{15} INF + \beta_{16} MC_HHI + \beta_{17} MC_CR3 + \mathcal{E} \dots \dots \dots (1)$$

(c) Mediating effect: Market Structure



The Baron and Kenny (1986) method is an analysis strategy for testing mediation hypotheses. In this method for mediation, there are two paths to the dependent variable. The independent variable (all explanatory variables) must predict the dependent variables (ROA & ROE), and the independent variable must predict the mediator (HHI & CR3). Mediation is tested through three regressions:

- I. Independent variables predicting dependent variables
- II. Independent variables predicting mediator variables
- III. Independent and mediator predicting dependent variables

Moreover, there are three effects such as direct effect (path c/c'), indirect effect (a*b) and total effect (c/c' and a*b). The result is presented in appendix A1.1 & A1.2 respectively.

Table 1 A typology of mediation effect

No	Types of mediation	Description
1	Complimentary Mediation	The indirect effect (path a*b) and direct effect (path c) both significant and the signs pointing the same direction
2	Competitive Mediation	The indirect effect (path a*b) and direct effect (path c) both significant and the signs pointing the opposite direction
3	Indirect Only Mediation	The indirect effect (path a*b) is significant, but the direct effect (path c) is not significant
4	Direct Only Mediation	The indirect effect (path a*b) is not significant, but the direct effect (path c) is significant
5	No Effect; Non-Mediation	Neither the indirect or direct effect is significant

Source: Ramli (2014)

Whereas, α ; constant term, β ; coefficient for dummy, β ; coefficient for other variables, ROA; return on asset, ROE; return on equity, BSA; bank size – total asset, BSOI; bank size-operating income, BSTD; bank size-total deposit, BSA_{LMS}; bank size-based on total asset-large, medium & small, BSOI_{LMS}; bank size-based on operating income-large-medium & small, BSTD_{LMS}; bank size based on-total deposit-large-medium & small, total asset, Escal; economies of scale is measured by cost to income ratio, Escal; economies of scope is measured by loan to total deposit, NFIR; non-financial intermediary role is measured by non-interest cost to non-interest income, FIN; dummy for mode of financing – cash or stock, LIDY; liquidity ratio is measured by liquid asset to total asset, CAP; capitalization is measured by total equity to total asset, CR; credit risk is measured by loan loss reserve to gross loan, GDP; gross domestic product, INF; inflation, MC_HHI & MC_CR3; market structure is measured by Herfindahl-Hirschman Index and concentration ratio for largest 3 bank sizes, ϵ ; error term.

4.0 Results and Discussion

The descriptive statistics of the panel data set for relevant variables is presented in Table 2. This descriptive statistic shows some preliminary features of our data. According to the result, it shows that the mean of all variables is positive. Especially the mean after M&A is better (i.e., with expected sign) compared to pre-M&A period. In the table, three sets of the summary are reported, i.e. statistical summary for pre & post-merger operational performance, pre-merger operational performance and post-merger operational performance respectively. While Correlation matrix is presented in Table 3. It shows that there is no problem of multicollinearity among the variables.

GDP; gross domestic product, INF; inflation, MC_HHI; market concentration is measured based on Harpindahl-Hirschman Index, MC_CR3; market concentration based on concentration ratio-largest three banks.

Table 3 Correlation matrix of the key variables

	ROA	ROE	TA	OI	TD	BSL_A	BSM_A
ROA	1.0000						
ROE	0.1876*	1.0000					
TA	0.0202	0.2599*	1.0000				
OI	0.1263*	0.3325*	0.7486*	1.0000			
TD	-0.0326	0.2250*	0.9266*	0.6915*	1.0000		
BSL_A	0.0170	0.0125	0.4490*	0.3294*	0.3649*	1.0000	
BSM_A	0.1158*	0.1753*	-0.0802	-0.0293	-0.0636	-0.6753*	1.0000
BSS_A	-0.1517*	-0.2122*	-0.5038*	-0.4025*	-0.4111*	-0.5676*	-0.2240*
BSL_OI	0.0973	0.0597	0.1088*	0.0583	0.0914	0.3545*	-0.0091
BSM_OI	0.0348	0.0952	0.2689*	0.2444*	0.2186*	0.3977*	-0.2685*
BSS_OI	-0.1431*	-0.1568*	-0.3749*	-0.2946*	-0.3082*	-0.7749*	0.2610*
BSL_TD	0.0132	0.0156	0.4341*	0.3257*	0.4403*	0.6762*	-0.4566*
BSM_TD	0.1000	0.1427*	-0.0641	-0.0299	-0.1394*	-0.2616*	0.6288*
BSS_TD	-0.1517*	-0.2122*	-0.5038*	-0.4025*	-0.4111*	-0.5676*	-0.2240*
Escale	-0.0877	-0.1174*	-0.1610*	-0.2426*	-0.1284*	-0.3660*	0.0798
Escope	-0.0884	-0.2444*	-0.0356	-0.1015	-0.0296	-0.2025*	0.0585
NFIR	-0.0558	-0.0227	-0.1160	-0.1362	-0.1263	-0.2789*	0.0755
FIN	-0.1340*	-0.1616*	-0.0776	-0.0933	-0.1084*	0.1382*	-0.3705*
LIDY	-0.0247	0.1672*	-0.1498*	-0.2028*	-0.1620*	-0.3166*	0.4278*
CAP	0.0474	0.0427	-0.1450*	-0.1293*	-0.1240*	-0.4243*	0.2699*
CR	0.0332	0.1849*	-0.0844	-0.1188*	-0.1085	-0.2701*	0.3964*
GDP	-0.0219	0.0624	0.6164*	0.5098*	0.5870*	0.4784*	-0.3587*
INF	-0.0899	-0.2457*	-0.6721*	-0.4373*	-0.6286*	-0.4384*	-0.0183
MC_LHHI	-0.0413	-0.1351*	-0.4486*	-0.3845*	-0.4320*	-0.3763*	0.0641
MC_CR3	-0.0808	-0.1574*	-0.3149*	-0.2751*	-0.3310*	-0.3826*	0.0720
	BSS_A	BSL_OI	BSM_OI	BSS_OI	BSL_TD	BSM_TD	BSS_TD
BSS_A	1.0000						
BSL_OI	-0.4583*	1.0000					
BSM_OI	-0.2257*	-0.5494*	1.0000				
BSS_OI	0.7325*	-0.6256*	-0.3082*	1.0000			
BSL_TD	-0.3838*	0.3867*	0.0896	-0.5240*	1.0000		
BSM_TD	-0.3562*	-0.0501	0.0774	-0.0152	-0.7261*	1.0000	
BSS_TD	1.0000*	-0.4583*	-0.2257*	0.7325*	-0.3838*	-0.3562*	1.0000
Escale	0.4016*	-0.0969	-0.1620*	0.2647*	-0.2352*	-0.0537	0.4016*
Escope	0.2117*	-0.0478	-0.1172*	0.1682*	-0.1747*	0.0291	0.2117*
NFIR	0.3217*	-0.1846*	-0.0461	0.2853*	-0.2169*	0.0197	0.3217*
FIN	0.2310*	-0.5040*	0.2769*	0.3153*	-0.0718	-0.0993	0.2310*
LIDY	-0.1060	0.2676*	-0.1792*	-0.1457*	-0.1885*	0.2485*	-0.1060
CAP	0.2593*	0.0056	-0.1745*	0.1565*	-0.2941*	0.1045*	0.2593*
CR	-0.1271*	0.2450*	-0.1228*	-0.1636*	-0.1707*	0.2564*	-0.1271*
GDP	-0.2348*	-0.1438*	0.3271*	-0.1327*	0.7081*	-0.5456*	-0.2348*
INF	0.5877*	-0.1463*	-0.2429*	0.3857*	-0.4115*	-0.0350	0.5877*
MC_LHHI	0.4256*	0.1936*	-0.5345*	0.2786*	-0.3986*	0.0864	0.4256*
MC_CR3	0.4252*	-0.1750*	-0.3112*	0.4898*	-0.4413*	0.1299*	0.4252*
	Escale	Escope	NFIR	FIN	LIDY	CAP	CR
Escale	1.0000						
Escope	0.6425*	1.0000					
NFIR	0.1423*	0.4122*	1.0000				
FIN	-0.0630	0.0122	0.0414	1.0000			
LIDY	0.5121*	0.0883	0.1954*	-0.4163*	1.0000		
CAP	0.8165*	0.5658*	0.2825*	-0.2263*	0.4551*	1.0000	
CR	0.4114*	0.2005*	0.4049*	-0.4129*	0.4378*	0.3729*	1.0000
GDP	-0.1623*	-0.0611	-0.1487*	0.1787*	-0.3787*	-0.2433*	-0.3436*
INF	-0.1405*	-0.1028	0.0777	0.0245	0.0944	-0.1440*	0.0615
MC_LHHI	0.1831*	0.1439*	0.0763	0.3043*	0.1605*	0.2055*	0.1017
MC_CR3	0.0596	0.0912	0.0510	0.5234*	-0.0553	0.0455	-0.0969

		GDP	INF	MC_LHHI	MC_CR3
	-----+-----				
GDP	|	1.0000			
INF	|	-0.4989*	1.0000		
MC_LHHI	|	-0.4694*	0.4380*	1.0000	
MC_CR3	|	-0.1590*	0.3221*	0.8450*	1.0000

The samples consisting of ten Islamic banks which involved in M&A from six countries, from the years of 2009 to 2018. ROA; return on asset, ROE; BSA; bank size-total asset, BSOI; bank size-operating income, BSTD; bank size total deposit, return on equity, BSL-A; large bank size based on total asset, BSM-A; medium bank size based on total asset, BSS-A; small bank size asset on total asset, BSL-OI; large bank size based on operating income, BSM-OI; medium bank assize based on operating income, BSS-OI; small bank size based on operating income, BSL-TD; large bank size based on total deposit, BSM-TD; medium bank size based on total deposit, BSS-TD; small bank size based on total deposit, Escale; economies of scale is measured by cost to income, Escope; economies of scope is measured by loan to deposit, NFIR; non-financial intermediary role is measured by non-interest cost to non-interest income, FIN; Dummy mode of financing (cash or stock), LIDY; liquidity ratio-liquid asset to total asset, CAP; capitalization ratio-total equity to total asset, CR; credit risk-loan loss reserve to gross loan, GDP; gross domestic product, INF; inflation, MC_HHI; market concentration is measured based on Harpindahl-Hirschman Index, MC_CR3; market concentration based on concentration ratio-largest three banks.

4.1 Multivariate results

Table 4 presents the analysis of panel data (i.e., fixed effect and random effect) and OLS result of the impact of M&A on operational performance. Results are reported in categories based on bank sizes and the level of bank sizes such as large, medium, and small. R^2 for OLS is 0.37 and R^2 (within) for FE and RE is 0.27 which indicate that operational performance (ROA) is explained by explanatory variables. Based on the Hausman test (0.543), we unable to reject the H_0 hypothesis meaning that random effect is an appropriate model for the study. Interestingly, the R^2 value is relatively lower compared to pre and post-M&A period. Multivariate results are categories into four parts based on bank sizes (e.g., total asset, operating income, and total deposit) and level of bank sizes (e.g., large, medium, and small).

Bank size for operating income is statistically significant at 10% level which indicates that 0.01 percent increases in operating income, operational performance is increased to 0.143 percent. While a large level of bank size based on total asset (0.133) and operating income (2.235) is positive but not statistically significant. These results are supported by Fang, C. K. Lu, Tan, & Zhang, (2019), Micco et al. (2007), and Nafti et al. (2017) and opposite of Ruslan, Pahlevi, Alam,

Table 4 Multivariate results of operational performance for pre & post-M&A period based on return on asset (ROA)

Level of bank sizes Measurement tools Performance measurement	ALL		Large		Medium		Small	
	OLS ROA	FE ROA	RE ROA	OLS ROA	FE ROA	OLS ROA	RE ROA	FE ROA
BSA	-0.194 (-0.73)	-0.279 (-1.05)	-0.194 (-0.73)	0.133 (0.68)	0.133 (0.68)	-1.405 (-0.19)	-1.405 (-0.19)	0.133 (0.68)
BSOI	0.143* (1.82)	0.140* (1.83)	0.143* (1.82)	2.235 (0.17)	2.235 (0.17)	-1.272 (-0.17)	-1.272 (-0.17)	0.143* (1.82)
BSTD	0.146 (0.62)	-0.0372 (-0.16)	0.146 (0.62)	-3.008 (-0.26)	-3.008 (-0.26)	3.015 (0.26)	3.015 (0.26)	0.146 (0.62)
Escale	-0.0133** (-2.23)	-0.0192*** (-3.13)	-0.0133** (-2.23)	-0.0192*** (-3.47)	-0.0192*** (-3.47)	-0.0192*** (-3.47)	-0.0192*** (-3.47)	-0.0192*** (-3.47)
Escope	-0.00443 (-1.66)	-0.00623** (-2.32)	-0.00443* (-1.66)	-0.00618** (-2.37)	-0.00618** (-2.37)	-0.00618** (-2.37)	-0.00618** (-2.37)	-0.00618** (-2.37)
NFIR	0.359* (1.95)	0.312 (1.61)	0.359* (1.95)	0.372* (1.96)	0.372* (1.96)	0.372* (1.96)	0.372* (1.96)	0.359* (1.95)
FIN	0.141 (0.91)	0.141 (0.91)	0.141 (0.91)	2.481 (0.19)	2.481 (0.19)	1.519 (0.20)	1.519 (0.20)	0.153 (0.99)
LIDY	0.0161 (1.34)	0.00554 (0.45)	0.0161 (1.34)	0.00765 (0.64)	0.00765 (0.64)	0.00765 (0.64)	0.00765 (0.64)	0.0170 (1.41)
CAP	-0.00126 (-0.06)	-0.0318 (-1.28)	-0.00126 (-0.06)	-0.0115 (-0.50)	-0.0115 (-0.50)	-0.0115 (-0.50)	-0.0115 (-0.50)	-0.0115 (-0.50)
CR	-0.0183 (-1.56)	-0.0181 (-1.55)	-0.0183 (-1.56)	-0.0207* (-1.82)	-0.0207* (-1.82)	-0.0207* (-1.82)	-0.0207* (-1.82)	-0.0207* (-1.82)
GDP	-0.277 (-1.00)	0.816 (0.30)	-0.277 (-1.00)	0.805 (0.30)	0.805 (0.30)	0.805 (0.30)	0.805 (0.30)	0.805 (0.30)
INF	8.980*** (3.32)	3.364 (0.54)	8.980*** (3.32)	5.057 (0.83)	5.057 (0.83)	5.057 (0.83)	5.057 (0.83)	5.057 (0.83)
MC_LHHI	3.638** (2.32)	0.543 (0.31)	3.638** (2.32)	10.87 (0.83)	10.87 (0.83)	20.91 (0.45)	20.91 (0.45)	3.203** (1.97)
MC_CR3	-4.251** (-2.03)	0.036 (0.12)	-4.251** (-2.03)	-30.39 (-0.44)	-30.39 (-0.44)	-39.18 (-0.33)	-39.18 (-0.33)	-3.910* (-1.76)
_cons	-25.71*** (-3.88)	-8.643 (-1.39)	-25.71*** (-3.88)	-27.89 (-0.32)	-27.89 (-0.32)	-56.00 (-0.77)	-56.00 (-0.77)	-13.18** (-2.22)
R-Squire	0.35	-	-	0.37	-	0.37	-	-
Hausman test fe vs fe	-	0.543	-	1.00	-	-	-	0.2383
R2-within	-	0.31	0.26	0.27	0.27	0.27	0.27	0.24
R2-between	-	0.36	0.91	1	0.28	0	0	0.28
R2-overall	-	0	0.35	0.37	0.0037	0.37	0.37	0.0037
N	97	97	97	97	97	97	97	97
t statistics in parentheses								
*** p<0.01								
** p<0.05								
*** p<0.01"								

The samples consisting of ten Islamic banks which involved in M&A from six countries, from the years of 2009 to 2018. ROA; return on asset, BSA, BSOI & BSTA; bank sizes based on total asset, operating income & total deposit, large, medium & small; is the level of bank sizes, Escal; economies of scale is measured by cost to income, Esclope; economies of scope is measured by loan to deposit, NFIR; non-financial intermediary role is measured by non-interest cost to non-interest income, FIN; Dummy mode of financing (cash or stock), LIDY; liquidity ratio-liquid asset to total asset, CAP; capitalization ratio-total equity to total asset, CR; credit risk-loan loss reserve to gross loan, GDP; gross domestic product, INF; inflation, MC_HHI; market concentration is measured based on Harpindahl-Hirschman Index, MC_CR3; market concentration based on concentration ratio-largest three banks.

& Nohong, (2019), Amene, & Alemu, (2019), and Kwenda, Oyetade & Dobрева (2017). The financial intermediary role such as Escal and Escop are statistically significant at 1% and 5% significant level meaning that 0.01 percent increases (decreases) in cost, operational performance (ROA) would decrease (increase) to 0.019 percent. This result is in line with Amene, & Alemu, (2019), and Jaouad & Lahsen (2018). Similarly, 0.01 percent increases in Escop that would reduce performance by 0.006 percent. While financing has a negative impact on ROA at 0.006 percent. The coefficient of the non-financial intermediary role is positive and statistically significant at 10% level meaning that 0.01 percent increases in NFIR that impact on ROA negatively by 0.372 percent. Economically, this indicates that the bank can't earn more profit from non-financial intermediary activities.

Similarly, the coefficient of CR is negative and statistically significant at 1% level meaning that 0.01 percent increases CR that will reduce ROA by 0.020 percent. this variable indicates that the bank is very risk-averse since it has to keep aside a portion of the asset to cover the future probable losses from financing. Similarly, market structure is statistically significant at 5% level meaning that the market is very concentrated rather highly competitive, highly regulated and anti-trust system. It impacts on operational performance by 0.036 percent while market structure is increased to 0.01 percent. This result supported by Ruslan, Pahlevi, Alam, & Nohong, (2019), and Jumono, & Mala, (2017). They have found that market structure has a positive relationship with performance. While Jaouad & Lahsan (2018) and Smirlock (1985) have found negative result. Similarly, positive coefficient of inflation indicates that bank can earn more profit but they have to be more keep track between deposit rate and lending rate. Because increasing inflation rate that will also influence to increase rate interest for both depositors and borrowers.

Using other explanatory variables such as mode of financing, liquidity, capitalization, and GDP, the coefficient present that those variables do not have enough statistical support to explain operation performance. Finally, after overall observation from Table 4, it shows that performance is better for pre and post M&A period compared to pre & post. This is strongly supported by Okpanachi (2011) that post-M&A performance is more financially efficient than pre-M&A period.

Another variable for operational performance (ROE) that is shown in Table 5, 7, & 9 is not statistically significant as large. Only a few variables are significant and we keep the result without explanation. therefore, ROA is selected as one the best indicator representing operational performance. As mentioned

Table 5 Multivariate results of operational performance for pre & post-M&A period based on return on equity (ROE)

Table 6 Multivariate results of operational performance for the pre-M&A period based on return on asset (ROA)

Level of bank sizes Measurement tools Performance measurement	All			Large			Medium			Small		
	OLS	FE	RE	OLS	FE	RE	OLS	FE	RE	OLS	FE	ROA
BSA	-0.131 (-0.58)	-0.131 (-0.58)	-0.131 (-0.58)	21.01 (2.17)	.	21.01** (2.17)	.	.	-21.01** (-2.17)	.	.	.
BSOI	-0.168 (-1.67)	-0.168 (-1.67)	-0.168* (-1.67)	.	.	.	21.01 (2.17)	.	.	.	.	.
BSTD	-0.304 (-0.24)	-0.304 (-0.24)	-0.304 (-0.24)	3.349*** (7.00)	.	3.349*** (7.00)	-3.349*** (-7.00)	.	-3.349*** (-7.00)	.	.	.
Escale	-0.284* (-11.35)	-0.284* (-11.35)	-0.284*** (-11.35)	-0.300*** (-10.24)	-0.300*** (-10.24)	-0.300*** (-10.24)	-0.300*** (-10.24)	-0.300*** (-10.24)	-0.300*** (-10.24)	-0.300*** (-10.24)	-0.300*** (-10.24)	-
Escope	-0.00376 (-1.38)	-0.00376 (-1.38)	-0.00376 (-1.38)	-0.00433 (-1.82)	-0.00433 (-1.82)	-0.00433 (-1.82)	-0.00433 (-1.82)	-0.00433 (-1.82)	-0.00433 (-1.82)	-0.00433 (-1.82)	-0.00433 (-1.82)	-
NFIR	0.221 (3.46)	0.221 (3.46)	0.221*** (3.46)	0.256** (3.32)	0.256** (3.32)	0.256*** (3.32)	0.256** (3.32)	0.256** (3.32)	0.256*** (3.32)	0.256** (3.32)	0.256** (3.32)	(
FIN	19.96 (1.48)	.	16.52 (1.24)	.	.	.	.	.	.	22.29 (2.28)	.	.
LIDY	-0.0484 (-2.03)	-0.0484 (-2.03)	-0.0484** (-2.03)	-0.0509* (-2.64)	-0.0509* (-2.64)	-0.0509*** (-2.64)	-0.0509* (-2.64)	-0.0509* (-2.64)	-0.0509*** (-2.64)	-0.0509* (-2.64)	-0.0509* (-2.64)	-
CAP	0.270 (2.03)	0.270 (2.03)	0.270** (2.03)	0.298* (2.57)	0.298* (2.57)	0.298** (2.57)	0.298* (2.57)	0.298* (2.57)	0.298** (2.57)	0.298* (2.57)	0.298* (2.57)	.
CR	0.366 (1.44)	0.366 (1.44)	0.366 (1.44)	0.434 (2.23)	0.434 (2.23)	0.434** (2.23)	0.434 (2.23)	0.434 (2.23)	0.434** (2.23)	0.434 (2.23)	0.434 (2.23)	.
GDP	-0.636 (-0.42)	-0.636 (-0.42)	-0.636 (-0.42)	0.00935 (0.01)	0.00935 (0.01)	0.00935 (0.01)	0.00935 (0.01)	0.00935 (0.01)	0.00935 (0.01)	0.00935 (0.01)	0.00935 (0.01)	.
INF	-7.826 (-1.78)	-7.826 (-1.78)	-7.826* (-1.78)	-7.235 (-2.29)	-7.235 (-2.29)	-7.235** (-2.29)	-7.235 (-2.29)	-7.235 (-2.29)	-7.235** (-2.29)	-7.235 (-2.29)	-7.235 (-2.29)	.
MC_LHHI	.	.	-27.23*** (-8.72)	.	.	.	.	.	.	.	.	-
MC_CR3	-23.73* (-8.72)	.	.	.	.	.	.	.	.	-23.92*** (-7.00)	.	.
_cons	19.53 (0.99)	19.88 (2.25)	97.56*** (4.66)	-7.402 (-0.46)	14.26 (1.67)	-7.402 (-0.46)	-4.053 (-0.26)	14.26 (1.67)	16.96** (2.08)	11.89 (0.76)	14.26 (1.67)	.
R2	0.99	-	-	0.99	-	-	0.99	-	-	0.99	-	.
Hausman test	-	1.00	1.00	-	1.00	1.00	-	1.00	-	-	1.00	.
R2-within	-	0.99	0.99	-	0.99	0.99	-	0.99	0.99	-	0.99	.
R2-between	-	0.142	1	-	0.15	1	-	0.15	1.00	-	0.15	.
R2-overall	-	0.018	0.99	-	0.01	0.99	-	0.01	0.99	-	0.02	.
N	14	14	14	14	14	14	14	14	14	14	14	.

t statistics in parentheses

** p<0.01 *** p<0.01

The samples consisting of ten Islamic banks which involved in M&A from six countries, from the years of 2009 to 2018. ROA; return on asset, BSA, BSOI & BSTA; bank sizes based on total asset, operating income & total deposit, large, medium & small; is the level of bank sizes, Escal; economies of scale is measured by cost to income, Esclope; economies of scope is measured by loan to deposit, NFIR; non-financial intermediary role is measured by non-interest cost to non-interest income, FIN; Dummy mode of financing (cash or stock), LIDY; liquidity ratio-liquid asset to total asset, CAP; capitalization ratio-total equity to total asset, CR; credit risk-loan loss reserve to gross loan, GDP; gross domestic product, INF; inflation, MC_HHI; market concentration is measured based on Harpindahl-Hirschman Index, MC_CR3; market concentration based on concentration ratio-largest three banks.

by Aladwan, (2015), the relationship between bank size and performance looks like ‘increasing returns to scale’, indicating that banks profitability will increase as the bank size increase.

Table 6 shows multivariate results of operational performance for pre {i.e., three (3) years before M&A deal} M&A period. Based on that, R^2 is 0.99 for OLS estimation which indicates that strong impact of explanatory variables on operational performance i.e., ROA. While R^2 (within) for FE and RE is 0.99 for both. Hausman test is used to select between FE and RE. According to the result of the Hausman test, we unable to reject the H_0 hypothesis meaning that random effect is an appropriate model for the study.

When bank size is large, the coefficient of total asset is statistically significant at 5% level for OLS and RE estimation meaning that if the total asset is increased by 0.01 percent, ROA increased by 0.21 percent compared to medium and small-sized. Similarly, the total deposit is also statistically significant at 1% level that indicates that 0.01 percent increase in a total deposit it would increase ROA by 0.035 percent. When bank size is medium, the coefficient of total asset is -21.01 and this is statistically significant at 5% level meaning that 0.01 percent increase in the total asset for the medium-sized bank it would reduce ROA by 0.21 percent compared to large and small.

Similarly, the coefficient of the total deposit is -3.35 at 1% significant level indicating that total deposit with medium-sized bank reduces ROA by 0.035 percent compared to large and small. This two-level of bank sizes indicate that when bank size is large it impacts ROA positivity compared to medium and small. As quoted by Ibrahim & Rizvi (2017), “we need bigger Islamic bank” This result is supported by of, Amene, & Alemu, (2019), Ruslan, Pahlevi, Alam, & Nohong, (2019), Jaouad & Lahsen (2018), Abduh, & Idrees, (2013), and Demirgüç-Kunt, & Merrouche, (2010) say that larger banks might be more efficient due to economies scale. Since large can easily diversify their asset portfolio while it reduces expenses more efficiently. But the result is the opposite of the analysis of Aladwan, (2015); profitability increases as asset size decrease. On the contrary Kosmidou, Pasiouras, Doumpou, & Zopounidis (2006) and Kasimodou et al. (2006) say small banks have higher performance compared to large banks. While Katib and Mathews (2000) find that medium size is better to explain performance than large.

Shed light on that, the coefficient of Escal (the cost to income) is -0.3 at 1% significant level meaning that if cost increases (decrease) by 1 percent ROA drops (increases) by 0.3 percent. This finding is supported by Amene, & Alemu, (2019), Fang, C. K. Lu, Tan, & Zhang, (2019), Jaouad & Lahsen (2018), and Haron, (2004). This is also indicating the intellectual capacity of manager reducing the probable cost of the operation efficiently and effectively. Therefore, management is the most efficient to minimize expenses which influence operational performance positively. Similarly, the coefficient of Escop (loan to total deposit) is significant at 10% level. It indicates that 0.01 percent increase in financing which will reduce ROA by 0.004 percent. As supported by Amel, Barnes, Panetta & Salleo (2004). It could be due to bank financing more money to a risky project. If any systematic problem occurs bank has nothing to control the situation. Moreover, these two variables indicate the financial intermediary role of the banks.

While the coefficient of non-financial intermediary role (NFIR) is positive and significant at 1% level meaning that 0.01 percent increase NFIR, ROA reduces by 0.256 percent. Economically indicate that bank could not able to grab benefit from the non-financial intermediary role. The coefficient for the mode of financing is 18.82 that significant at 5% level. It means that M&A is financed by cash compared to stock. This is strongly supported since eight banks out of ten finance M&A deal by cash while two banks pay stock. Finally, control variables such as LIDY (liquid asset to total asset), CAP (total equity to total asset) and CR (loan loss reserve to gross loan) are also significant at 1% and 5% level. The coefficient of LIDY is negative meaning that idle money is not good for the bank rather better to invest. Although CAP affects operational performance positively it incurs cost i.e. more equity more cost of equity that will affect performance. Based on the coefficient of CR, it indicates that bank is very risk-averse since they keep a portion asset for future unexpected loss. It is supported by the coefficient of Escop (loan to deposit), the value is negative meaning that the project is very risky. The coefficient of LIDY is negative (-0.051) meaning that 0.01 percent increase in liquid asset that would reduce ROA by 0.051 percent. This result is opposite to Amene, & Alemu, (2019).

Similarly, capitalization represents that 0.01 percent increase in capital that increases ROA by 0.289 percent. The coefficient of CR indicates that it has an impact on ROA by 0.434 percent. Similarly, INF is statistically significant at 5% level. Implying that it would reduce ROA by 7.235 percent when it increases to 0.01 percent while Amene, & Alemu, (2019) found negatively significant. While, GDP is not significant but the finding is the opposite of Amene, & Alemu, (2019).

Table 7 Multivariate results of operational performance for the pre-M&A period based on return on equity (ROE)

Level of bank sizes Measurement tools Performance measurement	All			Large			Medium			Small		
	OLS	FE	RE	OLS	FE	RE	OLS	FE	RE	OLS	FE	RE
	ROE	ROE	ROE	ROE	ROE	ROE	ROE	ROE	ROE	ROE	ROE	ROE
BSA	1.127 (0.47)	1.127 (0.47)	1.127 (0.47)	91.98 (1.24)	.	91.98 (1.24)	.	.	-91.98 (-1.24)	.	.	.
BSOI	-1.281 (-1.20)	-1.281 (-1.20)	-1.281 (-1.20)	.	.	.	91.98 (1.24)	.	.	.	.	.
BSTD	-4.241 (-0.42)	-4.241 (-0.42)	-4.241 (-0.42)	17.87** (4.88)	.	17.87*** (4.88)	-17.87** (-4.88)	.	17.87*** (-4.88)	.	.	.
Escale	-1.564 (-5.86)	-1.564 (-5.86)	-1.564*** (-5.86)	1.687*** (-7.54)	1.687*** (-7.54)	1.687*** (-7.54)	-1.687*** (-7.54)	1.687*** (-7.54)	1.687*** (-7.54)	1.687*** (-7.54)	1.687*** (-7.54)	1.687*** (-7.54)
Escope	-0.00955 (-0.33)	-0.00955 (-0.33)	-0.00955 (-0.33)	-0.0286 (-1.58)	-0.0286 (-1.58)	-0.0286 (-1.58)	-0.0286 (-1.58)	-0.0286 (-1.58)	-0.0286 (-1.58)	-0.0286 (-1.58)	-0.0286 (-1.58)	-0.0286 (-1.58)
NFIR	-0.643 (-0.95)	-0.643 (-0.95)	-0.643 (-0.95)	-0.430 (-0.73)	-0.430 (-0.73)	-0.430 (-0.73)	-0.430 (-0.73)	-0.430 (-0.73)	-0.430 (-0.73)	-0.430 (-0.73)	-0.430 (-0.73)	-0.430 (-0.73)
FIN	-3.639 (-0.03)	-3.639 (-0.03)	-21.71 (-0.15)	.	.	.	.	.	98.81 (1.32)	.	.	80.28 (1.10)
LIDY	-0.0256 (-0.10)	-0.0256 (-0.10)	-0.0256 (-0.10)	-0.190 (-1.29)	-0.190 (-1.29)	-0.190 (-1.29)	-0.190 (-1.29)	-0.190 (-1.29)	-0.190 (-1.29)	-0.190 (-1.29)	-0.190 (-1.29)	-0.190 (-1.29)
CAP	1.236 (0.87)	1.236 (0.87)	1.236 (0.87)	2.166* (2.44)	2.166* (2.44)	2.166** (2.44)	2.166* (2.44)	2.166* (2.44)	2.166** (2.44)	2.166* (2.44)	2.166* (2.44)	2.166** (2.44)
CR	-0.430 (-0.16)	-0.430 (-0.16)	-0.430 (-0.16)	1.569 (1.05)	1.569 (1.05)	1.569 (1.05)	1.569 (1.05)	1.569 (1.05)	1.569 (1.05)	1.569 (1.05)	1.569 (1.05)	1.569 (1.05)
GDP	0.711 (0.04)	0.711 (0.04)	0.711 (0.04)	-1.161 (-0.09)	-1.161 (-0.09)	-1.161 (-0.09)	-1.161 (-0.09)	-1.161 (-0.09)	-1.161 (-0.09)	-1.161 (-0.09)	-1.161 (-0.09)	-1.161 (-0.09)
INF	-89.79 (-1.92)	-89.79 (-1.92)	-89.79* (-1.92)	-56.90 (-2.35)	-56.90 (-2.35)	-56.90** (-2.35)	-56.90 (-2.35)	-56.90 (-2.35)	-56.90** (-2.35)	-56.90 (-2.35)	-56.90 (-2.35)	-56.90** (-2.35)
MC_LHHI	.	.	-142.9*** (-4.30)	.	.	.	.	.	.	.	146.5*** (-4.88)	.
MC_CR3	-124.6 (-4.30)	.	.	.	.	.	.	.	-127.7** (-4.88)	.	.	.
_cons	294.6 (1.40)	195.8 (2.08)	704.2*** (3.16)	29.78 (0.24)	126.7 (1.94)	29.78 (0.24)	47.66 (0.39)	126.7 (1.94)	139.6** (2.24)	132.8 (1.11)	126.7 (1.94)	552.5*** (3.78)
R2	0.99	-	-	0.99	-	-	0.99	-	-	0.99	-	-
Hausman test fe VS re	-	1.00	1.00	-	-	-	-	-	-	-	1.00	-
R2-within	-	0.99	0.99	-	0.99	0.99	-	0.99	0.99	-	0.99	0.99
R2-between	-	0.143	.00	-	0.95	0.00	-	0.95	0.00	-	0.95	0.00
R2-overall	-	0.107	0.99	-	0.06	0.99	-	0.06	0.99	-	0.06	0.99
N	14	14	14	14	14	14	14	14	14	14	14	14
t statistics in parentheses =*** ** * p<0.1 p<0.05 p<0.01"												

The samples consisting of ten Islamic banks which involved in M&A from six countries, from the years of 2009 to 2018. ROE; return on equity, BSA, BSOL & BSTA; bank sizes based on total asset, operating income & total deposit, large, medium & small; is the level of bank sizes, Escale; economies of scale is measured by cost to income, Escope; economies of scope is measured by loan to deposit, NFIR; non-financial intermediary role is measured by non-interest cost to non-interest income, FIN; Dummy mode of financing (cash or stock), LIDY; liquidity ratio-liquid asset to total asset, CAP; capitalization ratio-total equity to total asset, CR; credit risk-loan loss reserve to gross loan, GDP; gross domestic product, INF; inflation, MC_HHI; market concentration is measured based on Harpindahl-Hirschman Index, MC_CR3; market concentration based on concentration ratio-largest three banks.

Table 8 Multivariate results of operational performance for the post M&A period based on return on asset (ROA)

Level of bank sizes Measurement tools Performance measurement	All			Large			Medium			Small		
	OLS	FE	RE	OLS	FE	RE	OLS	FE	RE	OLS	FE	RE
	ROA	ROA	ROA	ROA	ROA	ROA	ROA	ROA	ROA	ROA	ROA	ROA
BSA	-0.0943 (-0.71)	-0.00326 (-0.03)	-0.0943 (-0.71)	0.555** (2.73)	0.0174*** (-4.23)	0.555*** (2.73)	0.877 (1.01)	.	0.877 (1.01)	.	.	.
BSOI	-0.00876 (-0.13)	0.0379 (0.57)	-0.00876 (-0.13)	-5.297 (-1.52)	0.000264 (0.11)	-5.297 (-1.52)	1.432 (1.52)	.	1.432 (1.52)	-0.414** (-2.18)	.	-0.414** (-2.18)
BSTD	-0.133 (-0.81)	-0.275 (-1.64)	-0.133 (-0.81)	2.658 (1.36)	.	2.658 (1.36)	-0.470 (-0.88)	.	-0.470 (-0.88)	.	.	.
Escale	-0.0241*** (-5.26)	-0.0256*** (-5.78)	-0.0241*** (-5.26)	0.0174*** (-4.23)	0.0174*** (-4.23)	0.0174*** (-4.23)	0.0174*** (-4.23)	-0.0174*** (-4.23)	0.0174*** (-4.23)	-0.0159*** (-3.83)	-0.0174*** (-4.23)	-0.0159*** (-3.83)
Escope	-0.000786 (-0.35)	-0.000745 (-0.36)	-0.000786 (-0.35)	0.000264 (0.11)	0.000264 (0.11)	0.000264 (0.11)	0.000264 (0.11)	0.000264 (0.11)	0.000264 (0.11)	0.000528 (0.22)	0.000264 (0.11)	0.000528 (0.22)
NFIR	-0.0553 (-0.91)	-0.0999 (-1.25)	-0.0553 (-0.91)	-0.270*** (-4.08)	-0.270*** (-4.08)	-0.270*** (-4.08)	-0.270*** (-4.08)	-0.270*** (-4.08)	-0.270*** (-4.08)	-0.254*** (-3.74)	-0.270*** (-4.08)	-0.254*** (-3.74)
FIN	0.323** (2.65)	.	0.323*** (2.65)	-4.567 (-1.34)	.	-4.567 (-1.34)	-0.702 (-0.79)	.	-0.702 (-0.79)	0.622*** (3.19)	.	0.622*** (3.19)
LIDY	-0.0288** (-2.36)	-0.0302** (-2.78)	-0.0288** (-2.36)	-0.0255** (-2.18)	-0.0255** (-2.18)	-0.0255** (-2.18)	-0.0255** (-2.18)	-0.0255** (-2.18)	-0.0255** (-2.18)	-0.0233* (-1.93)	-0.0255** (-2.18)	-0.0233* (-1.93)
CAP	0.0172 (0.28)	-0.0189 (-0.26)	0.0172 (0.28)	0.132*** (3.66)	0.132*** (3.66)	0.132*** (3.66)	0.132*** (3.66)	0.132*** (3.66)	0.132*** (3.66)	0.144*** (3.92)	0.132*** (3.66)	0.144*** (3.92)
CR	-0.0290 (-0.61)	-0.0213 (-0.49)	-0.0290 (-0.61)	-0.0326 (-0.84)	-0.0326 (-0.84)	-0.0326 (-0.84)	-0.0326 (-0.84)	-0.0326 (-0.84)	-0.0326 (-0.84)	-0.0219 (-0.55)	-0.0326 (-0.84)	-0.0219 (-0.55)
GDP	-1.211 (-1.12)	0.769 (0.61)	-1.211 (-1.12)	2.112 (1.61)	2.112 (1.61)	2.112 (1.61)	2.112 (1.61)	2.112 (1.61)	2.112 (1.61)	0.502 (0.60)	2.112 (1.61)	0.502 (0.60)
INF	4.613** (2.38)	-2.182 (-0.69)	4.613** (2.38)	-1.742 (-0.48)	-1.742 (-0.48)	-1.742 (-0.48)	-1.742 (-0.48)	-1.742 (-0.48)	-1.742 (-0.48)	2.903 (1.29)	-1.742 (-0.48)	2.903 (1.29)
MC_LHHI	0.0756 (0.05)	.	0.0756 (0.05)	27.15 (1.51)	.	27.15 (1.51)	9.214 (1.44)	.	9.214 (1.44)	-3.042 (-1.04)	.	-3.042 (-1.04)
MC_CR3	-2.697 (-1.32)	.	-2.697 (-1.32)	.	.	.	.	.	.	4.326 (1.61)	.	4.326 (1.61)
_cons	0.0555 (0.00)	3.298 (0.47)	0.0555 (0.00)	-95.84 (-1.63)	-95.84 (-1.63)	-95.84 (-1.63)	-37.53 (-1.61)	-5.429 (-0.75)	-37.53 (-1.61)	-0.789 (-0.05)	-5.429 (-0.75)	-0.789 (-0.05)
R2	0.906	-	-	0.89	-	-	0.89	-	-	0.88	-	-
Hausman test fe VS re	-	0.837	-	1.0	-	-	1.00	-	-	-	0.711	-
R2-within	-	0.85	0.784	0.75	0.75	0.75	0.75	0.78	0.75	-	0.75	0.71
R2-between	-	0.712	0.997	0.76	0.76	0.00	0	0.76	0	-	0.76	0.99
R2-overall	-	0.286	0.906	0.24	0.24	0.89	0.89	0.24	0.89	-	0.24	0.87
N	31	31	31	31	31	31	31	31	31	31	31	31

t statistics in parentheses
*** p<0.01
** p<0.05
* p<0.1

The samples consisting of ten Islamic banks which involved in M&A from six countries, from the years of 2009 to 2018. ROA; return on asset, ROE; return on equity, BSA; bank size is based on total asset, BSOI; bank size is based on operating income, BSTD; bank size is based on total deposit, large, medium & small; is the level of bank sizes, Escal; economies of scale is measured by cost to income, Esclope; economies of scope is measured by loan to deposit, NFIR; non-financial intermediary role is measured by non-interest cost to non-interest income, FIN; Dummy mode of financing (cash or stock), LIDY; liquidity ratio-liquid asset to total asset, CAP; capitalization ratio-total equity to total asset, CR; credit risk-loan loss reserve to gross loan, GDP; gross domestic product, INF; inflation, MC_HHI; market concentration is measured based on Harpindahl-Hirschman Index, MC_CR3; market concentration based on concentration ratio-largest three bank.

Table 8 shows multivariate results of operational performance for post (an average of three years after the M&A deal) M&A period. Based on the estimated result, R^2 is 0.89 for OLS and R^2 (within) for FE and RE is 0.75. All R^2 indicates that better impact of the explanatory variables on the operational performance i.e., ROA. Based on the Hausman (0.75) test, we unable to reject the H_0 hypothesis meaning that random effect is an appropriate model for the study.

The coefficient for the level of bank size (total asset) is statistically significant at 1% level which meaning that 0.01 percent increase in the total asset for the large bank it would increase ROA to 0.555 percent compared to medium and small size. While operating income for small size is significant at 5%. It shows that when 0.01 percent increases for the small asset it would reduce ROA to 0.414 percent compared to large and medium. The coefficient for Escalate is negative at 1% level. It represents that 0.01 percent increases (decreases) cost to income it reduces (increases) ROA to 0.074 percent.

Similarly, the coefficient for the non-financial intermediary role is negative and significant at 1% level. 0.01 percent raises (decrease) non-financial intermediary activities, it reduces (increases) ROA by 0.27 percent. Dummy variable for the mode of financing is also significant at 1% level which shows that cash financing more compared to stock. LIDY shows significant at 5% level meaning that it reduces ROA once bank keeps liquidity by 0.01 percent more. Capitalization also has a positive impact on ROA by 0.132.

A comparison between pre & post M&A result

According to the estimation result of pre & post-M&A which is reported in Table 6 & Table 8, level of bank size based on total asset is statistically significant. While bank sizes based on operating income in pre-M&A period and total deposit in post M&A period do not have statistical support for further explanation for operational performance (ROA). The coefficient of Escalate (the cost to income) is better at post-M&A period. It indicates that after M&A, bank able to manage operations as well as other expenses since it has integrated resources such as human capital, proper management, technology, bank name, market power etc.

The findings of Abduh and Yameen (2013) indicate that a large bank would be more efficient negotiating price and it can reduce the average cost. After M&A bank earns more money from non-financial intermediary activities that are shown in Table 8. Therefore, it is proved that a larger bank can be more efficient since they can manage the operation to combine competitive resources. As stated by Pilloff & Santomero (1998), when the bank becomes larger they reach the level of scale economy. Since this study finds that larger banks are better and also ensure scale of economy. Therefore, we can conclude the findings of Ibrahim & Rizvi (2017), they state that the size of the Islamic bank is lower as compared to conventional banks. Therefore, it becomes the concern of too small to have the economies of scale and scope.

Accordingly, the coefficient of NFIR is better for post compared to pre-M&A period. Surprisingly, after M&A period, banks are very efficient and that's why they do not need to keep idle money, asset and other resources. Therefore according to the result, after M&A they keep lower liquidity and capital compared to pre-M&A period. Finally, in post-M&A, we do not have enough statistical support to explain operational performance for Escalate (loan to total deposit) and CR (loan loss reserve to gross loan) as shown in Table 8. Last but not least, based on the estimation result from Table 6 & 8, it is shown that post M&A operational performance is better compared to pre-M&A.

4.2 Mediator Effect on Operational Performance

According to the estimation result (Appendix A1.1 & A1.2) for the role of market structure mediation in the effect of explanatory variables i.e., focal variables, control variables, and macro-economic variables which indicate that there no mediating effect on the operational performance (ROA & ROE) at all. Therefore, based Table 1; a typology of mediation effect, we can conclude that “no effect, non-mediation”

i.e., neither indirect effect (path $a*b$) and direct effect (path c/c') is statistically significant. Interestingly, based on the estimation result in Table 4, the market structure shows a direct effect on operational performance. It also indicates that the market is very concentrated rather highly competitive, highly regulated, and anti-trust system. The findings are supported by Jumono, & Mala, (2017), Yee Chia, Keoh, & Lim, (2015), Ahamed, M. M. (2013), Bhatti, & Hussain, (2010), and Al-Muharrami & Matthews (2009). While opposite of Jaouad & Lahsan (2018), and Maniatis, (2006)

Table 9 Multivariate results of operational performance for the post M&A period based on return on equity (ROE)

Level of bank sizes Measurement tools Performance measurement	All			Large			Medium			Small		
	OLS ROE	FE ROE	RE ROE	OLS ROE	FE ROE	RE ROE	OLS ROE	FE ROE	RE ROE	OLS ROE	FE ROE	RE ROE
BSA	-0.713 (-0.34)	0.332 (0.16)	-0.713 (-0.34)	4.938 (1.68)	.	4.938* (0.34)	8.208 (0.65)	.	8.208 (0.65)	.	.	.
BSOI	0.279 (0.26)	0.940 (0.82)	0.279 (0.26)	-48.62 (-0.97)	.	-48.62 (-0.97)	13.15 (0.97)	.	13.15 (0.97)	-3.244 (-1.21)	.	-3.244 (-1.21)
BSTD	-1.408 (-0.54)	-3.379 (-1.17)	-1.408 (-0.54)	21.12 (0.75)	.	21.12 (0.75)	-1.033 (-0.13)	.	-1.033 (-0.13)	.	.	.
Escale	0.0183 (0.26)	-0.00770 (-0.10)	0.0183 (0.26)	0.0612 (1.03)	0.0612 (1.03)	0.0612 (1.03)	0.0612 (1.03)	0.0612 (1.03)	0.0612 (1.03)	0.0784 (1.33)	0.0612 (1.03)	0.0784 (1.33)
Escope	-0.0110 (-0.31)	-0.0130 (-0.37)	-0.0110 (-0.31)	0.00334 (-0.10)	0.00334 (-0.10)	-0.00334 (-0.10)	-0.00334 (-0.10)	-0.00334 (-0.10)	0.00334 (-0.10)	0.000168 (-0.00)	0.00334 (-0.10)	0.000168 (-0.00)
NFIR	0.383 (0.40)	0.152 (0.11)	0.383 (0.40)	-1.365 (-1.43)	-1.365 (-1.43)	-1.365 (-1.43)	-1.365 (-1.43)	-1.365 (-1.43)	-1.365 (-1.43)	-1.175 (-1.22)	-1.365 (-1.43)	-1.175 (-1.22)
FIN	2.549 (1.33)	.	2.549 (1.33)	-42.23 (-0.86)	.	-42.23 (-0.86)	-6.756 (-0.53)	.	-6.756 (-0.53)	5.094* (1.85)	.	5.094* (1.85)
LIDY	-0.0442 (-0.23)	-0.0536 (-0.29)	-0.0442 (-0.23)	-0.0539 (-0.32)	-0.0539 (-0.32)	-0.0539 (-0.32)	-0.0539 (-0.32)	-0.0539 (-0.32)	-0.0539 (-0.32)	-0.0272 (-0.16)	-0.0539 (-0.32)	-0.0272 (-0.16)
CAP	-1.046 (-1.08)	-1.698 (-1.37)	-1.046 (-1.08)	-0.0351 (-0.07)	-0.0351 (-0.07)	-0.0351 (-0.07)	-0.0351 (-0.07)	-0.0351 (-0.07)	-0.0351 (-0.07)	0.107 (0.21)	-0.0351 (-0.07)	0.107 (0.21)
CR	1.137 (1.51)	1.264 (1.71)	1.137 (1.51)	0.905 (1.62)	0.905 (1.62)	0.905 (1.62)	0.905 (1.62)	0.905 (1.62)	0.905 (1.62)	1.035* (1.84)	0.905 (1.62)	1.035* (1.84)
GDP	-20.34 (-1.20)	4.158 (0.19)	-20.34 (-1.20)	12.84 (0.68)	12.84 (0.68)	12.84 (0.68)	12.84 (0.68)	12.84 (0.68)	12.84 (0.68)	-6.491 (-0.54)	12.84 (0.68)	-6.491 (-0.54)
INF	7.530 (0.25)	-73.12 (-1.34)	7.530 (0.25)	-64.19 (-1.21)	-64.19 (-1.21)	-64.19 (-1.21)	-64.19 (-1.21)	-64.19 (-1.21)	-64.19 (-1.21)	-8.399 (-0.26)	-64.19 (-1.21)	-8.399 (-0.26)
MC_LHHI	-85.38*** (-3.32)	.	-85.38*** (-3.32)	205.1 (0.79)	.	205.1 (0.79)	40.52 (0.44)	.	40.52 (0.44)	-111.2** (-2.69)	.	111.2*** (-2.69)
MC_CR3	34.71 (1.08)	.	34.71 (1.08)	.	.	.	.	.	.	88.81** (2.34)	.	88.81** (2.34)
_cons	361.4* (1.92)	150.4 (1.26)	361.4* (1.92)	-599.5 (-0.71)	75.65 (0.72)	-599.5 (-0.71)	-67.81 (-0.20)	75.65 (0.72)	-67.81 (-0.20)	362.2* (1.77)	75.65 (0.72)	362.2* (1.77)
R2	0.793	-	-	0.8	-	-	0.8	-	-	0.78	-	-
Hausman test fe vs re	-	0.989	-	-	1.00	-	-	1.00	-	-	-	-
R2-within	-	0.434	0.313	-	0.33	0.33	-	0.33	0.33	-	0.33	0.26
R2-between	-	0.009	0.998	-	0.01	0.00	-	0.01	0	-	0.01	0.99
R2-overall	-	0	0.793	-	0.00	0.8	-	0	0.8	-	0	0.78
N	31	31	31	31	31	31	31	31	31	31	31	31
t statistics in parentheses												
*** p<0.01 ** p<0.05 * p<0.1												

The samples consisting of ten Islamic banks which involved in M&A from six countries, from the years of 2009 to 2018. ROA; return on asset, ROE; return on equity, BSA; bank size is based on total asset, BSOL; bank size is based on operating income, BSTD; bank size is based on total deposit, large, medium & small; is the level of bank sizes, Escale; economies of scale is measured by cost to income, Escope; economies of scope is measured by loan to deposit, NFIR; non-financial intermediary role is measured by non-interest cost to non-interest income, FIN; Dummy mode of financing (cash or stock), LIDY; liquidity ratio-liquid asset to total asset, CAP; capitalization ratio-total equity to total asset, CR; credit risk-loan loss reserve to gross loan, GDP; gross domestic product, INF; inflation, MC_HHI; market concentration is measured based on Harpindahl-Hirschman Index, MC_CR3; market concentration based on concentration ratio-largest three banks.

4.3 Diagnostic Test

(a) Multicollinearity

According to the diagnostics test of multicollinearity (A2.1), the VIF value less is 9.15 which is less than 10. Since VIF value is less than 10, it is indicating that there is no problem of multicollinearity.

(b) Heterokedasticity

Modified Wald test for groupwise heteroskedasticity in the fixed effect regression model

$H_0: \sigma^2(i) = \sigma^2$ for all i

$\chi^2(7) = 93.28$

$\text{Prob} > \chi^2 = 0.0000$

As stated by the heterokedasticity test, the p-value is less than 0.05 meaning that we unable to accept H_0 hypothesis of there is no heterokedasticity problem. Therefore, the result indicates that there is a problem with heterokedasticity.

(c) Auto-correlation / Serial correlation

Wooldridge test for autocorrelation in panel data

H_0 : no first order autocorrelation

$F(1, 6) = 3.903$

$\text{Prob} > F = 0.0956$

Based on the auto-correlation result, the p-value is more than 0.05. Therefore, we unable to reject the H_0 hypothesis of there no auto-correlation problem.

5.0 Conclusion

This paper empirically analyses the impact of M&A on operational performance, especially for the Islamic banking sector. Panel data for 10 Islamic banks (i.e. those banks directly involve in M&A deal) from 6 countries for Q1 2009 to Q4 2018 are deployed. Data is collected from several secondary sources such as IMF, World Bank, FitchConnect, Bloomberg. Panel data techniques such as static model (i.e., Fixed effect and Random effect) along with the baseline model OLS are applied. Multivariate results are reported in Table 4,5,6,7 & 8 respectively. As mentioned earlier, results are categorized into three such as pre & post-M&A period i.e., all data set, pre-M&A period i.e., an average of three years before M&A deal and post-M&A period i.e., an average of three years after M&A deal. It also sub-categories based on bank size (e.g., total asset, operating income, and total deposit) and level of bank sizes (e.g., large, medium and small)

The fact that banks should be more efficient after having integrated competitive resources, for example, expert human capital, strong managerial skill, technology, brand name, strong market power, more capitalization etc. Interestingly, after M&A deal all explanatory variables i.e., level of bank size (large), Escalate (cost to income), Esclope (loan to deposit), non-financial intermediary role i.e., non-interest expenses to non-interest income, liquidity, capitalization, and inflation except GDP explain better operational performance compared to pre M&A period. Surprisingly, the market structure shows the market is very concentrated rather highly competitive, highly regulated and anti-trust system. Similarly, the positive coefficient of inflation indicates that a bank can earn more profit but they have to be more keep track between deposit rate and lending rate. Because increasing inflation rate that will also influence to increase rate interest for both depositors and borrowers.

In fact, M&A can bring benefits to the Islamic banking sector through M&A and enhanced management quality as well as efficiency gains from prudent risk-taking, monitoring and management. In conclusion, the policymakers such as Government, professionals, and academicians should give more emphasize on the level of bank size (large) that could be the motives of having M&A in Islamic banking.

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Appendix 1

Result for mediation effect on operational performance

Table A1.1 Mediation effect on operational performance

(a) Return on Asset (ROA)

Overall model

```
Structural equation model          Number of obs    =      97
Estimation method = ml
Log likelihood      = -1390.3205
```

		OIM				
	Coef.	Std. Err.	z	P>|z|	[95% Conf. Interval]	

Structural						
MC_LHHI <-						
BSA	.1308118	.0508394	2.57	0.010	.0311684	.2304553
BSTD	-.105412	.0448166	-2.35	0.019	-.1932509	-.0175731
BSOI	-.0221193	.0151855	-1.46	0.145	-.0518823	.0076437
Escale	.0016963	.0009689	1.75	0.080	-.0002028	.0035953
Escope	.0006578	.0005144	1.28	0.201	-.0003503	.0016659
NFIR	-.0361067	.0357876	-1.01	0.313	-.1062492	.0340358
FIN	.1323921	.0267894	4.94	0.000	.0798859	.1848983
LIDY	.0038462	.0023156	1.66	0.097	-.0006923	.0083847
CAP	.0161768	.0038509	4.20	0.000	.0086291	.0237244
CR	-.0025233	.0022709	-1.11	0.267	-.0069743	.0019276
GDP	.124734	.0463563	2.69	0.007	.0338773	.2155906
INF	.6936784	.5237952	1.32	0.185	-.3329414	1.720298
_cons	1.240293	1.075417	1.15	0.249	-.8674858	3.348072

ROA <-						
MC_LHHI	.6289418	.483589	1.30	0.193	-.3188753	1.576759
BSTA	-.1721401	.2502649	-0.69	0.492	-.6626504	.3183702
BSTD	.0773813	.219455	0.35	0.724	-.3527427	.5075052
BSOI	.1702867	.0731121	2.33	0.020	.0269896	.3135839
Escale	-.0066466	.004687	-1.42	0.156	-.015833	.0025399
Escope	-.0033729	.0024704	-1.37	0.172	-.0082147	.0014689
NFIR	.2963008	.1713414	1.73	0.084	-.0395221	.6321237
FIN	.0714217	.1427544	0.50	0.617	-.2083719	.3512152
LIDY	.0200642	.0111845	1.79	0.073	-.001857	.0419854
CAP	.0126666	.0199397	0.64	0.525	-.0264145	.0517477
CR	-.0149114	.0108846	-1.37	0.171	-.0362448	.0064221
GDP	-.0040706	.2288773	-0.02	0.986	-.4526618	.4445207
INF	8.094816	2.517184	3.22	0.001	3.161226	13.02841
_cons	-18.12686	5.156995	-3.52	0.000	-28.23438	-8.019334

var(e.MC_LHHI)	.0052665	.0007562			.0039746	.0069783
var(e.ROA)	.1194672	.0171545			.0901619	.1582975

LR test of model vs. saturated: chi2(0)				=	0.00, Prob > chi2 =	.

I. Direct effects

		OIM				
		Coef.	Std. Err.	z	P>|z|	[95% Conf. Interval]

Structural						
MC_LHHI <-						
BSTA		.1308118	.0508394	2.57	0.010	.0311684 .2304553
BSTD		-.105412	.0448166	-2.35	0.019	-.1932509 -.0175731
BSOI		-.0221193	.0151855	-1.46	0.145	-.0518823 .0076437
Escale		.0016963	.0009689	1.75	0.080	-.0002028 .0035953
Escope		.0006578	.0005144	1.28	0.201	-.0003503 .0016659
NFIR		-.0361067	.0357876	-1.01	0.313	-.1062492 .0340358
FIN		.1323921	.0267894	4.94	0.000	.0798859 .1848983
LIDY		.0038462	.0023156	1.66	0.097	-.0006923 .0083847
CAP		.0161768	.0038509	4.20	0.000	.0086291 .0237244
CR		-.0025233	.0022709	-1.11	0.267	-.0069743 .0019276
GDP		.124734	.0463563	2.69	0.007	.0338773 .2155906
INF		.6936784	.5237952	1.32	0.185	-.3329414 1.720298

ROA <-						
MC_LHHI		.6289418	.483589	1.30	0.193	-.3188753 1.576759
BSTA		-.1721401	.2502649	-0.69	0.492	-.6626504 .3183702
BSTD		.0773813	.219455	0.35	0.724	-.3527427 .5075052
BSOI		.1702867	.0731121	2.33	0.020	.0269896 .3135839
Escale		-.0066466	.004687	-1.42	0.156	-.015833 .0025399
Escope		-.0033729	.0024704	-1.37	0.172	-.0082147 .0014689
NFIR		.2963008	.1713414	1.73	0.084	-.0395221 .6321237
FIN		.0714217	.1427544	0.50	0.617	-.2083719 .3512152
LIDY		.0200642	.0111845	1.79	0.073	-.001857 .0419854
CAP		.0126666	.0199397	0.64	0.525	-.0264145 .0517477
CR		-.0149114	.0108846	-1.37	0.171	-.0362448 .0064221
GDP		-.0040706	.2288773	-0.02	0.986	-.4526618 .4445207
INF		8.094816	2.517184	3.22	0.001	3.161226 13.02841

II. Indirect effects

		OIM				
		Coef.	Std. Err.	z	P>|z|	[95% Conf. Interval]
<hr/>						
Structural						
MC_LHHI <-						
TA		0	(no path)			
TD		0	(no path)			
OI		0	(no path)			
Escale		0	(no path)			
Escope		0	(no path)			
NFIR		0	(no path)			
FIN		0	(no path)			
LIDY		0	(no path)			
CAP		0	(no path)			
CR		0	(no path)			
GDP		0	(no path)			
INF		0	(no path)			
<hr/>						
ROA <-						
MC_LHHI		0	(no path)			
BSTA		.082273	.0708811	1.16	0.246	-.0566513 .2211974
BSTD		-.066298	.0582501	-1.14	0.255	-.1804661 .04787

BSOI	|	-.0139118	.01434	-0.97	0.332	-.0420177	.0141941
Escale	|	.0010668	.0010219	1.04	0.296	-.000936	.0030697
Escope	|	.0004137	.0004537	0.91	0.362	-.0004755	.001303
NFIR	|	-.022709	.0284869	-0.80	0.425	-.0785424	.0331243
FIN	|	.0832669	.0662033	1.26	0.208	-.0464892	.2130231
LIDY	|	.0024191	.0023623	1.02	0.306	-.002211	.0070492
CAP	|	.0101742	.0081892	1.24	0.214	-.0058764	.0262249
CR	|	-.001587	.0018786	-0.84	0.398	-.0052689	.0020949
GDP	|	.0784504	.0669966	1.17	0.242	-.0528604	.2097612
INF	|	.4362833	.4701689	0.93	0.353	-.4852307	1.357797

III. Total effects

		OIM					
		Coef.	Std. Err.	z	P>|z|	[95% Conf. Interval]	

Structural							
MC_LHHI <-							
BSTA	|	.1308118	.0508394	2.57	0.010	.0311684	.2304553
BSTD	|	-.105412	.0448166	-2.35	0.019	-.1932509	-.0175731
BSOI	|	-.0221193	.0151855	-1.46	0.145	-.0518823	.0076437
Escale	|	.0016963	.0009689	1.75	0.080	-.0002028	.0035953
Escope	|	.0006578	.0005144	1.28	0.201	-.0003503	.0016659
NFIR	|	-.0361067	.0357876	-1.01	0.313	-.1062492	.0340358
FIN	|	.1323921	.0267894	4.94	0.000	.0798859	.1848983
LIDY	|	.0038462	.0023156	1.66	0.097	-.0006923	.0083847
CAP	|	.0161768	.0038509	4.20	0.000	.0086291	.0237244
CR	|	-.0025233	.0022709	-1.11	0.267	-.0069743	.0019276
GDP	|	.124734	.0463563	2.69	0.007	.0338773	.2155906
INF	|	.6936784	.5237952	1.32	0.185	-.3329414	1.720298

ROA <-							
MC_LHHI	|	.6289418	.483589	1.30	0.193	-.3188753	1.576759
BSTA	|	-.0898671	.2442401	-0.37	0.713	-.5685689	.3888347
BSTD	|	.0110832	.2153055	0.05	0.959	-.4109078	.4330743
BSOI	|	.156375	.0729533	2.14	0.032	.0133892	.2993608
Escale	|	-.0055797	.0046548	-1.20	0.231	-.0147029	.0035434
Escope	|	-.0029591	.0024711	-1.20	0.231	-.0078023	.001884
NFIR	|	.2735918	.1719291	1.59	0.112	-.063383	.6105666
FIN	|	.1546886	.1287001	1.20	0.229	-.097559	.4069362
LIDY	|	.0224832	.0111245	2.02	0.043	.0006796	.0442868
CAP	|	.0228408	.0185003	1.23	0.217	-.013419	.0591007
CR	|	-.0164984	.0109099	-1.51	0.130	-.0378814	.0048846
GDP	|	.0743798	.2227024	0.33	0.738	-.3621088	.5108685
INF	|	8.531099	2.516389	3.39	0.001	3.599067	13.46313

```

Structural equation model               Number of obs   =       97
Estimation method   = ml
Log likelihood      = -1615.1348

```

		OIM				
	Coef.	Std. Err.	z	P>|z|	[95% Conf. Interval]	

Structural						
MC_LHHI <-						
BSTA	.1308118	.0508394	2.57	0.010	.0311684	.2304553
BSTD	-.105412	.0448166	-2.35	0.019	-.1932509	-.0175731
BSOI	-.0221193	.0151855	-1.46	0.145	-.0518823	.0076437
Escale	.0016963	.0009689	1.75	0.080	-.0002028	.0035953
Escope	.0006578	.0005144	1.28	0.201	-.0003503	.0016659
NFIR	-.0361067	.0357876	-1.01	0.313	-.1062492	.0340358
FIN	.1323921	.0267894	4.94	0.000	.0798859	.1848983
LIDY	.0038462	.0023156	1.66	0.097	-.0006923	.0083847
CAP	.0161768	.0038509	4.20	0.000	.0086291	.0237244
CR	-.0025233	.0022709	-1.11	0.267	-.0069743	.0019276
GDP	.124734	.0463563	2.69	0.007	.0338773	.2155906
INF	.6936784	.5237952	1.32	0.185	-.3329414	1.720298
_cons	1.240293	1.075417	1.15	0.249	-.8674858	3.348072

ROE <-						
MC_LHHI	-6.610667	4.909406	-1.35	0.178	-16.23293	3.011592
BSTA	.5603172	2.540695	0.22	0.825	-4.419354	5.539988
BSTD	.3484838	2.227912	0.16	0.876	-4.018144	4.715111
BSOI	1.170645	.7422358	1.58	0.115	-.2841101	2.625401
Escale	-.0371737	.0475829	-0.78	0.435	-.1304344	.0560869
Escope	-.0573813	.0250791	-2.29	0.022	-.1065355	-.0082271
NFIR	3.342656	1.739461	1.92	0.055	-.0666252	6.751937
FIN	.7992155	1.449246	0.55	0.581	-2.041255	3.639686
LIDY	.1115201	.1135452	0.98	0.326	-.1110245	.3340647
CAP	.4306012	.2024282	2.13	0.033	.0338493	.8273531
CR	.0208585	.1105009	0.19	0.850	-.1957193	.2374362
GDP	.727323	2.323567	0.31	0.754	-3.826785	5.281431
INF	28.52292	25.55451	1.12	0.264	-21.563	78.60883
_cons	-44.62325	52.35392	-0.85	0.394	-147.235	57.98855

var(e.MC_LHHI)	.0052665	.0007562			.0039746	.0069783
var(e.ROE)	12.31271	1.768002			9.292405	16.3147

LR test of model vs. saturated: chi2(0)				=	0.00, Prob > chi2 =	.

1) Direct effects

		OIM				
		Coef.	Std. Err.	z	P>|z|	[95% Conf. Interval]
Structural						
MC_LHHI <-						
BSTA	|	.1308118	.0508394	2.57	0.010	.0311684 .2304553
BSTD	|	-.105412	.0448166	-2.35	0.019	-.1932509 -.0175731
BSOI	|	-.0221193	.0151855	-1.46	0.145	-.0518823 .0076437
Escale	|	.0016963	.0009689	1.75	0.080	-.0002028 .0035953
Escape	|	.0006578	.0005144	1.28	0.201	-.0003503 .0016659
NFIR	|	-.0361067	.0357876	-1.01	0.313	-.1062492 .0340358
FIN	|	.1323921	.0267894	4.94	0.000	.0798859 .1848983
LIDY	|	.0038462	.0023156	1.66	0.097	-.0006923 .0083847
CAP	|	.0161768	.0038509	4.20	0.000	.0086291 .0237244
CR	|	-.0025233	.0022709	-1.11	0.267	-.0069743 .0019276

GDP	|	.124734	.0463563	2.69	0.007	.0338773	.2155906
INF	|	.6936784	.5237952	1.32	0.185	-.3329414	1.720298

ROE <-	|						
MC_LHHI	|	-6.610667	4.909406	-1.35	0.178	-16.23293	3.011592
BSTA	|	.5603172	2.540695	0.22	0.825	-4.419354	5.539988
BSTD	|	.3484838	2.227912	0.16	0.876	-4.018144	4.715111
BSOI	|	1.170645	.7422358	1.58	0.115	-.2841101	2.625401
Escale	|	-.0371737	.0475829	-0.78	0.435	-.1304344	.0560869
Escope	|	-.0573813	.0250791	-2.29	0.022	-.1065355	-.0082271
NFIR	|	3.342656	1.739461	1.92	0.055	-.0666252	6.751937
FIN	|	.7992155	1.449246	0.55	0.581	-2.041255	3.639686
LIDY	|	.1115201	.1135452	0.98	0.326	-.1110245	.3340647
CAP	|	.4306012	.2024282	2.13	0.033	.0338493	.8273531
CR	|	.0208585	.1105009	0.19	0.850	-.1957193	.2374362
GDP	|	.727323	2.323567	0.31	0.754	-3.826785	5.281431
INF	|	28.52292	25.55451	1.12	0.264	-21.563	78.60883

2) Indirect effects

		OIM					
		Coef.	Std. Err.	z	P>|z|	[95% Conf. Interval]	

Structural							
MC_LHHI <-							
TA	|	0	(no path)				
TD	|	0	(no path)				
OI	|	0	(no path)				
Escale	|	0	(no path)				
Escope	|	0	(no path)				
NFIR	|	0	(no path)				
FIN	|	0	(no path)				
LIDY	|	0	(no path)				
CAP	|	0	(no path)				
CR	|	0	(no path)				
GDP	|	0	(no path)				
INF	|	0	(no path)				

ROE <-							
MC_LHHI	|	0	(no path)				
BSTA	|	-.8647535	.7248332	-1.19	0.233	-2.2854	.5558934
BSTD	|	.6968439	.596315	1.17	0.243	-.4719121	1.8656
BSOI	|	.1462234	.1478842	0.99	0.323	-.1436244	.4360712
Escale	|	-.0112134	.0105059	-1.07	0.286	-.0318046	.0093778
Escope	|	-.0043486	.0046895	-0.93	0.354	-.0135399	.0048426
NFIR	|	.2386895	.2956217	0.81	0.419	-.3407184	.8180974
FIN	|	-.8752003	.6736613	-1.30	0.194	-2.195552	.4451517
LIDY	|	-.0254262	.0243081	-1.05	0.296	-.0730692	.0222168
CAP	|	-.1069391	.0833985	-1.28	0.200	-.2703972	.056519
CR	|	.0166807	.0194636	0.86	0.391	-.0214673	.0548287
GDP	|	-.8245748	.684767	-1.20	0.229	-2.166693	.5175438
INF	|	-4.585677	4.856708	-0.94	0.345	-14.10465	4.933295

3) Total effects

		OIM				
		Coef.	Std. Err.	z	P>|z|	[95% Conf. Interval]
Structural						
MC_LHHI <-						
BSTA		.1308118	.0508394	2.57	0.010	.0311684 .2304553

BSTD	|	-.105412	.0448166	-2.35	0.019	-.1932509	-.0175731
BSOI	|	-.0221193	.0151855	-1.46	0.145	-.0518823	.0076437
Escale	|	.0016963	.0009689	1.75	0.080	-.0002028	.0035953
Escope	|	.0006578	.0005144	1.28	0.201	-.0003503	.0016659
NFIR	|	-.0361067	.0357876	-1.01	0.313	-.1062492	.0340358
FIN	|	.1323921	.0267894	4.94	0.000	.0798859	.1848983
LIDY	|	.0038462	.0023156	1.66	0.097	-.0006923	.0083847
CAP	|	.0161768	.0038509	4.20	0.000	.0086291	.0237244
CR	|	-.0025233	.0022709	-1.11	0.267	-.0069743	.0019276
GDP	|	.124734	.0463563	2.69	0.007	.0338773	.2155906
INF	|	.6936784	.5237952	1.32	0.185	-.3329414	1.720298

ROE <-	|						
MC_LHHI	|	-6.610667	4.909406	-1.35	0.178	-16.23293	3.011592
BSTA	|	-.3044363	2.481058	-0.12	0.902	-5.167222	4.558349
BSTD	|	1.045328	2.187133	0.48	0.633	-3.241374	5.332029
BSOI	|	1.316869	.7410796	1.78	0.076	-.1356207	2.769358
Escale	|	-.0483871	.0472843	-1.02	0.306	-.1410626	.0442884
Escope	|	-.0617299	.0251017	-2.46	0.014	-.1109283	-.0125315
NFIR	|	3.581345	1.746503	2.05	0.040	.1582622	7.004428
FIN	|	-.0759848	1.307372	-0.06	0.954	-2.638386	2.486416
LIDY	|	.0860939	.1130057	0.76	0.446	-.1353932	.307581
CAP	|	.3236621	.1879307	1.72	0.085	-.0446753	.6919996
CR	|	.0375392	.1108258	0.34	0.735	-.1796754	.2547537
GDP	|	-.0972518	2.262273	-0.04	0.966	-4.531224	4.336721
INF	|	23.93724	25.56218	0.94	0.349	-26.16371	74.03819

Appendix 2
Diagnostic test on estimated result

Table A2.1 Variance inflation factor (VIF) of regression variables

Variable |	VIF	1/VIF
BS TA |	21.31	0.046926
BSTD |	19.33	0.051721
MC_LHHI |	16.61	0.060194
MC_CR3 |	13.76	0.072688
GDP |	11.24	0.088978
CAP |	9.86	0.101432
Escale |	6.77	0.147692
CR |	6.26	0.159756
Escope |	6.12	0.163511
INF |	4.83	0.207062
BSOI |	3.56	0.280844
FIN |	3.24	0.308844
LIDY |	2.87	0.348570
NFIR |	2.33	0.429926
Mean VIF |	9.15	

The Effect of Innovation as a Mediator in the Relationship between Business Intelligence Systems Adoption and Performance of Banks

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Abstract

This study was conducted to determine innovation as a mediator in the relationship between business intelligence systems adoption and the performance of Malaysian banking institutions. This study focused on banks in Malaysia where the identified unit of analysis was the organisation represented by their managers. The Statistical Package for Social Science (SPSS) and Partial Least Squares (PLS) approach to structural equation modelling (SEM) via Smart PLS 3.0 software were employed in this study. The current study clarifies how business intelligence systems adoption directly and indirectly predict innovation and performance outcomes. The results obtained for the hypothesis depicted the positive significant relationship between business intelligence systems adoption and performance, business intelligence systems adoption and innovation, and, innovation and performance, was supported (H1, H2, and H3). Innovation does partially mediate the relationship between business intelligence systems adoption and performance (H4). This study proposed practical suggestions to banking institutions on how employees can innovate when enhancing their business intelligence systems to improve performance among them. The management should provide a platform for the employees to enhance their innovativeness through the implementation of business intelligence systems adoption. Furthermore, performance can be improved if the management focuses heavily on increasing innovation among employees. The major contribution of the current study is the proposed model for measuring the performance of banking institutions in Malaysia. The performance of these institutions is fundamental as they contribute significantly to the nation's economy.

Keywords: Innovation, Business intelligence system, bank performance, mediator

1. Introduction

The rapid change in the banking institutions forces them to face challenge scenarios (Schubert, 2015; Kasasbeh, Harada, & Noor, 2017). A continuance in changing of customers' demand and preferences, for instance, had caused the banking institutions to face an intense competition, which eventually pushing the banks to implement an innovation in their various offering opportunities (Al-Mansour, 2007; Peschel, 2008). Moreover, customers are more knowing and better informed; hence, requires banks to lead on innovative strategies and facilitate attitude, thinking, and behaviour to ensure not left behind (Al-Swidi & Mahmood, 2011; Sebor, Theerapatuong, & Lee, 2010). Furthermore, with the ongoing changing of customer's demand and preferences together with the development in information technology, banking is faced with intense competition that urge them offers various products and services (Al-Mansour, 2007; Peschel, 2008; Suratno, 2013). Consequently, banks must integrate all the customer's needs, feedback and expectations as the cardinal in the product design so that the products or services offered are innovative and delivers high quality (Al-Swidi & Mahmood, 2011; Wright, Eid, & Fleisher, 2009). However, in order to be innovative, banks must always have knowledge and take advantage of the data and advance data analytics to present new innovations in their products and services.

It was acknowledged that, to assist organisations better understand its business and market and make timely business

decision (Chen, Chiang, & Storey, 2012), advanced data analytics through business intelligence system is utilised by organisations to cater the pressing demands for increasing competitor insights and the competition themselves (Cetorelli, 1999; Wright et al., 2009). For instance, banks are adopting a business intelligence system to assess the strategic opportunities in locating the regions which have demographic and economic attributes, besides identifying a suitable enterprise which potentially to become a business partner, joint venture or merge in their effort for market expansion in the identified areas (Vella & McGonagle, 1986; Owusu, 2017). Hence, the business intelligence becomes one of the most important revolutions within the banking system in these transformation initiatives.

The problem statement guides in the formulation of the following research questions. This study answers to the following questions:

- a. Does business intelligence systems adoption influence performance?
- b. Does innovation influence performance?
- c. Does innovation mediate the relationship between business intelligence systems adoption and performance?

The study examines the relationships among business intelligence systems adoption, innovation, and performance. The research objectives are:

- a. To examine the relationship between business intelligence systems adoption and performance.
- b. To examine the relationship between innovation and performance.
- c. To examine the mediation effect of innovation on business intelligence systems adoption and performance.

Based on the above justification, the present study intends to link the business intelligence systems adoption, innovation, and organisational performance. Therefore, it is desired that this study will contribute to the strategic management and information technology literatures by providing a framework that integrate business intelligence systems adoption and innovation to better improving organisational performance among banking institution.

2. Literature Review

A firm performance, and thus competitive advantage, is driven by the activities or routines carried within the firm or with the external stakeholders (Ray, Barney, & Muhanna, 2004). This economic belief applies the value chain methodology in comprehending how carried out by the firm affect the competitive positioning of the organisation of the firm (Porter, 1985). The evolutionary economic theories of firm behaviour evaluate the correlation between superior firm performance and firm routines (Nelson & Winter, 1982; Karanja, 2011). The activities and routines perspectives were based on the premise that firms succeed did.

Measures associated with financial or accounting performance include sales growth, profitability ratios (return on sales, return on assets, return on investment, return on equity, etc.), and labour productivity among others. Kobelsky et al., (2008) investigated the determinants and consequences of information technology at the firm level and utilized Return on Sales (ROS) as a performance measure. The performance of an organisation is reflected in the actual organisational output when compared with the intended organisational outputs, goals, or objectives. There are few consistent definitions and measures of organisations' performance, which is surprising given its importance in evaluating the effectiveness of firms' strategies and competitiveness (Kirby, 2005; March & Sutton, 1997; Karanja, 2011).

The business intelligence terminology has been disconcerting. There are different interpretations of business intelligence and many terms applied to it (e.g. competitive intelligence, market intelligence, customer intelligence, competitor intelligence and strategic intelligence). The use of these terms is haphazard both in academia and the business world. After all, almost all the definitions share the same referent, even if the term has been defined from several perspectives and they all include the idea of analysis of data and information. The main idea in business intelligence is to aid in controlling the vast stocks and flow of business information around then processing the information into condensed and useful managerial knowledge and intelligence (Casado, 2004; Shubiri, 2012).

Innovation refers to the firm's tendency and receptivity to adopt ideas that deviate from the ordinary course of business (Menguc & Auh, 2006). Innovation implies the willingness to give up old habits and try the untested ideas (Tsai & Yang,

2014). This concept is further seen as a firm's orientation to technological development, development of new products and services and/or improvement of production and other business processes in order to achieve competitive advantage (Dibrell, Craig, & Neubaum, 2014). Innovation is a process that begins with an idea, proceeds with the development of an invention and results in the introduction of a new product, process or service (Thornhill, 2006). It is widely recognized that technological change and innovation are the primary engines of economic growth and lie in the centre of the competitive process. Product innovation and process innovation are the two popular categories that are usually raised in many studies (Avlonitis, Papastathopoulou, & Gounaris, 2001; Crawford & Benedetto, 2002; Gadrey, Gallouj, & Weinstein, 1995; Gallouj & Weinstein, 1997; Hertog, 2000; Hipp, Tether, & Miles, 2000; Lyytinen & Rose, 2003; Uchupalanan, 2000).

In the Western and East Asia countries, business intelligence is being heavily utilised by large and small organisations (Tej Adidam, Banerjee, & Shukla, 2012) and have proven to be an important source of competitive advantage (Mohsin at al., 2015; Smith & Kassou, 2008; Smith, Wright & Pickton, 2010; Wright, 2011). Business intelligence is both a process and a product when an organisation gathers actionable information about the business environment and utilises the intelligence in the decision-making practices to improve the organisation's performance. It is an ongoing process of analysing data and information into intelligence by applying new technologies to develop competitive performance edge (Azma & Mostafapour 2012; Chen, 2012; Fuld, 2010; Zheng at al., 2012).

Innovation is an immediate source of competitive advantage that leads to an improvement in performance (Camisón & Villar-López, 2014). The main reason for firms' engagement in innovation activities is because of the expected positive impact of innovations on firms' success (Lindsay & Vnuk, 2011; Varis & Littunen, 2010). Innovative firms' welcome new ideas, value change, encourage risk-taking and stimulate novel approaches to addressing market needs (Augusto & Coelho, 2009). These firms are more capable of developing new products. Also, managers at such firms tend to devise new ways of resolving business problems because highly innovative firms value change, more likely to improve their operations, production methods and product development processes continually (Tsai & Yang, 2014). As a result of their improvement, these firms may achieve higher performance by enhancing their operational efficiency and effectiveness. In addition, innovative products and processes can facilitate firm survival and growth by creating new demands on the market (Chatzoglou & Chatzoudes, 2018; Omri & Hasna, 2015; Turulja & Bajgoric, 2018).

Based on the discussion above, the following hypotheses are proposed:

Table 1. List of Hypotheses

Hypotheses	Hypotheses Statement
H1	There is a positive relationship between business intelligence systems adoption and performance.
H2	There is a positive relationship between business intelligence systems adoption and innovation.
H3	There is a positive relationship between innovation and performance.
H4	Innovation mediates the relationship between business intelligence systems adoption and performance.

Figure 1 below illustrates the direct relationship between variables in the same relationship in the presence of a mediator. The independent variables in the current study are business intelligence systems adoption. The dependent variable is performance. The study proposes the mediation effect from innovation between the independent variables and the dependent variable.

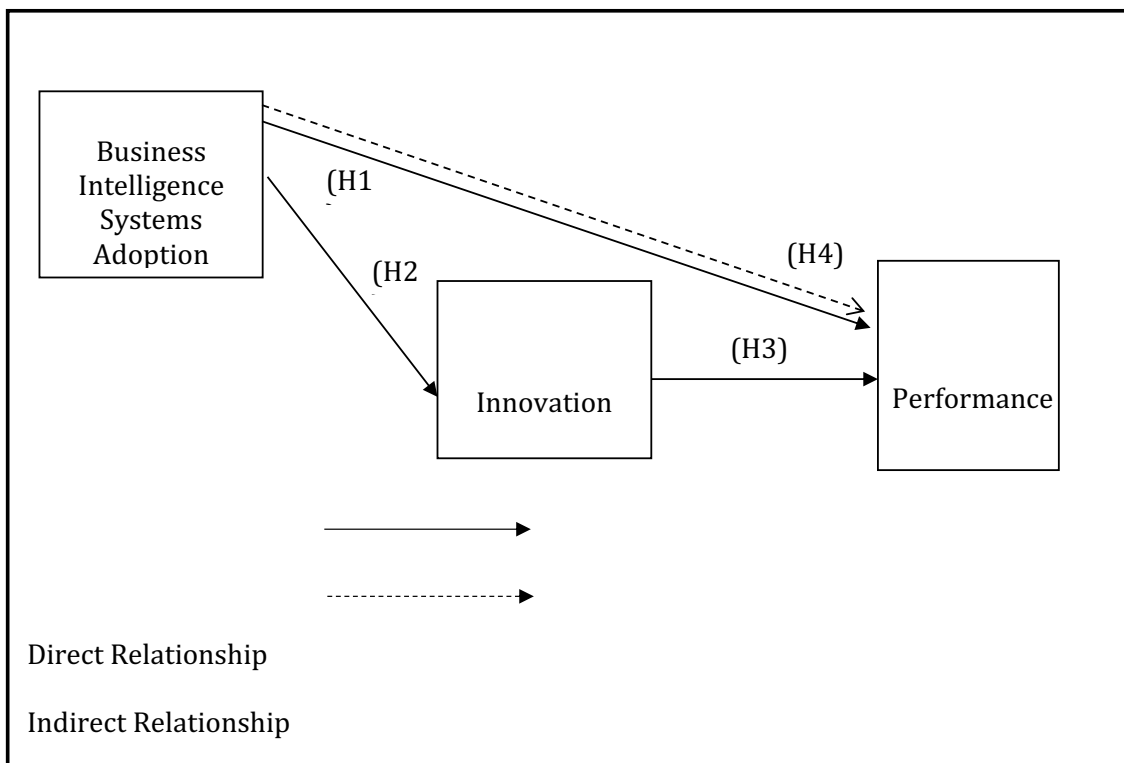


Fig. 1. Research Conceptual Framework

3. Research Methodology

The study employed the quantitative approach through a survey instrument design. Data were collected using questionnaires, and the constructs used were developed from prior research and previously tested for reliability. Focusing on banks, the identified unit of analysis is organisation was therefore branch managers of locally incorporated Islamic, commercial, and development financial institutions in Malaysia. The sampling frame was obtained from the Bank Negara Malaysia (BNM) and the respective bank website. Since key informants were branch managers, the selection of the banking institutions made the sample homogeneous. Branch managers were chosen due to their responsibility for the strategic business unit level.

The study data were analysed using two statistical techniques. First, preliminary analysis was conducted using the Statistical Package for Social Science (SPSS). Second, the main data analysis was conducted using Partial Least Square-Structural Equation Modelling (PLS-SEM) version 3.0. In the first stage, the data was analysed to check for missing values, outliers, normality, and multi-collinearity. In the second stage, the main analysis was conducted using the PLS-SEM path modelling technique to test the measurement and structural models. Using SPSS, the mean and standard deviation of each indicator and construct were calculated. All the indicators were measured by a range of 1 to 7 via the Likert scale. In the effort to gain an initial general overview of the respondents, descriptive analysis was performed on all constructs of the study.

4. Results and Discussion

This part of this descriptive analysis will report the background information of the respondents based on the bank's profile as illustrated in Table 2.0.

As depicted in Table 2.0, 39.2% or 67 from the total sample respondents are from the Islamic banks. The second largest group of respondents is from the conventional banks. They accounted for 33.3% or 57 respondents of the total respondents. The smallest group in the distribution was respondents from both type of bank; Islamic and conventional. They accounted for 27.5% or 47 respondents from the total respondents.

As depicted also in Table 2, 48.0% or 82 from the total sample respondents offered types of services are from the Islamic and conventional banks. The second largest group of respondents is from the Islamic banks. They accounted for 39.2% or 67 respondents of the total respondents. The smallest group in the distribution was respondents from conventional bank. They accounted for 12.9% or 22 respondents from the total respondents.

As illustrated in Table 2.0, the sample respondents are distributed across two types of bank ownership. 95.9% or 164 respondents are from local bank incorporated in Malaysia. This was followed by 4.1% (7) respondents from foreign bank.

As shown in Table 2.0, 4.1% or 7 of the respondents that have 51 and above of employees at their branch. This was followed by 23.4% (40) respondents from banks that have 10 and below employees. There are 38.6% (66) respondents, 24.6% (42) respondents and 7.0% (12) respondents whom are from organisations that have 11-20 employees, 21-30 and 31-40 employees respectively. The least of the group is 2.3% (4) respondents who are from organisations that have 41-50 employees.

Table 2. Bank's Profile

Bank	Demographic Profile	Frequency	Percentage
Type of Bank	Islamic Banks	67	39.2
	Conventional Banks	57	33.3
	Development Financial Institutions	47	27.5
Types of Services Offered	Islamic Banks	67	39.2
	Conventional Banks	22	12.9
	Islamic and Conventional Banks	82	48.0
Ownership of Bank	Local Bank	164	95.9
	Foreign Banks	7	4.1
Number of Employees in your Branch	10 and below	40	23.4
	11 - 20	66	38.6
	21 - 30	42	24.6
	31 - 40	12	7.0
	41 - 50	4	2.3
	51 and above	7	4.1

In the effort to gain an initial general overview of the respondents, descriptive analysis was performed on all constructs of the study. Accordingly, the response of the respondents on all constructs of the study in terms of the mean, standard deviation and Pearson correlation values are summarized in Table 3.

Table 3. Descriptive Statistics for (Mean, Standard Deviation, and Pearson Correlation)

Variables	Label	Mean	Standard Deviation (SD)	BI	I	P
Business Intelligence Systems Adoption	BI	5.5016	0.74132	1		
Innovation	I	5.5575	0.75338	0.594**	1	
Performance	P	5.6929	0.86205	0.509**	0.542**	1

Notes:

** Correlation is significant at the 0.01 level (2-tailed).

BI (Business Intelligence Systems Adoption), I (Innovation), and P (Performance)

As shown in Table 3, the mean score for business intelligence systems adoption was 5.5016 (SD=0.74132), indicating that the respondents have adopt business intelligence systems. The mean score for innovation was 5.5575 (SD=0.75338), revealing that the respondents' use innovation. The mean score for performance was 5.6929 (SD=0.86205), indicating that the performance is good. Hence, the results of Pearson's correlation indicated that the study constructs were correlated as expected in terms of direction and significance.

In this study, the bivariate correlations between business intelligence systems adoption, innovation, and performance were positive and significant ($p < 0.01$) with values ranging from 0.509 to 0.594. Innovation statistically correlated with business intelligence systems adoption ($r = 0.594$, $p < 0.01$). In the same vein, performance is statistically correlated business intelligence systems adoption ($r = 0.509$, $p < 0.01$), and innovation ($r = 0.542$, $p < 0.01$).

Table 4.0 reported the results for the structural path model that include the values for the path coefficient (β), standard deviation, t-statistics, and decisions made based on the results. The conceptualised relationships were examined through the path coefficient (β) and t-values with level of significance. These path coefficient values were obtained through running a PLS algorithm, while t-statistics values were obtained through the 5000 bootstrapping resamples procedure. The obtained results must be positive (path coefficient values are positive) and significant with regard to the t-statistics values (t-statistics values greater than 1.96 or 2.58).

The results obtained indicated that the path coefficient values for the structural path model were positive, ranging from

0.088 to 0.435. For the structural path model, t-values for all the relationships were greater than 1.96 at the significance level ($p < 0.05$, 2 tailed test). Therefore, the results indicated that three hypotheses were significantly supported. The results for each hypothesised relationship are discussed below.

The results obtained for the first hypothesised positive relationship between business intelligence systems adoption and performance was supported (H1). The path coefficient value that connected business intelligence systems adoption and performance is statistically significant with $\beta = 0.088$ and $t = 2.417$ ($p < 0.05$). The second hypothesised relationship, between business intelligence systems adoption and innovation, was supported (H2). The results indicated a significant positive relationship between business intelligence systems adoption and innovation with $\beta = 0.203$, $t\text{-value} = 2.680$ ($p < 0.05$). The third hypothesised relationship, between innovation and performance, was supported (H3). The results indicated a positive significant relationship between innovation and performance with $\beta = 0.435$ and $t\text{-value} = 4.608$ ($p < 0.05$). Hence, all the direct relationships among the variables in the structural model are significantly supported as proposed in the conceptual model for this study.

Table 4 shows the summarized result of the proposed structural model with regards to the path coefficients (β), standard deviation, t-statistics, and p-values. Essentially, the findings also verified whether the hypotheses are supported or not supported. The result is for H1, H2, and H3. There were three hypothesized links were supported.

Table 4 Results of Path Coefficient (β)

Hypotheses	Relationship	Path Coefficient (β)	Standard Deviation	T-Statistics	P-Values	Result
H1	Business Intelligence Systems Adoption → Performance	0.088	0.037	2.417	0.016	Supported
H2	Business Intelligence Systems Adoption → Innovation	0.203	0.076	2.680	0.008	Supported
H3	Innovation → Performance	0.435	0.094	4.608	0.000	Supported

Note:

*** value is significant 5 % (t-statistics values > 1.96)

BI (Business Intelligence Systems Adoption), I (Innovation), and P (Performance)

The following will discuss the mediation of innovation in the relationship between business intelligence systems adoption and performance (H4). Table 5 shows the results from direct and indirect effects from the structural model via the bootstrapping technique.

Table 5. Bootstrapping (Direct and Indirect Effects)-Hypotheses Testing for Mediator

Hypotheses	Relationship	Path Coefficient (β)	Standard Deviation	T-Statistics	P-Values	Result
H1	Business Intelligence Systems Adoption → Performance	0.088	0.037	2.417	0.016	Supported
H4	Business Intelligence -> Innovation -> Performance	0.113	0.045	2.484	0.013	Supported

5. Conclusion

This study focuses on the relationships between business intelligence systems adoption, innovation, and performance. The current study answered three main research questions, 'Does business intelligence systems adoption influence performance?', 'Does innovation influence performance?', and 'Does innovation mediate the relationship between business intelligence systems adoption and performance?'

Based on these three research questions, four hypotheses were developed. Three hypotheses were developed to examine the direct relationships between this study's construct namely between business intelligence systems adoption and performance (H1), innovation and performance (H2), business intelligence systems adoption and innovation (H3), The remaining hypothesis were developed to investigate a mediating role of innovation between business intelligence systems adoption and performance (H4).

The conceptual model predicted a direct relationship between business intelligence systems adoption and performance, and an indirect relationship between business intelligence systems adoption and performance through the mediation of innovation. In testing the stated hypotheses, PLS's bootstrapping method was used. The results obtained supported both the direct and indirect relationships mentioned and hence, indicated a partial mediation of innovation between business intelligence systems adoption and performance. The direct and indirect relationships were explained through the discussion provided on H1 and H4 showed a direct, positive, and significant relationship between business intelligence systems adoption and performance.

The current study supported the findings of H2 in that there is a significant positive relationship between business intelligence systems adoption and innovation with $\beta=0.203$ and $t=2.680$ ($p<0.05$). This means that the more utilization of business intelligence systems by employees, the more likely they are to be innovated. The significant positive relationship between business intelligence systems adoption and innovation is consistent with the knowledge-based view and the results of previous studies. Knowledge-based view posits that business intelligence enable the improvement of a company's ability to manage and implement organisational innovation.

In addition, the component of business intelligence such as user, system, and task adapted from these studies directly affect the innovation. Business intelligence is a key factor for innovation in scientific research and provides insight to understand the impact of business intelligence on innovation (Hussein et al., 2011). The knowledge-based view indicate that the use of a business intelligence leads to achieving innovation and ensures the performance of the organisation.

This study also supported the findings of H3, that there is a significant positive relationship between innovation and performance with $\beta=0.435$ and $t=4.608$ ($p<0.05$). This indicates that the higher the bank innovate, the more likely the bank will increase the performance. Findings from the study suggested that banks' innovation might affect bank performance. The finding of innovation has been associated with performance is consistent with previous research across different countries like Malaysia (Amran, Lynn Ling, & Sofri, 2007; Ambad, 2014; Nazri, 2015), This indicates that banking institutions should be more innovative in adopting or implementing new idea or process especially in managing their business activities.

It can be summed up that, innovation at organisation level is essential for the organisation's profitability and overall organisational performance. In addition, today's business environment requires the organisation to be innovative in order to adapt with the rapid changes in product life cycles, technologies, competitors, customer preferences and laws. (Projogo; 2006; Karanja, 2011). Organisation should be responsive to new customer preferences, by introducing new products and services that meet the customers' needs and demands.

In conclusion, the importance of business intelligence systems adoption among others is it serves as a prerequisite to ensuring a successful accumulation of knowledge among managers, which could be used to continuously innovate in product and process innovation, which in turn effect the performance of an organisation.

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Determinants of Sustainable Growth Rate and Share Price Performance: The Mediating Effect of Sustainable Growth Rate

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Abstract

The objective of this research is to determine the influence of determinants of sustainable growth rate on share price performance among 181 Shariah and 142 non Shariah compliant companies in Malaysia over the period of 2007 to 2016. Additionally, this study aims to investigate the significance of the sustainable growth rate as mediator in the relationship between determinants of sustainable growth rate and share price performance. The existing literature is inadequate information about the relationship between determinants of sustainable growth rate and share price performance as it assumes, implicitly, that this relationship is direct. An alternative perspective, that has received less attention in the literature, is that this relationship can be mediated by the sustainable growth rate. For the purpose of data analysis and hypotheses testing, this research was performed Structural Equation Model (SEM) using STATA software. Based on the results, only Shariah compliant sample meets the requirement in SEM where the sustainable growth rate is a significant relationship with share price performance. The other two samples such as overall and non Shariah compliant do not meet the requirement of a significant relationship between sustainable growth rate and share price performance. According to the mediation effect result, only NPM is considered as a “complementary mediation” where NPM to SGR to SPP has positive direction. This result indicated that higher NPM will increase SGR and SPP. For TDTE, DPR, STA, and TA are considered as an “indirect-only mediator variable. The results demonstrate that better or worse sustainable growth rate, and rather determinants of sustainable growth rate, is lead for share price performance when they make their company’s planning in order to have a better business prosperity.

Keywords: sustainable growth rate, share price performance, shariah and non-shariah compliant companies

1. Introduction

The sustainable growth rate (SGR) is seen as a factor that is strongly related to firm performance and it plays an important role in addressing the issue of maximizing growth rate without increasing firm debt or issuing new equity. It is a key indicator for firms to gauge their business profitability performance. According to Higgins (1977), sustainable growth in a business context is the maximum platform or benchmark for a company to grow its revenue without reducing its financial resources. The combination of a company’s operating elements (i.e. Profit margin and asset efficiency) and financial elements (i.e. Capital structure and retention ratio) into a single measurement becomes a very valuable financial performance measurement for every company. Based on the previous study by Srinivasa (2011), the combination of the operating and financial elements in one of the comprehensive measurements is of great importance in sustainable growth because it can increase the value of the firm. Sustainable growth rate (SGR) has to be evaluated with specific measurements of a company’s performance. This measurement can be explained by determining the factors that affect the firm’s SGR to help stakeholders (either internal or external management or customers) make the right decisions. Handling financial

constraints, profitability, and asset efficiency becomes important factors that can influence the sustainable growth of the company. Therefore, monitoring firm performance is very important and can solve the company's financial problems in order to sustain its growth.

According to Johnson and Soenen (2003), the company's strategic planning by handling its limitations and constraints of policy, referring to leverage and dividend payout, can help the company to sustain its growth. Under the pecking order theory, a company is required to fund the financial resources by retaining earnings at the beginning but if it still has some financial problems, it must raise funds on debt followed by equity. Based on the trade-off theory, growth causes firms to shift their financing from new equity to debt in order to reduce agency problems. Previous research has shown that a higher profit margin and debt to equity ratio as well as a lower dividend payout ratio and assets to sales ratio can increase the sustainable growth rate (Arellano & Higgins, 2007). Amouzesh et al. (2011) mentioned that the combination of operating and financial elements, such as profit margin, asset efficiency, and capital structure and retention rate mostly has an association with sustainable growth. The four main factors that influence the sustainable growth rate are (1) financial leverage, (2) dividend policy, (3) profitability, and (4) asset efficiency (Higgins, 1977). Therefore, what are the sustainable growth rate determinants?

Apart from focusing on the factors that influence the sustainable growth rate, there is another important issue that has gained little attention from researchers, which is the sustainable growth rate and its effect on stock returns. Based on a previous study, the role of sustainable growth rate needs to be considered as it is a future-oriented measure of firms' performance that may have a significant impact on firm's stock price (Arora et al., 2018). This theory is consistent with the theory developed by Fama and French (Lockwood & Prombutr, 2010). Thus, does the sustainable growth rate have a significant relationship with share price performance?

Besides, there are several studies that investigated the relationship between capital structure (Welch, 2004), dividend policy (Hussainey et al., 2011; Hashemijoo, Mahdavi-Ardekani & Younesi, 2012; Khan, 2012; Sharif et al., 2015), profitability (Buzzell et al., 1975) and asset efficiency (Beccalli, Casu & Girardone, 2006), with share price performance. However, no specific studies have studied about sustainable growth rate as a mediator in the relationship between determinants of sustainable growth rate and share price performance. Therefore, does a direct relationship exist between sustainable growth rate determinants and share price performance? And does sustainable growth rate play an indirect or mediator role between the determinants of sustainable growth rate and share price performance? There are four objectives of this research as follows:

- i. To examine the direct relationship between sustainable growth rate determinants and share price performance.
- ii. To examine the direct relationship between sustainable growth rate determinants and sustainable growth rate.
- iii. To investigate the significant relationship between sustainable growth rate and share price performance.
- iv. To determine the mediating effect of the sustainable growth rate on the relationship between sustainable growth rate determinants and Share Price Performance.
- v.

To answer the above research question and research objective, this research used a quantitative approach to collect data from Thomson Reuters Database. In this study, 181 Shariah and 142 non Shariah compliant companies in Malaysia were selected from 2007 until 2016. This research was performed Structural Equation Model (SEM) using STATA software. This research is organized as follows; the next session covers the literature review on sustainable growth rate determinants, sustainable growth rate and share price performance based on previous research and then followed by research methodology, sample and variable measurement. Then, discuss on research findings analysis. Lastly, the overall conclusion and implication of the research.

2. Literature Review

Sustainability is one of the issues that has received greater attention by managers and investors when handling their business investment. In the financial context, the term of sustainability refers to a sustainable growth rate. Sustainable growth rate is a maximum growth rate a firm can achieve without having to expand financial leverage and selling new equity. According to Higgins (1977), sustainable growth in a business context is the maximum platform or benchmark for a company to grow its revenue without reducing its financial resources. There are many factors that influence the sustainable growth rate in the literature. A famous framework for sustainable growth rate developed by Higgins (1977)

discusses four main factors that influence the sustainable growth rate, which are capital structure, dividend policy (under financial constraints), profitability, and asset efficiency. Based on a previous study by Amouzesh et al. (2011), a firm's sustainable growth rate depends only on the earnings' retention rate (r) and the return on equity. The calculation of the sustainable growth rate refers to the retention ratio multiple return on equity. Mostly, capital structure, profitability (profit margin), asset efficiency and retention ratio are associated with a sustainable growth rate. Capital structure, profitability, asset efficiency and retention ratio are a combination of operating and financial elements. The combination of a company's operating elements (i.e. Profit margin and asset efficiency) and financial elements (i.e. Capital structure and retention ratio) into a single measurement becomes a very valuable financial performance measurement for every company.

Sustainable growth rate (SGR) has to be evaluated with specific measurements of a company's performance. This measurement can be explained by determining the factors that affect the firm's SGR to help stakeholders (either internal or external management or customers) make the right decisions. Based on Hartono and Utami (2016) and Radasanu (2015), the sustainable growth rate is influenced by four factors including (1) profitability ratio, where an increase in profitability ratio increases generation of internal funds, with direct impact in achieving growth; (2) asset turnover ratio, where an increase in the net asset turnover ratio causes an increase of sales generated per asset unit, which reduces the need for additional assets for an increase in sales and results in an increase in the sustainable growth rate; (3) financial policy, where an increase in total debt provides additional resources and increases the sustainable growth rate; and (4) dividend policy, where an increase in the retention rate increases the growth of capital and implicitly the sustainable growth rate. According to Vasiliou and Karkazis (2002), SGR is not only applicable to firms, but it also can be used for banks. They stated that banks must know the maximum annual rate to increase total assets that can be supported by internally generated equity capital.

Focusing on firms, the results of SGR can guide the growth strategies of financially distressed firms and firms attempting to reduce their leverage. The SGR formula tells firms with access to financial markets, whether they will need to raise new funds to achieve a sales growth level in excess of their sustainable growth rate (Platt, 1995). Moreover, Harkleroad (1993) stated that SGR provides an analytical framework to help identify which elements of a firm's operating and financial structure management should focus on to improve its financial performance. It also enables analysts to compare performance over time to quickly identify the key elements of a competitor's strategy so they can focus their efforts on identifying the competitor's strengths and weaknesses. SGR is also an imperative tool in helping managers make major corporate financial decisions (Babcock, 1970). Arora et al. (2018) mentioned that SGR can be useful to managers in balancing their operational and financial strategies. It has been cited as a practically applicable concept in the modern financial management context, which can be used as a strategic planning and controlling tool of a firm (Fonseka, 2012). Higgins (1977) also mentioned that the SGR model is a useful method for evaluating alternatives and for ensuring that the internal financial, operating, and growth strategies adopted are consistent. At the end of the day, the final policy choice of a firm and its implementation is dependent on firm management. Moreover, Kanani et al. (2013) state that the important factors in financial information are firm's growth and also the risk of the company. In this case, the decision-making process and investment guidance are influenced by financial information. Sometimes, too much growth rate causes financial stress to the company and therefore, firm will face higher costs, higher debt, bankruptcy, financial losses, and declining market share (Fonseka et al., 2012). Therefore, SGR is a very important tool for a firm to manage, guide, control and plan operating and financial strategies in order to improve its financial performance and help managers make financing decisions. This study focuses on the importance of SGR for a firm.

Moreover, Lockwood and Prombutr (2010) investigated the association between sustainable growth and stock returns for the duration of 1964–2007 using monthly stock prices. In the study, they obtained significant results using the Time-Series Regressions, Cross-Sectional Regressions and Firm-Level, and Regression Tests. They found that high sustainable growth firms tended to have low default risk, book-to-market ratios, and subsequent returns. In addition, the net profit margin is the major determinant of subsequent returns compared to each sustainable growth rate component. Sustainable growth rate is maintained after controlling asset and capital expenditure growth. Another analysis stated that the sustainable growth effect is attributable to risk and not mispricing. The results are consistent with a discussion by Fama and French (1995) on rational pricing. The authors found that low-profit firms tended to have high BE/ME ratios and also high required returns. In this case, the authors mentioned that low profitability reflects high distress risk, which in turn should be related to high required returns.

Furthermore, there are several studies that investigated the relationship between capital structure (Welch, 2004), dividend policy (Hussainey et al., 2011; Hashemijoo, Mahdavi-Ardekani & Younesi, 2012; Khan, 2011; Sharif et al., 2015), profitability (Buzzell et al., 1975) and asset efficiency (Beccalli, Casu & Girardone, 2006), with share price performance. However, no specific studies have studied about sustainable growth rate as a mediator in the relationship between determinants of sustainable growth rate and share price performance. Therefore, this research determines the mediating effect of the sustainable growth rate on the relationship between sustainable growth rate determinants and Share Price Performance.

The proposed research framework (based on figure 1) of this research looks at the factors that influence the sustainable growth rate (capital structure, dividend policy, profitability, and asset efficiency) and the effect on the sustainable growth rate on share price performance. This study also examines the sustainable growth rate as a mediator in the relationship between sustainable growth rate determinants (capital structure, dividend policy, profitability and asset efficiency) and share price performance. Table 1 summarizes the hypotheses and step by step for each analysis. In addition, this study also examines the effect between sustainable growth rate and share price performance. The research framework for this research is developed based on the gaps identified in the literature. This research refers to the procedures by Baron and Kenny (1986) in testing the mediating effects or indirect paths, while taking into consideration the recent modifications and comments suggested by Hayes (2013) and Zhao et al. (2010). This framework and hypotheses aim to answer the research questions and achieve the specific objectives of this research.

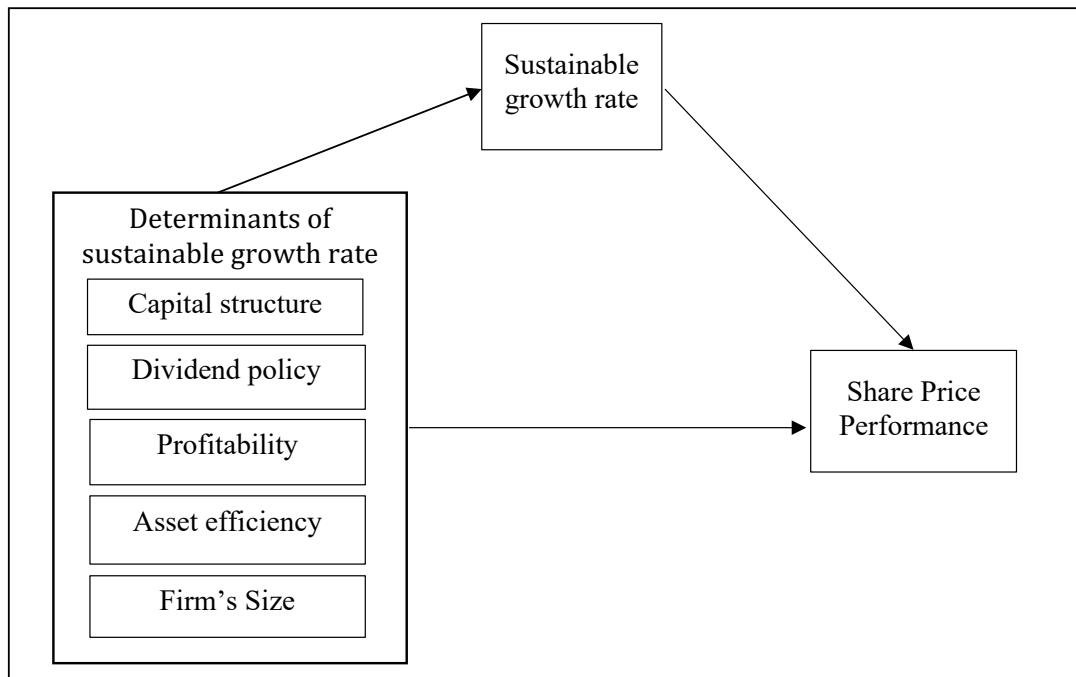


Fig 1. Research Framework of the Study

Table 1. Hypotheses and step by step of analysis

Step	Hypotheses	Details	Analysis
Step 1	Hypothesis 1	Sustainable growth rate determinants and share price performance (H1a – H1g).	Sustainable growth rate determinants have a significant relationship with share price performance (refer: Table for the predicted sign).
Step 2	Hypothesis 2	Sustainable growth rate determinants and sustainable growth rate (H2a – H2g).	Sustainable growth rate determinants have a significant relationship with sustainable growth rate (refer: Table for the predicted sign).
Step 3	Hypothesis 3	Sustainable growth rate and share price performance.	Sustainable growth rate of firm has a negative/positive relationship with share price performance.
Step 4	Hypothesis 4	Indirect/mediating effects.	Sustainable growth rate has an indirect/mediating effect on the relationship between sustainable growth rate determinants and share price performance.

3. Research methodology

The structural equation modeling (SEM) was used to estimate the direct and indirect effects by using STATA (Hussain et al., 2017; and Gu, Cao & Wang, 2019). We use the SEM method in Stata software. We performed SEM using Stata software because it can be the suitable method to answer the research questions and achieve the specific objectives of this research.

Since the data series are in panel form, we employed panel unit root tests to determine whether or not the variables in the model are stationary. This research used unbalanced data. For unbalanced data, the most appropriate test is Fisher types (augmented Dickey-Fuller (ADF) (Dickey and Fuller, 1979) and PP-Fisher (Phillips and Perron, 1988). The tests are testing the null hypothesis of unit roots (or stationary) in panel data sets. After confirming that all variables are stationary and multicollinearity, SEM method in Stata software is estimated. This research estimate step by step for each analysis as follows:

$$\text{Step 1} : \text{SPP}_{i,t} = \beta_0 + \beta_1 \text{LEV1}_{i,t} + \beta_2 \text{DPR}_{i,t} + \beta_3 \text{NPM}_{i,t} + \beta_4 \text{STA}_{i,t} + \beta_5 \text{SIZE}_{i,t} + \varepsilon_{it} \quad (1.1)$$

$$\text{Step 2} : \text{SGR}_{i,t} = \beta_0 + \beta_1 \text{LEV1}_{i,t} + \beta_2 \text{DPR}_{i,t} + \beta_3 \text{NPM}_{i,t} + \beta_4 \text{STA}_{i,t} + \beta_5 \text{SIZE}_{i,t} + \varepsilon_{it} \quad (1.2)$$

$$\text{Step 3} : \text{SPP}_{i,t} = \beta_0 + \beta_1 \text{SGR}_{i,t} + \varepsilon_{it} \quad (1.3)$$

$$\text{Step 4} : \text{SPP}_{i,t} = \beta_0 + \beta_1 \text{SGR}_{i,t} + \beta_2 \text{LEV1}_{i,t} + \beta_3 \text{DPR}_{i,t} + \beta_4 \text{NPM}_{i,t} + \beta_5 \text{STA}_{i,t} + \beta_6 \text{SIZE}_{i,t} + \varepsilon_{it} \quad (1.4)$$

4. Sample and variable measurement

The data set used in this research was collected from Thomson Reuters Database, in which Shariah and non Shariah compliant firms listed under Bursa Malaysia were used as a sample of firms on an annual basis from 2007 until 2016. Listed companies from financial sectors are excluded from the sample (Refer Table 2) because of its exclusive features in financial statements and business activities (Ali et al., 2009). From all the data we only gathered 323 firms used as full data are required for this research.

In addition, the outlier is an observation with large residual can be measured by using a cook's distance test. If $D > 1$, this indicated big outlier problem and removed from the data set. After removing the outliers, the final observations become 3095, 1731 and 1364 for overall, Shariah and non Shariah compliant companies (refer table 2).

Table 2. No. of Final Observations by using Cook's Distance Test

Type	Overall	Shariah Compliant	Non-Shariah Compliant
No. of companies	323	181	142
No. of observations	3230	1810	1420
No. of final observations (removing outliers based on cook's distance test)	3095	1731	1364

Table 3 indicates the variables used in this research with the measurements of each variable. In this research, share price performance was used as a dependent variable while the sustainable growth rate used as a dependent variable and mediating variable. Besides, independent variables consist of financial leverage, dividend policy, profit margin, assets efficiency, and a firm's size.

The previous studies used the Higgins model to calculate the sustainable growth rate (Amouzesh et al., 2011; Cahyo Hartono & Rahmi Utami, 2016; Chen et al., 2013; Escalante et al., 2009; Fonseka et al., 2012; Hafid, 2016; Molly et al., 2012). This study used the Higgins model equation to calculate the sustainable growth rate of Shariah compliant firms in Malaysia. The SGR is generally based on information provided in a firm's annual report, taking the form: $SGR = ROE \times (1 - DPR)$. There is a range of alternative SGR measures (Higgins, 1977) with variation found in both the measure of return on equity and the measure of dividend payout ratio selected for calculation. Then, SPP is the share price performance based on the previous study by Lockwood and Prombutr (2010).

Table 3. Variables used in the measure of Sustainable growth rate determinants, sustainable growth rate and share price performance

	Variables	Measurement
Capital Structure	TDTE	Total debt / Total equity
Dividend Policy	DPR	Dividend per share/Earnings per share
Profitability	NPM	Net income / Sales
Assets Efficiency	STA	Sales /Total assets
Firm's size	Log TA	Logarithm of total assets
Sustainable Growth Rate	SGR	Return on equity \times Retention ratio
Share price performance	SPP	Initial stock price minus ending stock price and divided by ending stock price

5. Empirical Results

This section reports and presents the results of estimations for mediation effect by performing SEM using Stata Software on the data sets described above over the period of 2006 until 2017. This discussion consists of descriptive statistics, unit root tests, correlation analysis and four steps in mediation effects analysis.

5.1 Descriptive Statistics

Table 4 presents the descriptive statistics for the overall sample, Shariah and non Shariah compliant firms. The average dividend policy (DPR), the firm's size (TA) and sustainable growth rate (SGR) for Shariah compliant companies are 31.38%, 20.32 and 4.77%, respectively, which are higher than those of non Shariah compliant companies, 24.55%, 5.45 and 1.36%, respectively. The minimum SGR for Shariah compliant companies is -1.25% and the maximum is 55% with 8.79% as the standard deviation. While SGR for non Shariah compliant companies, the minimum of SGR is -34.10%, the maximum is 149% with 94% is the standard deviation. This indicates that the SGR for Shariah compliant companies is less volatile than that of non Shariah compliant companies.

The minimum DPR and TA for Shariah are -774% and 17.42, respectively, while the minimum DPR and TA for non Shariah are 7.77% and 1.77, respectively. While, the maximum DPR and TA for Shariah are 1453% and 25.61,

respectively, while the maximum DPR and TA for non Shariah are 41% and 7.96, respectively. Contradict to SGR, the DPR and TA for Shariah compliant companies is more volatile with standard deviation of 66% and 1.29 compared to non Shariah of 10% and 0.80.

The average leverage (TDTE), net profit margin (NPM), asset efficiency (STA) and share price performance (SPP) for Shariah compliant companies are 38%, 9%, 77% and 9%, respectively, which are lower than those of non Shariah compliant companies, 47%, 151%, 63% and 13% respectively. The minimum and maximum TDTE for Shariah are -306% and 1296%, respectively, while TDTE for non Shariah are -3126% and 1188%, respectively. This indicates that the TDTE for Shariah is less volatile with standard deviation of 56% compared to non Shariah of 139%. Similarly, the NPM and STA for Shariah (20% and 51%, respectively) are also of lower volatility compared to non Shariah compliant companies (4048% and 86%, respectively). But, the SPP for Shariah is more volatile with standard deviation of 39% compared to non Shariah of 9%.

Based on the descriptive statistic, the preliminary observation is that generally, Shariah compliant firms have higher growth in SGR and the SGR is comparatively more stable than those of non Shariah companies. Thus, with high SGR, the TDTE, NPM, and ATS of Shariah are lower and more stable than those of non Shariah.

Table 4. Descriptive Statistics

Variables	Mean	Minimum	Maximum	Standard deviation
Overall				
TDTE	0.4186	-31.2577	12.9581	1.0209
DPR	0.2837	-7.7389	14.5349	0.4987
NPM	0.7143	-244.264	1139.66	26.8798
STA	0.7958	-6.3342	5.2949	0.6865
TA	13.7660	1.7709	25.6129	7.4633
SGR	0.0327	-34.1017	1.4892	0.6331
SPP	0.1059	-1.1654	1.9189	0.3015
Shariah Compliant				
TDTE	0.3769	-3.0576	12.9581	0.5795
DPR	0.3138	-7.7389	14.5349	0.6593
NPM	0.0896	-2.0249	2.7807	0.2006
STA	0.7661	0.0143	4.7004	0.5073
TA	20.3172	17.4224	25.6129	1.2946
SGR	0.0477	-1.2493	0.5479	0.0879
SPP	0.0872	-1.1654	1.9189	0.3935
Non-Shariah Compliant				
TDTE	0.4714	-31.2577	11.877	1.3909
DPR	0.2455	0.0777	0.4069	0.1017
NPM	1.5071	-244.264	1139.66	40.4839
STA	0.8336	-6.3342	5.2949	0.8606
TA	5.4520	1.7709	7.9616	0.7950
SGR	0.0136	-34.1017	1.4892	0.9484
SPP	0.1298	0.0154	0.3381	0.0939

5.2 Panel Unit Root Test

Moreover, Panel unit root tests are adopted to confirm that the variables are stationary at $I(0)$ in order to avoid incorrect inferences if the condition is not met. Table 5 shows the panel unit root tests for unbalanced data by using Fisher types (augmented Dickey-Fuller (ADF) (Dickey and Fuller, 1979) and PP-Fisher (Phillips and Perron, 1988). We find that most of the variables are stationary at $I(0)$ or have stationary characteristics since nulls of the unit root are rejected. Then, this lets further analysis to estimate the direct and indirect effects by performing SEM using Stata software.

Table 5. Panel unit root tests

Variables	Overall	Shariah Compliant	Non-Shariah Compliant
Lev 1 (TDTE)	1584.8769 (0.0000)	1006.1538 (0.0000)	578.7231 (0.0000)
Dividend policy	1905.0706 (0.0000)	1516.7811 (0.0000)	388.2895 (0.0000)
Profitability	1664.7301 (0.0000)	851.4333 (0.0000)	813.2968 (0.0000)
Assets efficiency	1313.2939 (0.0000)	733.6917 (0.0000)	579.6023 (0.0000)
Firm size	1167.7544 (0.0000)	519.4135 (0.0000)	648.4052 (0.0000)
Sustainable growth rate	1885.4937 (0.0000)	1137.3662 (0.0000)	748.1275 (0.0000)
Share price performance	3317.7933 (0.0000)	2557.9258 (0.0000)	759.8674 (0.0000)

5.3 Correlation Analysis

We also provide the correlation coefficient to examine the relationship between all variables and also, can support to confirm the selected of variable results in this research. The correlation coefficient results for Shariah compliant found that leverage (TDTE) has a negative significant correlation with share price performance (SPP). The result indicated that companies that have a lower debt ratio, which experience further large positive stock returns (Welch, 2004). Besides, profitability (NPM) and sustainable growth rate (SGR) indicates positive significant correlation with share price performance. This result consistent with Gomez-mejia, Tosi & Hinkin (1987) and Brigham (1985) stated that a stock price will higher as is possible if the profitability ratio are all good. Similarly, higher SGR will increase SPP.

Moreover, correlation of all variables for Shariah compliant has a significant correlated with SGR. The TDTE and DPR are negative significant correlated with SGR while NPM, STA and FS are positive significant correlated with SGR. Thus, negative relationship between debt ratio and sustainable growth comply with pecking order theory. Contradict to the previous research, the result found that a higher profit margin and debt to equity ratio as well as lower dividend payout ratio and assets to sales ratio can increase the sustainable growth rate (Arellano & Higgins, 2007).

For non Shariah compliant, only DPR has a negative significant correlation with share price performance. The result shown that lower the payment of dividends will increase share price performance. Amidu (2007) stated that low dividend payout lowers the required rate of return and increases the market value of the firm's shares. Thus, a reduction in dividend payout generates internal funds for investment purposes, in that way, it can reduce the capital market and increasing agency theory. There is positive correlation between FS and SGR. Higher size of a firm can increase the sustainable growth rate of the firm.

Table 6. Correlation analysis

Variable	Overall	Shariah Compliant	Non-Shariah Compliant
Correlation sign of independent variables with share price performance			
TDTE	-0.0179	-0.0441*	-0.0153
DPR	0.0064	0.0202	-0.2986***
NPM	0.0019	0.1237***	-0.0031
STA	0.0180	0.0172	0.0308
FS	-0.0673***	0.0179	-0.0124
SGR	0.0152	0.1796***	-0.0053

Correlation sign of independent variables with sustainable growth rate			
TDTE	-0.0099	-0.3551***	0.0077
DPR	-0.0077	-0.0436*	-0.0372
NPM	0.0242	0.4055***	0.0248
STA	0.0354**	0.0760***	0.0391
FS	0.0370**	0.1096***	0.1291***

Note: ns = not significant

5.4 Mediation analysis

Going straight to the results in Table 7, the coefficient of determinants (R^2) for all analysis is lower than 80%. Even R^2 is low, but still can indicate a real relationship between dependent and independent variables. The results indicate that the independent variable is not explaining much of the variation of the dependent variable. The R^2 for Shariah compliant is higher than non Shariah compliant. For example, NPM in Shariah compliant has a $\beta=0.1639$. This means that a one unit increase in NPM is associated on average of 0.1639 unit increase in SGR. The following analysis will be discussed in four stages as follows (i) relation between sustainable growth rate determinants and share price performance. (ii) relation between sustainable growth rate determinants and sustainable growth rate. (iii) relation between sustainable growth rate and share price performance. (iv) the mediation effect.

Table 7. Statistically significant value estimates for determinants of sustainable growth rate and share price performance

Model	Overall			Shariah Compliant			Non-Shariah Compliant		
Panel A	Coef. (β)	Std. error	C.R.	Coef. (β)	Std. error	C.R.	Coef. (β)	Std. error	C.R.
TDTE \rightarrow SGR	0.0100	0.0385	0.26	-0.0529	0.0152	-3.48***	0.0130	0.0296	0.44
DPR \rightarrow SGR	-0.0147	0.0060	-2.43**	-0.0152	0.0054	-2.78***	-0.4230	0.1514	-2.79***
NPM \rightarrow SGR	0.0009	0.0443	0.02	0.1639	0.0286	5.72***	0.0009	0.0475	0.02
STA \rightarrow SGR	0.0356	0.0071	5.02***	0.0264	0.0038	6.87***	0.0503	0.0154	3.26***
FS \rightarrow SGR	0.0035	0.0026	1.35	0.0105	0.0022	4.78***	0.1584	0.1359	1.17
Panel B									
TDTE \rightarrow SPP	-0.0125	0.0070	-1.80*	0.0192	0.0295	0.65	-0.0060	0.0026	-2.31**
DPR \rightarrow SPP	0.0060	0.0107	0.56	0.0138	0.0098	1.41	-0.2796	0.0202	-13.85***
NPM \rightarrow SPP	-0.0003	0.0007	-0.49	0.1234	0.0554	2.23**	-0.0002	0.0003	-0.60
STA \rightarrow SPP	0.0063	0.0062	1.01	0.0094	0.0176	0.53	0.0028	0.0027	1.02
FS \rightarrow SGR	-0.0028	0.0007	-4.23***	-0.0056	0.0072	-0.78	0.0033	0.0027	1.20
SGR \rightarrow SPP	0.0084	0.0751	0.11	0.7442	0.1577	4.72***	-0.0018	0.0103	-0.18
R-squared (R^2): SGR		0.0038			0.3092			0.0217	
R-squared (R^2): SPP		0.0060			0.0367			0.0926	
Overall		0.0095			0.3124			0.1122	

Notes: ***, **, and * denote significant at 1%, 5%, and 10% levels, respectively. The SEM was performed using Stata software measures the Beta (β) coefficient, standard error and statistically significant values using resampling from the bootstrapping procedures for a number of samples of 5000 for all sample.

5.4.1 Step 1: Relation between sustainable growth rate determinants and share price performance.

Table 8 shows the relationships between the sustainable growth rate and share price performance (Hypothesis 1) for the three samples such as overall, Shariah compliant and non Shariah compliant. For the overall sample, the TDTE and FS are

negatively significant relationship with SPP. The result indicated that companies that have a lower debt ratio, which experience further large positive stock returns (Welch, 2004). Higher size of a firm can reduce share price performance.

For Shariah compliant, NPM shows a significant relationship with share price performance. The positive relationship indicates that higher profitability performs well by generating higher share price performance. Moreover, the TDTE and DPR for non Shariah compliant are significantly related to share price performance. Similarly, companies that have a lower debt ratio, which experience further large positive stock returns (Welch, 2004). Sometimes, a growth rate that is too high causes financial stress and therefore, the company will face higher costs, which may lead to bankruptcy, financial losses, and declining market share (Fonseka et al., 2012). Also, the result shown that lower the payment of dividends will increase share price performance. Mohammed Amidu (2007) stated that low dividend payout lowers the required rate of return and increases the market value of the firm's shares.

Table 8. Direct Relationship between Sustainable Growth Rate Determinants and Share Price Performance

Hypothesis	Description	Overall	Shariah Compliant	Non-Shariah Compliant
H1a	TDTE to SPP	Significant (-)	Not significant (+)	Significant (-)
H1d	DPR to SPP	Not significant (+)	Not significant (+)	Significant (-)
H1e	NPM to SPP	Not significant (-)	Significant (+)	Not significant (-)
H1f	STA to SPP	Not significant (+)	Not significant (+)	Not significant (+)
H1g	FS to SPP	Significant (-)	Not significant (-)	Not significant (+)

5.4.2 Step 2: Relation between sustainable growth rate determinants and sustainable growth rate.

Hypothesis 2 examines the relationship between sustainable growth rate determinants and sustainable growth rate. According to predicted sign and significance values for sustainable growth rate determinants obtained in the overall, Shariah compliant, and non Shariah compliant in Table 9, there are same results for the sustainable growth rate determinants. All variables for Shariah compliant have a significant relationship with a sustainable growth rate. Then, DPR and STA for all samples are statistically significant. DPR shows a negative significant relationship with a sustainable growth rate. Theoretically, a negative relationship between the payout and growth ratios means that high growth firm need to reduce the payout ratio and retain more earnings to build up "precautionary reserves", but low growth firms are likely to be more mature and build up their reserves for flexibility considerations (Lee et al., 2015). Moreover, asset efficiency (STA) has a positive significant relationship with a sustainable growth rate. Higher asset efficiency tends to have a higher sustainable growth rate.

With respect to TDTE, NPM and FS, only the Shariah compliant sample shows a significant relationship with sustainable growth rate. There is a negative significant relationship between TDTE and SGR. According to Fonseka et al. (2012), a growth rate that is too high causes financial stress and therefore, the company will face higher costs, which may lead to bankruptcy, financial losses, and declining market share. Then, NPM and FS show a positive significant relationship with a sustainable growth rate and consistent with Higgins (1977), mentioned that more profitable firms had a higher sustainable growth rate due to effective investment in fixed assets, efficient working capital management, and higher taxes.

Table 9. The Direct Relationship between Sustainable Growth Rate Determinants and Sustainable Growth Rate

Hypothesis	Description	Overall	Shariah Compliant	Non-Shariah Compliant
H2a	TDTE to SGR	Not significant (+)	Significant (-)	Not significant (+)
H2d	DPR to SGR	Significant (-)	Significant (-)	Significant (-)
H2e	NPM to SGR	Not significant (+)	Significant (+)	Not significant (+)
H2f	STA to SGR	Significant (+)	Significant (+)	Significant (+)
H2g	FS to SGR	Not significant (+)	Significant (+)	Not significant (+)

5.4.3 Step 3: Relation between sustainable growth rate and share price performance

Hypothesis 3 predicts a positive relationship between the sustainable growth rate of the firm and share price performance. Table 10 shows that the only Shariah compliant sample has a positive significant relationship between sustainable growth rate and share price performance ($z=4.72$, $p<0.01$). The result indicated that higher sustainable growth rate tend to have a higher share price performance.

Table 10. The Direct Relationship between Sustainable Growth Rate and Share Price Performance

Hypothesis	Description	Overall	Shariah Compliant	Non-Shariah Compliant
H3	Sustainable growth rate to share price performance	Not significant (+)	Significant (+)	Not significant (-)

5.4.4 The mediation effect.

Table 11 shows whether the sustainable growth rate has an indirect/mediating effect on the relationship between sustainable growth rate determinants and share price performance. Based on Ramli (2014), there is some requirement must be met for the mediation effect based on Baron and Kenny (1986), Iacobucci and Duhachek (2003) and Maackinnon et al. (1995). The requirements for mediation effect by referring figure 2: firstly, the indirect path “a” and “b” should be significant. Secondly, the relationship between the path coefficients of sustainable growth rate determinants and sustainable growth rate can be significant or non-significant (path c’). And, patch c (total direct effect) is not a necessary to be significant.

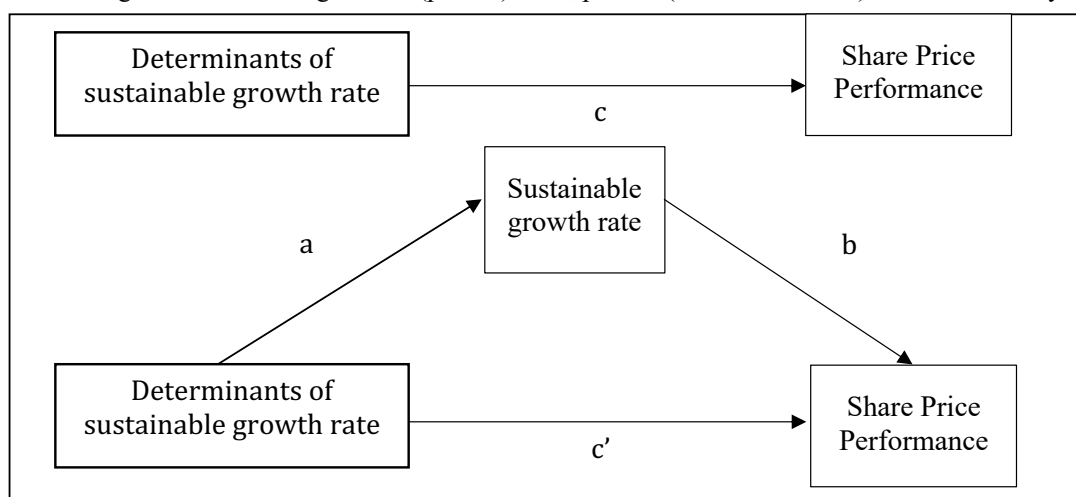


Figure 2. Mediation Effect

In this discussion, we only focus Shariah compliant sample because meets the requirement in SEM where the sustainable growth rate is a significant relationship with share price performance. The other two samples such as overall and non Shariah compliant do not meet the requirement of a significant relationship between sustainable growth rate and share price performance. A mediation model hypothesizes that the independent variable (SGR’s determinants) influences the mediator (SGR) which, in turn, influences the dependent variable (SPP). Based on table 11, mediation effect or indirect effect of all variables shows that there is a significant mediation effect. The results also consistent with Sobel t-statistics.

Table 11. Sustainable Growth Rate Play as an Indirect/Mediator between the Determinants of Sustainable Growth Rate and Share Price Performance

Mediating effects analysis	Shariah Compliant				
	Bootstrap			Sobel t-statistics	Result
	Coef.	Std. error	Critical ratio		
TDTE → SGR → SPP	-0.0394	0.0112	-3.51***	-2.8009***	Significant (-)

DPR → SGR → SPP	-0.0113	0.0044	-2.53**	-24174**	Significant (-)
NPM → SGR → SPP	0.1219	0.0325	3.75***	3.6429***	Significant (+)
STA → SGR → SPP	0.0196	0.0048	4.06***	3.9037***	Significant (+)
FS → SGR → SPP	0.0078	0.0020	3.98***	3.3557***	Significant (+)

Notes: ***, **, and * denote significant at 1%, 5%, and 10% levels, respectively. The SEM was performed using Stata software measures the Beta (β) coefficient, standard error and statistically significant values using resampling from the bootstrapping procedures for a number of samples of 5000 for all sample.

In Table 13 shows the summary results of the mediation effect with the typology of mediation (refer table 12). Based on path c, only NPM is significant, but another variable is not significant. The effect, including mediator for paths “a” and “b” is significant for all variables. According to the mediation effect result, only NPM is considered as a “complementary mediation”. The complementary mediation means that the indirect effect ($a \times b$) and direct effect (c) are significant with the same direction. NPM → SGR → SPP has positive direction. This result indicated that higher NPM will increase SGR and SPP (refer figure 3).

Finally, all variable (TDTE, DPR, STA, and TA) except NPM is considered as an “indirect-only mediator variable. The indirect-only mediator variable means that the indirect effect ($a \times b$) is significant, but and direct effect (c) is not significant. The direct effects (c) for TDTE and DPR shows an insignificant relationship, path a shows a negatively significant relationship, path b shows positively significant, and path c’s shows a significant relationship. Therefore, leverage ratio can increase the sustainable growth rate and share price performance. This result complies with trade off theory. Then, The direct effect (c) shows for STA and TA shows an insignificant relationship, path a shows a positive significant relationship, path b shows positively significant, and path c’ s shows a significant relationship. This result indicated that asset efficiency is increased and the size of firm bigger would give a higher sustainable growth rate of firm and better share price performance.

Table 12. A Typology of Mediations

Types of mediation	Description
Complementary mediation	The indirect effect (<i>path: $a \times b$</i>) and direct effect (<i>path c</i>) both significant and the signs pointing in the same direction.
Competitive mediation	The indirect effect (<i>path: $a \times b$</i>) and direct effect (<i>path c</i>) both significant and the signs pointing in the opposite direction.
Indirect-only mediation	The indirect effect (<i>path: $a \times b$</i>) significant, but direct effect (<i>path c</i>) is not significant.
Direct-only non-mediation	The indirect effect (<i>path: $a \times b$</i>) is not significant, but direct effect (<i>path c</i>) is significant.
No-effect non-mediation	Neither the indirect nor the direct effect is significant.

Source: Ramli (2014)

Table 13. Summary Results of Mediation Effect with the Typology of Mediation

Paths	Description	Shariah Compliant	
		Result	Decision
a	H2a: TDTE → SGR	Significant (-)	Indirect-only mediation
b	H3: SGR → SPP	Significant (+)	
c	H1a: TDTE → SPP	Not significant (+)	
c'	H4a: TDTE → SGR → SPP	Significant (-)	
a	H2d: DPR → SGR	Significant (-)	Indirect-only mediation
b	H3: SGR → SPP	Significant (+)	
c	H1d: DPR → SPP	Not significant (+)	
c'	H4d: DPR → SGR → SPP	Significant (-)	
a	H2e: NPM → SGR	Significant (+)	Complementary mediation
b	H3: SGR → SPP	Significant (+)	
c	H1e: NPM → SPP	significant (+)	

c'	H4e: NPM → SGR → SPP	Significant (+)	
a	H2f: STA → SGR	Significant (+)	
b	H3: SGR → SPP	Significant (+)	
c	H1f: STA → SPP	Not significant (+)	Indirect-only mediation
c'	H4f: STA → SGR → SPP	Significant (+)	
a	H2g: FS → SGR	Significant (+)	
b	H3: SGR → SPP	Significant (+)	
c	H1g: FS → SPP	Not significant (-)	Indirect-only mediation
c'	H4g: FS → SGR → SPP	Significant (+)	

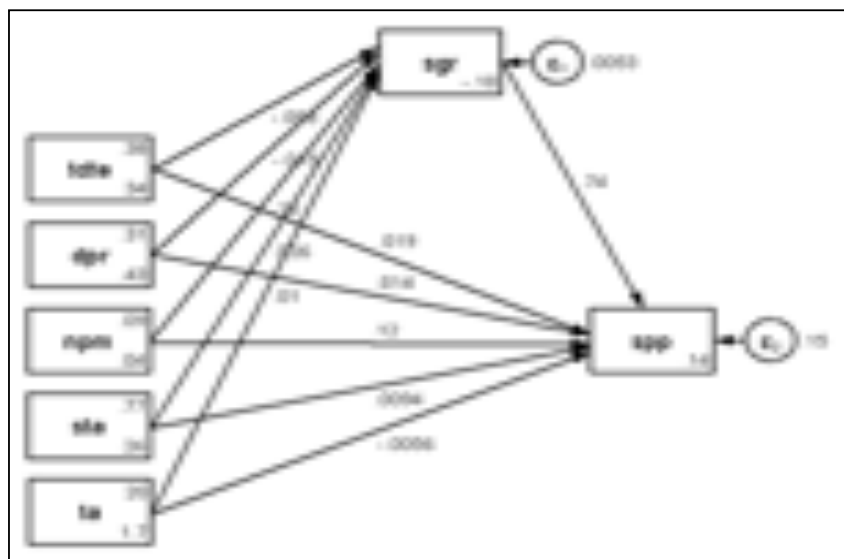


Figure 3. Mediation Effects

6. Conclusion

The objective of this study was to determine the influence of determinants of sustainable growth rate on share price performance among 181 Shariah and 142 non Shariah compliant companies in Malaysia over the period of 2007 to 2016. Additionally, this study was aimed to investigate the significance of the sustainable growth rate as mediator in the relationship between determinants of sustainable growth rate and share price performance. The existing literature is inadequate information about the relationship between determinants of sustainable growth rate and share price performance as it assumes, implicitly, that this relationship is direct. An alternative perspective, that has received less attention in the literature, is that this relationship can be mediated by the sustainable growth rate. Moreover, no specific studies have studied about sustainable growth rate as a mediator in the relationship between determinants of sustainable growth rate and share price performance. Therefore, this research determines the mediating effect of the sustainable growth rate on the relationship between sustainable growth rate determinants and Share Price Performance.

Based on the results, only Shariah compliant sample meets the requirement in SEM where the sustainable growth rate is a significant relationship with share price performance. The other two samples such as overall and non Shariah compliant do not meet the requirement of a significant relationship between sustainable growth rate and share price performance. A mediation model hypothesizes that the independent variable (SGR's determinants) influences the mediator (SGR) which, in turn, influences the dependent variable (SPP). According to the mediation effect result, only NPM is considered as a "complementary mediation". The complementary mediation means that the indirect effect ($a \times b$) and direct effect (c) are significant with the same direction. NPM to SGR to SPP have positive direction. This result indicated that higher NPM will increase SGR and SPP. For TDTE, DPR, STA, and TA are considered as an "indirect-only mediator variable".

The results demonstrate that better or worse sustainable growth rate, and rather determinants of sustainable growth rate, is lead for share price performance when they make their company's planning in order to have a better business prosperity. It is important for the organization or firm to understand that there are factors that influence the sustainable growth rate. It

involves the planning and managing of the firm's financial and operational activities. This research also provides important information to strengthen the financial stability and sustainability of the firms. And, the findings of this study will be used as a reference for future studies, on the other aspects of sustainable growth rate, especially for each sectors on how to manage financial and operating activities for firms more successful in the future.

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The Evaluation of Sale and Partnership-based Home Financing Product Development Using the Framework of Maqasid al-Shariah: Analytic Hierarchy Process (AHP)

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Abstract

Purpose – The goal of this paper is to evaluate Sale-Based and Partnership-based Home Financing product development process offered by Malaysian banks using Analytic Hierarchy Process (AHP) whether they observe the developed framework for Islamic Banking product development based on the theory of Maqasid al-Shariah.

Design/methodology/approach – This research adopted semi-quantitative approach to synthesize the end results by evaluating the responses from the respondents using Analytical Hierarchy Process (AHP). As a methodological benchmark, Shahwan's (2017) model of Maqasid al-Shariah based product development framework (MSPDF) was the key reference for the evaluation.

Findings – The paper examined the compliances of Sale-Based and Partnership-based Home Financing with MSPDF in three stages of product development stages, namely (1) conceptualization, (2) development and (3) commercialization. The overall result demonstrated that Partnership-based Home Financing (PHF) complied with the social requirements of MSPDF by 82.5%, while Sale-Based Home Financing (SHF) was rated at 12.5%. With regards to the three different stages of product development, the products met the social requirements of MSPDF mostly within the elements of “spiritual and mental wellness” and “social justice” in the product conceptualization stage at the rate of 40.0% and 16.7% by PHF and 26.6% and 20.5% by SHF, respectively. Similarly, in the product development stage, PHF and SHF fulfill social requirements at the rate of 32.5% and 19.5% by PHF and 20.7% and 18.8% by SHF. Finally, in product conceptualization stage, PHF scored the highest rating of 47.2% and SHF was rated as 38.7% for the element of “institution physical readiness”. These findings clearly indicate that PHF is better from SHF based on the framework.

Practical implications – The findings using AHP as the evaluation tool herein will assist Shariah advisors, economic analyst, financial engineers and policy makers to incorporate the relevant aspects of Maqasid al-Shariah in Islamic financial policies and product development and engineering.

Originality/value – Over the years, Islamic banking industry in Malaysia has been criticized for its over reliance on the Sale-Based Financing such as BBA, Bay' Inah and Tawarruq-based products. Critics argued that BBA and Bay' Inah are debt-based product, replicating the conventional loan instruments that financially overburdened the customers. As a solution, an effort was put to offer Partnership-based Financing such as Musharakah Mutanaqisah which was argued to be equitable and compatible product with Maqasid al-Shariah. Nevertheless, after several years of MM in the market, it was criticized for failing to meet several aspects of Maqasid al-Shariah. One therefore wonders whether these products failed to achieve Maqasid al-Shariah? If it is true, then at which stage of product development does this failure occur? Most of the previous relevant studies were explorative and descriptive by nature. Therefore, the present study aimed to fill this gap by investigating whether Islamic home financing products actually fulfilled Maqasid al-Shariah at the various stages of the development.

Keywords: Islamic finance, Financial engineering, Product development, Maqasid Shariah, AHP

1. Introduction

Islamic banking industry in Malaysia has made a remarkable progress over the last three decades since the establishment of first Islamic bank in the country in 1983. The industry has been able to cater for the wider financial needs of its customers, particularly Muslims by providing various interest-free products. One of these products is home financing, which is offered by Islamic banks through the contract of Tawarruq, Bay' Bithaman 'Ajil (BBA) and Musharakah Mutanaqisah (MM)/diminishing partnership (Shahwan, 2017). As at August 2019, these three products constitute 41.3%, 10.7% and 9.4% share of total financing respectively (BNM, 2019).

Over the years, Islamic banking has been criticized for its over reliance on the BBA product. Critics argue that BBA has been structured based on debt, replicating the conventional loan products that overburden the customers in price (Agha, 2016). In contrast, MM was proposed as just, equitable and closure to the objectives of Shari'ah. Nevertheless, after the introduction of MM in the market, it is also criticized for failing to meet Maqasid Shari'ah (MS) (Shahwan, 2017).

One therefore wonders whether it is true that these products fail to achieve Maqasid Shari'ah. If it is true, then at what stage in the process of developing these products does this failure occur? Most of the previous relevant studies are explorative and descriptive by nature. The present study fills in this gap by investigating whether Islamic home financing

products fulfill Maqasid Shari'ah (MS) at the various stages of their development. To assess the compliance of Islamic home financing products offered in Malaysia with MS, the researchers used Maqasid Shari'ah based product development framework (MSPDF) proposed by Shahwan (2017).

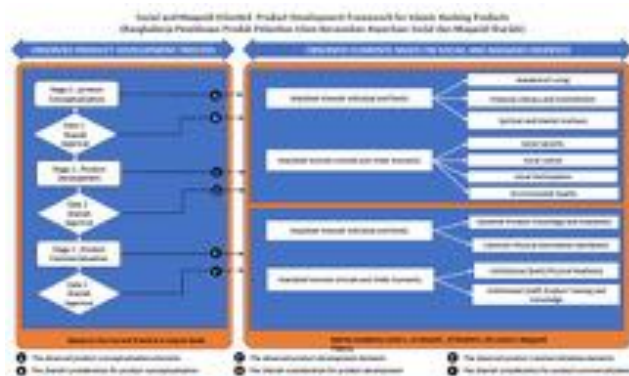
16.1.1. Simple Definition of Maqasid Shari'ah

Maqasid Shari'ah (MS) in its original form is a combination of two words; '*Maqasid*' and '*Shari'ah*'. The word '*maqasid*' is plural of '*maqsad*' which is derived from the word '*qasada-yaqsidu-qasdan*' means consistency of aim (*istiqamah al-tariq*) (Manzor, 2002). Al-Yubi, (2008) opined that both '*al-qasdu*' and '*al-maqsad*' refer to several linguistic meanings: (1) intent, reliance, credence and direction; (2) consistency of aim and (3) justice and equality. While the word '*al-Shari'ah*' means path, religion, guideline, and lifestyle (Manzor, 2002).

In technical terms, MS has been defined in various literatures with similar aims. Ibn 'Ashur (2006) refers to general MS as the meanings (*al-ma'ani*) and wisdoms (*al-hikam*) or wise purposes derived from most of the Shari'ah rulings. 'Ilal al-Fāsi (d. 1974) defined it as the purpose (*al-ghayah*) and secrets (*al-asrar*) behind every Allah's injunction (Al-Yubi, 2008). While Al-Raysuni (2006) described MS as "the purposes which the law was established to fulfil it for the benefit of humankind". According to Al-Yubi (2008), MS is the wise purpose considered by the Creator in His injunctions in general and specific aiming for public interest. By analysing the above definitions, it can be concluded that MS is (1) the human subjective interpretation of potential Divine secrets and spirits behind Allah's injunctions (2) which are held to be philosophical foundation for overall Shari'ah rulings.

16.1.2. The MSPDF Framework Development

The three Islamic home financing products which were group in 2 groups (sale-based and partnership based) were examined based on the framework proposed by Shahwan (2017). An illustration of MSPDF is shown in the following Figure 2. The framework can be divided broadly into two main sections (1) product development process and (2) incorporated Maqasid Shari'ah elements. The product development process is classified into three stages (1) conceptualization (2) product development and (3) commercialization. While the MS elements are summarized into three categories (1) Shari'ah requirements, (2) business requirements and (3) social requirements.



Source: Syahidawati Shahwan © LY2019004939

Fig. 1. MS based Product Development

Framework (MSPDF)

2. Research Methodology: Analytic Hierarchy Process (AHP)

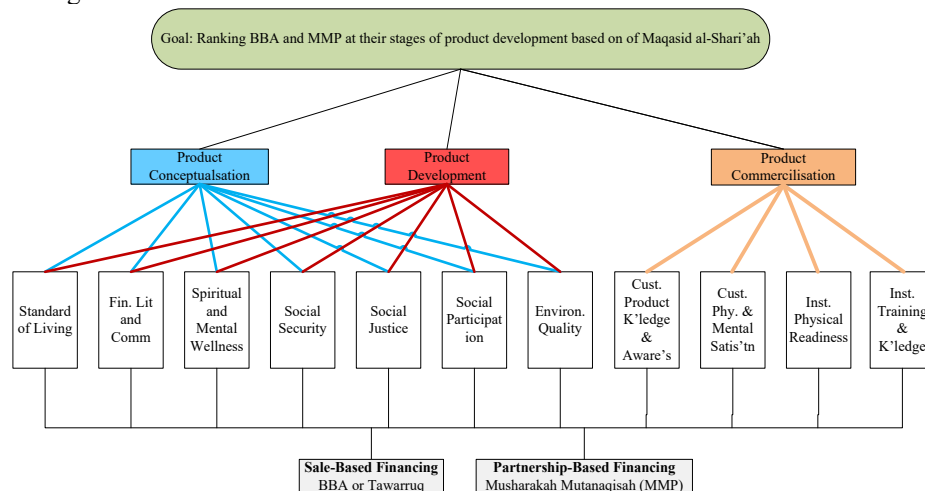
Analytic hierarchy process (AHP) is a structured decision making technique for organising and analysing complex decisions. It was developed by Thomas L. Saaty in 1977 based on complementary fields of mathematics, philosophy and psychology (Saaty, 1990). In making decision, the AHP assists decision maker to not only make correct decision, but most importantly is the decision that meet the goal of an organisation or an individual. It is also reported to be the best tool in dealing with complex decision making process (Abouzar & Asghar, 2011). Thus, it generally fits this study that requires the observed elements of Maqasid Shari'ah in product development process to be consistent with the goals and philosophy

of Islamic banking and finance. Moreover, all the features associated to AHP in a number of literatures make it appropriate for the study. For instance, AHP can be applied for both objective and subjective factors and also tangible and intangible factors in order to produce ratio scale ranking as reported in Abobakr, Khalid, and Ghassan (2012). The strength of AHP also lies in its capability to compare and interpret unquantifiable observed elements and multiple understanding of communication of team members due to various specialisations, terminologies, and perspective (Abobakr et al., 2012). All the above-mentioned quality of AHP makes them suit the criteria required to develop product development framework based on Maqasid Shari'ah.

AHP is claimed in many literatures to be one of the widely used decision making tools (For instance in Abobakr et al. (2012); Abouzar and Asghar (2011); Chinho and Ming-Lung (2010); N. P. George, Andreas, Katerina, and Andreas (2012); Huu Phuong and Kar Yin (2000); Javalgi, Armacost, and Hosseini (1989); Kumar (2006); Liberatore and Stylianou (1995); Ruchi, Zillur, Qureshi, and Ishwar (2012). It has been benefited in various fields and industries like in management, manufacturing, sports, healthcare, education, psychology, government and politics, business, and many others.

In banking sector, the tool has been reported in literatures for marketing (for instance in Ruchi et al. (2012) and Huu Phuong and Kar Yin (2000); Javalgi et al. (1989)), quality (for instance in N. P. George et al. (2012) and planning and development as reported in Kumar (2006). In specific field of product development especially in making decision of architectural construct of a service product, only an online paper found by the researcher posted by Bhushan (2008). However, in Islamic banking, the process has not been reported in any literature as according to the limited searching and knowledge of the researcher. This study thus will be the first attempt to provide rating or weights of observed elements when developing product of Islamic bank. The observed elements are derived from extensive literature reviews and narrative analysis of qualitative data. Finally, the study aims at providing product rating for two observed groups of products in Islamic banks; Tawarruq and BBA (TBBA), and MM.

The current research solicited the opinion of experts in Islamic banking and finance in order to rank the two products at the various stages of their development based on Maqasid Shari'ah using Thomas L. Saaty's decision-making tool. It was used to prioritise TBBA and MM home financing products in their PD stages based on Maqasid Shari'ah. There are three underlying principles of AHP namely (1) the construction of hierarchy; (2) the establishment of priorities; and (3) the logical consistency (Takala, Suwansaranyu, & Phusavat, 2006). Hence, it is a practical tool for breaking down a complex and unstructured situation similar to the case in this study that involves intangible concepts of Maqasid Shari'ah. Following the previous steps, these parts are arranged into a hierarchic order and numerical values are assigned to subjective judgments on their relative importance based on pair-wise comparisons. The judgment by the experts is finally synthesized to determine the highest priority (Saaty, 1990, 2008). The multi-criteria decision making hierarchy structure for the current study is as shown in Fig. 2.2.



Source: Author

Fig. 2. Hierarchy Structure for Prioritizing TBBA and MMP Home Financing Products

To sum up, AHP organizes a multi-criteria decision making problem into a hierarchy consisting of the relationships between goal, criteria, sub-criteria and alternatives. According to Saaty (2008), there are four steps to ensure that the prioritization process is organized accordingly as shown in Table 1.

Table 1: Adapting Saaty's AHP Process in the Current Study

STEPS	SAATY'S (2008)	CURRENT STUDY
Step 1	Define the problem and determine the kind of knowledge sought	The problem is to investigate which of the two Islamic home financing product achieve the highest level <i>Ma'alafah</i> (welfare) based on Maqasid Shari'ah and at what stage of their PD.
Step 2	Structure the decision hierarchy from the top with the goal of the decision, then the objectives from a broad perspective, through the intermediate levels (criteria on which subsequent elements depend) to the lowest level (which usually is a set of the alternatives)	The goal is to rank TBBA and MM at their stages of product development based on Maqasid Shari'ah. The criteria are the stages of product development in Islamic bank; and the sub-criteria are the elements of Maqasid Shari'ah. The hierarchy is structured based on the newly developed framework explained in the first part of the research method. The alternatives are the two prominent home financing products; TBBA and MM.
Step 3	Construct a set of pair-wise comparison matrices (PCM). Each element in an upper level is used to compare the elements in the level immediately below with respect to it.	The PCM for all the three criteria (Product Development stages), the sub-criteria (Maqasid elements) and two alternatives will be constructed. A blank PCM forms will be used to collect AHP data via face to face interviews with respondents from Islamic banking experts.
Step 4	Use the priorities obtained from the comparisons to weigh the priorities in the level immediately below. Do this for every element. Then for each element in the level below add its weighed values and obtain its overall or global priority. Continue this process of weighing and adding until the final priorities of the alternatives in the bottom most level are obtained.	Synthesis of the weights will be obtained using the Expert Choice 11 software. Similarly, the overall priorities of the alternatives based on their individual importance ratings with respect to the criteria (PD stages) and sub-criteria (Maqasid elements) over the two alternatives (IB Products) will be obtained as well.

Source: Adapted from Saaty (2008)

3. Administering the Survey Questions

The interviews were self conducted by the researcher. Adjustment was made to the questionnaire to make the AHP questioning process more user friendly and understandable. Previously in pilot survey, the questionnaires contained ten (10) pair-wise comparison matrices (PCMs) as shown in **Error! Reference source not found..** In the existing research, the questions were all asked in horizontal mode resembling Likert scale which is more familiar to most of the respondents. Some of the interview sessions were conducted in the offices of the interviewees and some were via online teleconference. An average of sixty minutes was taken to conduct the session. The interviewees were given introductory notes on the objectives of the study and the purpose of conducting the session. They were repeatedly reminded that their views as experts in the field of the study were extremely important. They were also being explained on the technique to rate the two pairs of Maqasid elements for social requirements. Saaty's ratio scale rating shown in Table 2 to prioritize the elements in the PCMs.

Table 2. Saaty's Ratio Scale of Judgment

VERBAL JUDGMENT OF IMPORTANCE	NUMERICAL RATING
Equal importance	1
Equal to moderate importance	2
Moderate importance	3
Moderate to strong importance	4
Strong importance	5
Strong to very strong importance	6
Very strong importance	7
Very strong to extreme importance	8
Extreme importance	9

Note: If any factor F_i has importance strength over F_j as any of the above non- zero numbers, then F_j has the reciprocal importance strength with F_i , i.e., $a_{ji} = 1 / a_{ij}$.

Source: Saaty & Peniwati, 2012

4. Data Collection

The weights in the pair-wise comparison matrices of the AHP depend on the experience of the participants or the experts. The survey allows a small number of participants since experts opinions are counted (Takala et al., 2006). In the current study, five experts were interviewed based on their experience with Islamic banking concept and operation and the *Shari'ah*. All of them are officers in Islamic banks and have substantial experience in the product development process of the respective banks. Their knowledge on Islamic banking home financing products is considerably high which eases the process to prioritise the Maqasid elements. This rich profile lends credibility to the author on the choice of the respondents, as shown in Table 3.

Table 3. Profiles of the Participated Experts

PROFILES	PE1	PE2	PE3	PE4	PE5
1. Educational background	Bachelor Degree	Bachelor Degree	Bachelor Degree Professional Cert	Bachelor Degree	Master Degree (PhD Candidate)
2. Working experience in Islamic bank	5 years	5 years	12 years	5 years	8 years
3. Working experience in the current bank	5 years	5 years	3 years	5 years	3 years
4. Current designated bank	BIMB	BIMB	Standard Chartered Saadiq	BIMB	Bank Rakyat
5. Current designated department	Personal Financing	Contact Centre	Product Manager	Shari'ah Review	Product Development
6. Current designated position	Deputy Manager	Team Leader	Senior Manager	Acting Head of Department	Unrevealed
7. Experience in product development activity	Yes	Yes	Yes	Yes	Yes
8. Knowledge of the following elements of Islamic Banking Home Financing Products:					
<i>Tawarruq Home Financing</i>					
Basic Idea - conceptual	Good	Good	Moderate	Good	Good
General Operation	Good	Good	Moderate	Good	Good
Muamalat terminology in the product	Good	Good	Moderate	Good	Good
Maqasid-orientation of the product	Good	Good	Moderate	Good	Good
Shari'ah issues of the product	Good	Good	Moderate	Good	Good
Pricing of the product	Good	Good	Moderate	Good	Good
Product's Muamalat technical operation	Good	Good	Moderate	Good	Good
<i>BBA Home Financing</i>					
Basic Idea - conceptual	Good	Good	Good	Very Good	Very Good
General Operation	Good	Good	Good	Very Good	Very Good
Muamalat terminology in the product	Good	Good	Good	Very Good	Very Good
Maqasid-orientation of the product	Good	Good	Good	Very Good	Very Good
Shari'ah issues of the product	Good	Good	Good	Very Good	Very Good
Pricing of the product	Good	Good	Good	Good	Very Good
Product's Muamalat technical operation	Good	Good	Good	Good	Very Good
<i>Musharakah Mutanaqishah Home Financing</i>					
Basic Idea - conceptual	Good	Moderate	Moderate	Good	Good
General Operation	Good	Moderate	Moderate	Good	Good
Muamalat terminology in the product	Good	Moderate	Moderate	Good	Good
Maqasid-orientation of the product	Good	Moderate	Moderate	Good	Good
Shari'ah issues of the product	Good	Moderate	Moderate	Good	Good
Pricing of the product	Good	Moderate	Moderate	Good	Good

Product's Muamalat technical operation	Good	Moderate	Moderate	Good	Good
Source: Author					

5. Data Analysis

The current study involves multiple experts which requires the author to aggregate the responses. According to Johnson (1980) in Zahedi (1986), the last step after collecting pair-wise comparisons data and assigning weights for the elements by using the “eigenvalue” method, researchers are required to aggregate the relative weights of decision elements from the multiple respondents to arrive at a set of ratings for the decision alternatives (or outcomes). Forman and Peniwati (1998) stated that there are two approaches frequently used in AHP to aggregate the group decision making; aggregation of individual judgements (AIJ); and aggregation of the individual priorities (AIP). AIJ is normally operated using the geometric mean and AIP is usually performed using the arithmetic mean. In the present study, the geometric mean of AIJ has been chosen to aggregate the group judgements.

6. Expert Choice

11 software was utilised to compute from the PCMs the priorities of the TBBA and MM based on Maqasid elements at all the three stages of their product development. The inconsistency ratio (IR) for all the pair-wise comparison matrices (PCMs) computed for the current study is 0.0458 or 4.58%. According to Saaty (citing Islam (2009), if the IR value is less than 0.10, then the amount of inconsistency present in the PCM is acceptable, however if $IR > 1.0$, then amount of inconsistency is not acceptable. Since the current study corresponds to the former value, it shows that the respondents have been consistent in their judgements and the data were considered reliable (Saaty and Vargas, 2001).

All the collected PCMs data were computed, synthesized, rated and ranked through the Expert Choice 11 software. The rating of TBBA and MM was calculated for three aspects (1) overall comparison between TBBA and MM, (2) Rating and ranking of the Maqasid-oriented categories and (3) three stages of product development.

i. Overall Ranking

The output from Expert Choice 11 software showed the following overall rating of BBA and MM with regards to their relation to Maqasid compliance as shown in Table 5.

Table 5: Overall Comparison between TBBA and MM

No.	Product	Rating	Ranking
1	Tawarruq and BBA (TBBA)	0.125	2
2	Musharakah Mutanaqishah (MM)	0.875	1

Source: Author.

The experts have ranked MM higher than TBBA in terms of compliance with Maqasid Shari'ah at three stages of their product development. It implies that in the two stages MM is able to preserve the standard of living, financial literacy and freedom, spiritual and mental wellness, social security, socio economics justice, social solidarity and environmental quality compared to TBBA. In the stage of product commercialization, MM is a better choice in terms of promoting customer product knowledge, physical and mental satisfaction, institutional (bank) physical readiness and institutional (staff) product training and knowledge.

This result supports similar findings by previous studies (Meera & Razak, 2005; Noreeta, 2008; Osmani & Abdullah, 2010; Saiful Azhar, 2010). This suggests that the industry should give priority to offering MM home financing facility compared to TBBA. Furthermore, the potential of MM to foster Maqasid in the overall product development process in Islamic bank will promote Maqasid theory on a larger scale.

ii. *Ranking of the Two Products with Respect to the Maqasid Components*

To further explore the fulfillment of the two products with regards to each Maqasid element, the Expert Choice 11 software generated the following findings in as shown in Table 6.

Table 6: Comparison between TBBA and MM with reference to the 18 Maqasid elements

Maqasid Element / Home Financing Products			TBBA	Musharakah Mutanaqishah
Element of Maqasid Shari'ah	Product Conceptualisation	Standard of living	0.125[4]	0.125[3]
		Financial Literacy and Commitment	0.064[6]	0.064[6]
		Spiritual and Mental Wellness	0.266[1]^a	0.400[1]^a
		Social Security	0.118[5]	0.096[5]
		Social Justice	0.205[2] ^b	0.167[2] ^b
		Social Participation	0.165[3]	0.097[4]
		Environmental Quality	0.070[7]	0.051[7]
	Product Development	Standard of living	0.019[7]	0.087[5]
		Financial Literacy and Commitment	0.144[3]	0.125[3]
		Spiritual and Mental Wellness	0.207[1]^a	0.325[1]^a
		Social Security	0.132[4]	0.082[6]
		Social Justice	0.188[2] ^b	0.195[2] ^b
		Social Participation	0.125[5]	0.125[3]
		Environmental Quality	0.085[6]	0.061[6]
	Product Commercialisation	Customer Product Knowledge and Awareness	0.105[4]	0.085[4]
		Customer Physical and Mental Satisfaction	0.123[3]	0.089[3]
		Institution Physical Readiness	0.387[1]^b	0.472[1]^b
		Institution Staff Training and Development	0.385[2]	0.353[2]

* The number in parentheses [#] shows the ranking for each product with respect to the redefined Maqasid elements

Source: Author

Table 6 shows that in developing the two products according to experts the first priority is to ensure the products preserve the Shari'ah compliance which had been redefined in the framework to maintain spiritual and mental wellness of Muslims (symbolized with letter a). The second priority is to maintain social justice (symbolized with b). In terms of product conceptualization, the first priority should be institutional physical readiness which refers to IFI provides (1) sufficient facilities (IT, physical) related to the new product and (2) sufficient promotions of the new product.

iii. *Ranking According to Three Stages of Product Development*

The software rated and ranked the three stages of product development with respect to TBBA and MM; product conceptualization, development and commercialization as shown in Table 7.

Table 7. Rating according to Three Stages of Product Development

No	PD Stages	AHP Rating
1	Product Conceptualisation	0.662 [1]
2	Product Development	0.191 [2]
3	Product Commercialisation	0.146 [3]

* The number in parentheses [#] shows the ranking for each stage with respect to the TBBA and MM product development

Source: Author

Table 7 shows that in all the three product development stages, product conceptualization should be given high priority when running the product development process followed by both product development and commercialization. The product conceptualization stage is assumed to be the most critical stage that sets a benchmark for coming products as opined by one expert:

“at the stage of product conceptualization which is more or less similar to product development in terms of its process, the manager shall ensure that the product from its root to its fruit follows exactly what has been prescribed in the Shari’ah regulations”.

7. Conclusion

This study used AHP technique to evaluate the chosen Islamic banking home financing based on Maqasid Shari’ah framework (MSPDF). The result showed that MM is rated 82.5% conforming the social requirements of Maqasid while TBBA fulfills the social requirements with rating score of 12.5%. With regards to the different three stages of product development, these two products confirm the social requirements of Maqasid mostly in the elements of “spiritual and mental wellness” and “social justice” in product conceptualization stage with 40.0% and 16.7% respectively for MM and 26.6% and 20.5% for TBBA. Similarly, in product development stage, the two product segments confirm social requirements with 32.5% and 19.5% respectively for MM and 20.7% and 18.8% for TBBA. In product conceptualization stage, the two products confirm social requirements of with highest rating score of 47.2% for MM and 38.7% respectively for the element of “institution physical readiness”.

From the rating score, it could be concluded that both products show different percentage in observing Maqasid Shari’ah (MS). The score proved that MM complies to MS with a higher ranking compared to TBBA. The score also indicated that both products complied with social requirements of MS with different ratings. These findings support the view of previous researchers who argued that MM is theoretically superior than TBBA in terms of observing MS in practice.

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A Systematic Review on Capital Structure of Shariah Compliance Firms

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Abstract

Capital structure is referring to the portion of debt and equity being used in running the business. The decision making on the appropriate portion is still a big issue as it may affect the risk facing by the firms. In the Islamic environment the decision is getting more challenging as shari'ah law outlines several rules and regulation on the debt usage whereas riba' or interest are prohibited. Numerous studies have been carried out on several aspects of capital structure decision of shari'ah compliance firms. Guided by PRISMA (Preferred Reporting Items for Systematic reviews and Meta-Analyses) method this study analysing the existing literatures on capital structure decisions of shari'ah compliance firms. 16 appropriate articles were derived from Scopus and Google Scholar database in doing the review.

Keywords: Capital structure, Shariah compliance firms, Islamic capital market, Systematic review

1. Introduction

The milestone of Malaysian capital market can be dated back to 1930 with the formation of "Singapore Stockbrokers' Association". However, the public trading of shares only started in 1960 with the establishment of the Malaysian Stock Exchange. Two trading rooms were involved which are in Singapore and Kuala Lumpur. It then split into Kuala Lumpur Stock Exchange Berhad (KLSEB) and Stock Exchange of Singapore in 1973 due to differences of currency after the separation of Malaysia and Singapore in 1965. Significant changes occur in 1976 as The Kuala Lumpur Stock Exchange (the new incorporated company) took over KLSEB. With the new structure, Kuala Lumpur Stock Exchange: KLSE (formerly known as The Kuala Lumpur Stock Exchange) shows significant progress.

Corresponding towards the development of Islamic finance, in 1997 Shariah Advisory Council (SAC) of the Securities Commission of Malaysia (SC) introduced shari'ah-compliant securities list. It was followed by the launching of Kuala Lumpur Shari'ah Index (KLSI) in April 1999. KLSE was rebranding to Bursa Malaysia on 14th April 2004 to enhance competitive position and to respond to global trends by making it more customer-driven and market oriented. The new rebranding ignited the exchange to progressively growing. After almost 90 years, more than 900 companies are traded in Bursa Malaysia. **Error! Reference source not found.** shows the detail number of companies listed in each market on 16th October 2019.

Table 4. Number of listed companies in Bursa Malaysia as at 16th October 2019

Market	Number of companies listed
Main market	791
ACE market	128
LEAP market	27

The establishment of SAC plays important roles in supporting Bursa Malaysia to promote Malaysia as one of the outstanding Islamic capital in the world. SAC adopts a two-tier quantitative approach, business activity benchmarks and financial ratio benchmarks. Only companies fall within these benchmarks are classified as shari'ah compliance securities. SAC is responsible to approve and update the list in Bursa Malaysia every May and November. On average 76 percent of the companies listed in Bursa Malaysia are shari'ah compliance. **Error! Reference source not found.** shows detail of the average for 6 consecutive screening period.

Table 5. Percentage of Shari'ah Compliance Companies Listed in Bursa Malaysia.

Screening date	Number of companies listed	Shari'ah compliance companies	Percentage of shari'ah compliance companies (%)
31 st May 2019	892	689	77
30 th November 2018	902	689	76
25 th May 2018	901	693	77
24 th November 2017	902	686	76
26 th May 2017	901	676	75
25 th November 2016	904	672	74

One of the financial ratios being used in the screening process is debt over total assets ratio. Only interest-bearing debt is included, hence Islamic financing and sukuk are excluded. To be classified as shari'ah compliance securities the ratio must be less than 33 percent. Higher ratios show that the companies involve with high level of riba' and riba'-based elements. The 33 percent benchmark shows the importance of capital structure decision of shari'ah compliance companies. It suggests that the decision making is much harder if the companies are planning to remain be classified as shari'ah compliance.

8. Capital Structure Theory

Research on capital structure decision goes as far back as in 1958 by Franco Modigliani and Merton Miller on the MM Theory of capital structure. Modigliani and Miller (1958) suggests that in a perfect market, any capital structure preference does not change the value of the company. Value of the company is totally dependent on income stream and risks attached to the business. To make the MM proposition hold a perfect capital market should fulfill several conditions including no (distortionary) taxes, no transaction costs, no bankruptcy costs, perfect contracting assumption followed by complete and perfect market assumption (Titman, 2001).

Considering the inefficiency of the market, Kraus and Litzenberger (1973) proposing the Trade-Off Theory. It suggests that the capital structure decisions are done by balancing the costs and benefits of debts usage. It addresses the trade-off between the tax shield benefits of debt and debts' expected costs of financial distress and bankruptcy. Company needs to adjust their capital structure regularly. However Donaldson (1961) argue that capital structure decision is made based on the preference. The Pecking Order Theory suggested that internal financing is the most preferred source of capital as compared to external financing. Retained earnings are the first, followed by debt and the new issues of equity will be the last remedy. The reason behind the sequence is because of the cost saving. Internal fund is the cheapest whereas issuing new equity will involve a very high cost.

Empirical studies are widely conducted globally to challenge and prove the above theories. However, most of the studies are not focusing on the Islamic Capital Market. Furthermore, study on systematic review of the area are still lacking. This article is trying to fill the gap by doing the systematic review on capital structure of shari'ah firms.

3. Method

The systematic review was conducted following the PRISMA (Preferred Reporting Items for Systematic Reviews and Meta-Analysis). The steps involved in the process: identification, screening and eligibility and a flow diagram detailing the application of PRISMA are shown in Figure A1 in Appendix.

3. Identification

Electronics databases were used for article searching. **Error! Reference source not found.** shows that searching from Scopus resulting 14 articles while Google Scholar generate 19 articles. Additional 3 articles were obtained from other sources. **Error! Reference source not found.** shows the variety of keywords used in the identification process.

Table 6. Databases and Keywords in Identification Process

Databases	Keywords	Number of articles
Scopus	TITLE((capital OR financial OR debt) AND structure AND (sharia OR shari'a OR syaria OR syari'a OR shariah OR shari'ah OR syariah OR syari'ah))	14
Google Scholar	allintitle: (capital OR financial OR debt) AND structure AND (sharia OR shari'a OR syaria OR syari'a OR shariah OR shari'ah OR syariah OR syari'ah)	19
Other sources	Nil	3
Total		36

a. Screening and eligibility

The screening process identified 7 duplications leaving 29 articles (refer to **Error! Reference source not found.**). Apart of the duplication, several inclusion and exclusion criteria were use in the eligibility process. Only full articles were being process, means articles which only abstract were available and thesis were excluded. Articles that were focusing on financial/banking institutions were also omitted as the capital structure decision for these entities are not comparable to non-financial/non-banking institutions. **Error! Reference source not found.** shows the inclusion and exclusion criteria being used in detail.

Table 7. Inclusion and Exclusion Criteria

Criteria	Eligibility	Exclusion	Number of articles
Availability	Full article	Abstract	8
Types	Article	Thesis	1
Industry	Non-Financial/Banking	Financial/Banking	2
Relevancy	Capital structure	Not relevant	2
Total			13

4. Results

Thirty-six studies were identified as part of the systematic search, with a final set of sixteen studies. Though Islamic finance transaction had taken place as early as in 7th century in the era off Prophet Muhammad (pbuh), the study on the subject are only being done extensively in a modern world. Furthermore, most of the study are focusing on the supply side of Islamic finance. Due to that, the earliest year the researcher was able to identify the article was in 2012. **Error! Reference source not found.** shows the detail of publication year of the articles.

Table 8. Year of Publication

Publication year	2019	2018	2017	2016	2015	2012	Total
Number of articles	3	5	3	1	2	2	13

Details of each study in relation of the sample size, country of the samples and period of the study are presented in **Error! Reference source not found.** Majority of the study (12 studies out of 16) used Malaysia as the sample since Malaysian Islamic Capital market is one of the best in the world. 2 of the studies used Pakistan data, 1 study used Saudi Arabia. There was a comparative study by Ramazan, Y., Mansur, M and Obiyatulla, I.B. (2018) on 7 countries which are US, UK, Canada, Japan, Taiwan, South Korea, India.

Table 9. Details of the Study

.Author of the articles	Sample size	Country	Period
Abdul Hadi, A.R., Rehan, R., Zainudin, Z and Hussain, H.I. (2018)	441 (NSC) and 117 (SC)	Malaysia	2005-2016
Asyraf, A.H., Mohd Edil, A.S. and Obiyatulla I.B. (2019)	77	Malaysia	1997-2016
F. Alnori and F. Alqahtani (2019)	130	Saudi Arabia	2005-2016
Faizah, I, Norhafiza, N. and Zaemah, Z. (2016)	30	Malaysia	2007-2014
Hafezali, I.H. (2017)	All non-financial companies	Malaysia	2007-2016
Hafezali, I.H, Mohd Farid, S., Nazratul, A. M.A and Milad, A.S. (2018)	63875	Malaysia	2007-2016
Hafezali, I.H, Mohd Farid, S., Shahrullizuannizam, S and Noor, H.J. (2018)	All non-financial companies	Malaysia	2007-2016
Haroon, K.T., and Danish, A. S. (2019)	68	Pakistan	2014-2018
Mohd Edi, A.S., Asyraf, A.H. and Obiyathulla, I.B. (2018)	All non-financial companies	Malaysia	1997-2016
Nadia Nurul Najwa. M.H., Roslina, M/S/. and Suhana, M. (2012)	50 (NSC) and 70 (SC)	Malaysia	2005-2010
Naveeda, K. K, Karim, B. S and A. Madun (2015)	75	Pakistan	2009-2013
Noryati, A. and Noor Nisah, A. (2015)	50	Malaysia	2009-2013
Nurshamimitul, E.R. and Razali, H. (2017)	239	Malaysia	2000-2014
Omer, T., Fekri, A.S., Abdullah, M. A. and Fazlin, A (2017)	263	Malaysia	2006-2011
Ramazan, Y., Mansur, M and Obiyatulla, I.B. (2018)	1525 (NSC) and 918 (SC)	US, UK, Canada, Japan, Taiwan, South Korea, India	200-2009
Razali, H. and Khairunisah. I (2012)	663	Malaysia	2004-2014

Themes of the studies can be categorized into 6 groups as being summarized in **Error! Reference source not found..** The most popular themes are capital structure determinants and the study of capital structure as a whole. The next most popular themes are the speed of adjustment/target capital structure and debt maturity. The last but not the least which is considered as important as the others are the comparison of the capital structure decision between NSC and SC firms.

Table 10. Theme of the study

Authors	Theme of the study					
	Determinants	Debt Maturity	Speed of Adjustment / target capital structure	Capital structure	Deficit financing	Comparison: Compliance vs Non-compliance
Abdul Hadi, A.R., Rehan, R., Zainudin, Z and Hussain, H.I. (2018)	√			√		√
Asyraf, A.H., Mohd Edil, A.S. and Obiyatulla I.B. (2019)	√		√	√		
F. Alnori and F. Alqahtani (2019)	√		√	√		√
Faizah, I, Norhafiza, N. and Zaemah, Z. (2016)	√			√		Economic cycles
Hafezali, I.H. (2017)	√			√	√	

Hafezali, I.H, Mohd Farid, S., Shahrullizuannizam, S and Noor, H.J. (2018)	√	√	√	
Hafezali, I.H, Mohd Farid, S., Nazratul, A. M.A and Milad, A.S. (2018)	√	√	√	√
Haroon, K.T., and Danish, A. S. (2019)	√		√	Compliance vs Non-compliance
Mohd Edi, A.S., Asyraf, A.H. and Obiyathulla, I.B. (2018)	√		√	√
Nadia Nurul Najwa. M.H., Roslina, M.S. and Suhana, M. (2012)	√		√	√
Naveeda, K. K, Karim, B. S and A. Madun (2015)	√		√	√
Noryati, A. and Noor Nisah, A. (2015)	√		√	
Nurshamimitul, E.R. and Razali, H. (2017)	√		√	
Omer, T., Fekri, A.S., Abdullah, M. A. and Fazlin, A (2017)	√		√	
Ramazan, Y., Mansur, M and Obiyatulla, I.B. (2018)	√		√	√
Razali, H. and Khairunisah. I (2012)	√	√	√	

5. Conclusion

The main objective of this study on is to conduct a systematic literature review capital structure of shari'ah compliance firms. The PRISMA method was used to achieve the objective using the Scopus and Google Scholar for articles searching. The results show that not much studies were being done on capital structure of shari'ah compliance firms. Huge potentials are available for future researcher to work in the area to narrow the gap and discover more findings.

Acknowledgements

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Appendix

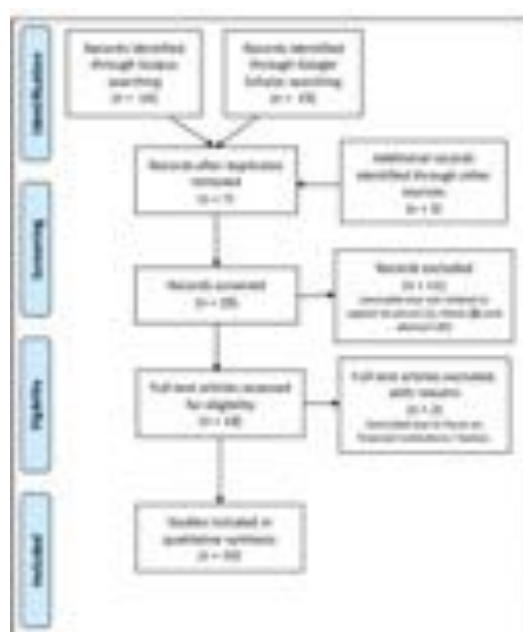


Fig. A1. A Flow Diagram Detailing the Application of PRISMA

Revisiting the Business Model Canvas: A Cooperative Perspective

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Abstract

As of June 2019, there are 14,094 cooperatives that are registered under the Malaysian Cooperative Commission with a total membership of 6,068,570. The contribution of the cooperative towards the community development is significant especially in the socio-economic impact. The cooperatives are operated based on the values and principles that revolve around the economic well-being of the society. A high percentage of businesses has failed during their startup period but this phenomenon can be reduced to a minimum if they can understand their business model. In Malaysia, one of the most common strategic tools used to gauge the business model of a company is Business Model Canvas (BMC) by Alexander Osterwalder. Although its use is widespread among startup businesses, the concept of BMC strategic tools in the context of cooperative business in Malaysia has not been thoroughly evaluated especially when it comes to the application by the cooperatives. This paper will examine the 9 building blocks in BMC and evaluate their compatibility towards the cooperative sector in Malaysia. The author will give suggestions on improving the current BMC to best suit the cooperative sector.

Keywords: Business model canvas, Social enterprise, Cooperatives

1. Introduction

Cooperative movement is not a new phenomenon. In fact, in developed countries, the cooperative movement has contributed significantly in the GDP of their respective countries, both competing in the local and international market and is recognized as the engine of economic growth. Hillbom (1997) proclaims that cooperatives could play a major role in the process of EU enlargement. According to International Co-operative Alliance, “A cooperative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise” (ICA, 2019). In practice, the cooperative movement is characterized by uncertainty and by multiple interdependent agents with different short and long-term interests (Chlopkova, 2002).

The cooperative sector in Malaysia has a wide array of economic involvement in the society and it covers credit, agriculture, consumer, banking, services, construction, transportation and housing industries. The first cooperative was set up in Malaysia back in 1922 is Syarikat Bekerjasama Jimat Cermat dan Pinjaman Wang Pekerja-pekerja Jabatan Pos dan Telekom Berhad with 175 members (Zohdi & Salleh, 2016, p. 19).

According to the National Cooperative Policy 2010-2020, the policy gives new structure to the cooperative movement by drawing the cooperative out of the comfort zone trap. The previous National Cooperative Policy 2002-2010 was focusing on redeveloping the cooperative in Malaysia (Othman, Mohamad, & Abdullah, 2013). The cooperative should not expect government grants and awards but are able to engage in activities on a larger scale, expanding the value chain, applying modern technology and dare to explore new areas of high value (Suruhanjaya Koperasi Malaysia, 2010). The cooperative sector is placed as the third crucial economic driving force in Malaysia by the government (Othman, Mohamad, & Abdullah, 2013).

1.1 Business Models

In order to have a sustainable business, entrepreneurs have to have a business model as a guidance. Business models can play a role in explaining the firm's performance (Polakova, Kolackova, & Ticha, 2015). Joseph et. al. (2011) argued

that a business model includes all aspects of a company's approach to developing a profitable offering and delivering it to target customers. This includes identifying the target customers, understanding the customers' need, identifying products or services to be offered to the customers, delivering the products or services to the customers, and findings way to earn profits.

Timmers (1998) on the other hand describes a business model as an architecture for product and service flows including a description of the business activities and its source of income. The similarity between these two definitions of business model is that both covers the whole supply chain of the business. On the other hand, Drucker (1989), Hitt, Ireland and Hoskisson (2002), and Tid, Bessent and Pavitt (2005) have a different perspective in defining a business model. In defining a business model, all of them include innovation and invention as a medium to satisfy customers' needs. Chesbrough (2003) defines a business model a way to promote ideas, thoughts, processes and research in order to improve product development, provide better services to customers, increase efficiency and enhance the value added from external partnerships. The effectiveness of a business model is defined by the internal configuration fit between provider's and customer's business models (Nenonen & Storbacka, 2010). All in all, it can be concluded that all of the definitions emphasize on the importance to achieve customers' satisfaction by using both internal and external resources. All models directly or indirectly imply that the company's competitive advantage which is created through a series of unique competencies is the imperative measure of evaluating the company's business model (Cleverism, 2019). Osterwalder (2005) concluded that researches in business model as a whole advances more slowly than it could and often remains at a superficial level.

1.2 Cooperative and Business Model

When a business is having a problem, one of the immediate response is to look to its business model (Ovans, 2015). The same is true when it comes to cooperatives. Budiman and Hayati (2016) listed eight critical success factors of cooperatives in Malaysia which include good leadership, resources management, internal control system, sensitive to opportunity, clear vision and mission, involvement and support from the members, enterprising culture, and good communication. Currently, the contribution of the cooperatives towards the GDP calculation is relatively low and this weak performance has raised concerns about the factors affecting the cooperatives ability to overcome their shortcoming through effective policy implementation (Hammad, Mahazril, Yacob, Abdullah, & Ah, 2016). In 2008, the contribution of the cooperative sector towards the GDP was 1.4 percent (Noordin, Rajaratnam, Said, Juhan, & Hanif, 2011).

Cooperative management should be regarded as a team consisting of four elements; members, board of directors, the manager and other responsible employees (USDA, 1994). The members of the board of directors in cooperatives come from different background but share the same inspirations. Sometimes this diversity will cause a bleak future for the cooperative. A strong management tied with a strong leadership, when paired with a good business model will produce a good economic result for the cooperative.

In Malaysia, the Malaysia Institute of Cooperatives (MIC) has been given the responsibility to conduct and monitor the training aspect of the Malaysia cooperatives (Institut Koperasi Malaysia, 2019). In conducting trainings on business models for cooperative, MIC is using the Business Model Canvas (BMC) as a template. MIC has slotted three BMC training sessions in its 2019 training calendar and the sessions have been listed as advanced trainings for the board of directors and the management team (Institut Koperasi Malaysia, 2019).

1.3 The Business Model Canvas

Business Model Canvas is a method of analyzing, designing, strategizing and testing a business model based on nine business areas (Ariffin & Hamidon, 2017). It describes the rationale of how an organization creates, delivers and captures value. This model is preferred by the practitioners especially in the developing countries because the examples are illustrated pictorially supplemented by exercises and workshop scenarios (Oliveira & Ferreira, 2011). There are nine building blocks in a Business Model Canvas as described in Figure 1; Customer Segment, Value Propositions, Channels, Customer Relationships, Revenue Streams, Key Resources, Key Activities, Key Partnerships and Cost Structure (Martin, 2019). One of the reasons BMC was created was due to the need of a business model concept that

everybody understands: one that facilitates descriptions and discussion (Ching & Fauvel, 2013). BMC has been developed within the paradigm of lean production where it is a special management approach focused on the regular identification and elimination of losses, setting the production processes of the client-oriented equality (Dudin, Lyasnikov, Leont'eva, Reshetov, & Sidorenko, 2015).



Figure 1: Business Model Canvas (<https://www.thestrategygroup.com.au/business-model-canvas/>)

Table 1 summarizes the 9 BMC building blocks. BMC starts from identifying the customer segment. It emphasizes on the notion that an organization should be able to identify one or several customer segments. This exercise will help the organization to understand which customer segments bring the most revenue to the organization. From the customer segments, then it moves to value propositions where an organization should seek to solve customer problems and satisfy the customer needs through providing values bundled with its products or services. After the value propositions have been identified, organizations have to focus on ways to deliver the values to the customers. Values can be delivered through communication, distribution and sales channels. After identifying the right channels for the right customers, organization can start building and maintaining relationship with each customer segment.

Sometimes organization do not have a clue on types of resources they have or need in order to satisfy their customer needs. Identifying key resources is one of the important elements in BMC. In addition, by identifying key activities involved, resources can be utilized at an optimum level. Realizing that some activities are outsourced and some resources are acquired outside of the organization, BMC has include the element of Key Partnership to specifically address these issues. The last building block in BMC is Cost Structure. It calculates all the cost involved in the organization.

Table 1: Business Model Canvas Building Blocks

Buildings Blocks	Descriptions	Questions
Customer Segments	Different groups of people or organizations an enterprise aims to reach and serve	Which classes are you creating values for? Who are your most important customers?
Value Propositions	The bundle of products and services that create value for a specific Customer Segments	What core values do you deliver to the customers? Which customers needs are you satisfying?
Channels	How a company communicates with and reaches its Customer Segments to deliver a Value Proposition	Through which channels do your customers want to be reached? Which channels work best? How much do they cost? How can they be integrated into your and your customers' routine?
Customer Relationships	The types of relationships a company establishes with specific Customer Segments	What kind of relationship does the target customers expect you to establish?

		How can you integrate that into your business in terms of cost and format?
Key Partnerships	The network of suppliers and partners that make the business model work	Who are the key partners/suppliers? What are the motivations for the partnership?
Key Activities	The most important things a company must do to make its business model work	What key activities does your value proposition require? What activities are the most important in distribution channels, customer relationship and revenue streams?
Key Resources	The most important assets required to make a business model work	What key resources does your value proposition require? What resources are the most important in distribution channels, customer relationship and revenue stream?
Cost Structure	All costs incurred to operate a business model	What costs the most in your business? Which key resources/activities are the most expensive?
Revenue Stream	The cash a company generates from each Customer Segment	What is the value that your customers are willing to pay? What and how do they recently pay? How would they prefer to pay? What kind of activities and services that you offer that generate income for your company?

Source: (Osterwalder & Pigneur, *Business Model Generation*, 2010)

2. Methodology

The objective of this paper is to evaluate the application and compatibility of BMC on the cooperatives in Malaysia. In order to answer the questions of compatibility and the applicability of BMC in the cooperative sector, this paper is exploratory in nature because it aims to obtain insight and knowledge about a particular phenomenon. A combination of document and online review is used to further explore a broader view on strengths and limitations of BMC. This is further supported by the author's experiences as a board member for Cooperative Institute of Malaysia (CIM) for two terms (2016-2017 and 2018-2019). One of CIM's functions is to advise the ministry on affairs pertaining the development of human talent in the Malaysian cooperative sector (Institut Koperasi Malaysia, 2019).

3. Discussions

3.1. Cooperative Members are Also Its Customers

For cooperatives, customers can come from external and internal sources. Cooperative members are examples of its internal customers. BMC only caters to external sources of customers. For cooperatives, apart from normal customers, their members also purchased or subscribed to their products and services. For example, credit cooperatives only give loans to its members. Loans are not given to external customers. In another example, cooperatives that are involved in retail industries sell their products to external customers and also their members. BMC also focuses on prioritizing the customers and in cooperative sector this will be a latent dilemma because as mentioned earlier, their members are also their customers. Questions such as, "Should we emphasize more on external customers because they bring in more revenue" or "Should we emphasize more on our member because they pay their membership fee?" will linger around the issue of customers' prioritization. To carefully handle this issue, the customers segment should be divided into two; internal customers (members) and external customers.

3.2. Value Propositions for its Members

Value propositions should be developed based on the customer segment in mind, since one will continually develop the other throughout the BMC process. As mentioned earlier, cooperatives members are also their customers. A differentiation between types of values given to external and internal customers should be further look into. For an example, if the cooperative is classified as retail cooperative, low prices might be one of the values seek by the customers. On the other hand, cooperatives members might have a different perspectives on values that they required by joining the cooperatives.

Values for them can come in the forms of high dividend yields or other perks specifically targeted for those who joined that particular cooperatives.

3.3. *Building Relationships with Its Members*

In BMC, Customer Relationship only focuses on the relationship between the business and its customers. Cooperative members play an integral part in a cooperative. BMC does not cater to building relationship between the cooperative and its members. Other than building relationship with members, cooperative should also focuses on maintaining relationships with existing members. Trust is a very important element in maintaining existing members. Members will feel secured if their interests are protected by the cooperative. One of the methods to protect the members' interest is through maintaining a steady stream of annual dividend. A cooperative that did not maintain a steady stream of annual dividend will begin to lose trust from its member and this will result in increasing numbers of members leaving the cooperative thus will hinder new recruitments of members into the cooperative. This phenomenon is true in a credit cooperative. When the fund used to give out loans dwindled, the numbers of members will reach its plateau and begin to decline substantively.

3.4. *Types of Cooperatives*

In the National Cooperative Policy 2010-2020, the government has laid out five key economic areas of the Malaysia cooperative; financial services, wholesale and retail, tourism, personal care and health, agriculture and agricultural-based industry, and farming (Suruhanjaya Koperasi Malaysia, 2010). Different types of cooperatives based on the different key economic areas will have different approaches to these nine buildings blocks. Inadvertently, an additional buildings block to cater type of businesses will help the cooperative to clearly chart their business model.

As a suggestion for future research, the author suggests that a new Business Model Canvas tailored for the cooperative sector to be developed by incorporating aspects such as value propositions for cooperative members and dissecting the customer segment into two parts; external (customers) and internal (members). It should also incorporate the elements of relationship buildings in the model. Due to the diverse nature of cooperatives in Malaysia, it should also include types of cooperatives in the model.

4. **Conclusions**

This paper contributes to the practical applications on the ideal type of business model and corresponding business model tool specifically for the cooperatives. Furthermore, this research contributes to the awareness of limitations of BMC which in the future will optimize business model design process. All in all, it provides on the improvements of business model tools and in particular to the BMC.

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Establishing Supply-Chain Management Framework for Non-Profit Organizations (NPOs) in Malaysia

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ABSTRACT

The worst flood in Malaysia's history was recorded in East Coast of Malaysia in 2015, affecting almost 96,193 people and RM332mil loss in infrastructure damaged. However, the recovery process is still ongoing – homeless victims are still suffering and waiting for the help from the authorities. There are many organizations that offer humanitarian aid in the event of a disaster or a tragedy, whether from government agencies or non-governmental agencies. In an effort to provide assistance to the victims of any tragedy, there are many issues that are closely linked to how aid is channeled, speed (in terms of time) and what is really needed at that time. Wastage and malpractice during the process of granting aid should also be avoided. This research aims to observe the current distribution practices of non-profit organizations (NPOs) in Malaysia. Besides, this study also aims to recognize the appropriate components of supply chain practices used by NPOs disaster relief in Malaysia.

Keywords: Supply-Chain Management (SCM), NPOs, Malaysia, humanitarian aid

1. Introduction

The worst flood in Malaysia's history was recorded in East Coast of Malaysia in 2015, affecting almost 96,193 people and RM332mil loss in infrastructure damaged. However, the recovery process is still ongoing – homeless victims are still suffering and waiting for the help from the authorities. There are many organizations that offer humanitarian aid in the event of a disaster or a tragedy, whether from government agencies or non-governmental agencies. In an effort to provide assistance to the victims of any tragedy, there are many issues that are closely linked to how aid is channeled, speed (in terms of time) and what is really needed at that time. Wastage and malpractice during the process of granting aid should also be avoided. This research aims to observe the current distribution practices of non-profit organizations (NPOs) in Malaysia. Besides, this study also aims to recognize the appropriate components of supply chain practices used by NPOs disaster relief in Malaysia.

Natural and handmade disasters both give tremendous pressure and incurred huge cost. ASEAN member countries experienced both disasters perpetually. Malaysia is located outside the Pacific Rim of Fire but still vulnerable to natural hazards including floods, tsunami, cyclonic storms, landslide and haze (Disaster Management Handbook, 2016).

However, the collapse of the Highland Tower Condominium (1993), tsunami in 2004 and the big floods in East Coast of Malaysia, 2015 was among Malaysia's first experience in managing disaster management. This unexpected situation left impact of infrastructure, physical and emotional injuries and also loss of life. For the recent worst flood tragedy, the recovery process is still ongoing and at the same time, the authorities, NPOs and public are dealing with several minor disaster attacks including flash floods and landslides.

The disasters are also one of the reason that the number of humanitarian aid organizations are growing. Disaster response supply chains include huge number of actors that can be subdivided into different organizational group. Each of the actors has a special and distinctive role. Every organization raced to help the victims and to provide them with the basic needs. Despite of having so many hands to help the victims, the question of how these organizations, especially NPOs, ensure that their supply-chain is effective and the goods or donations to the disaster victims reach the right person and on time. In addition, there is the need to know the level of preparedness that the authorities and NPOs have in order to take the first action to handle disasters.

2. Literature Review

The Government of Malaysia has established the National Security Council (NSC) as the principal policy making and coordinating body for disaster management. The NSC coordinates and plans all activities related to preparation, prevention, response/relief operations and recovery/rehabilitation of disaster management. The disaster management in Malaysia has three level and the committee at every level has its own responsibility (Mohamad Sukeri and Shazwani, 2015).

There are many organizations that involved in disaster management in Malaysia such as The Malaysian Red Crescent Society (MRCs), The National Disaster Relief Fund, and The Malaysian Meteorological Service, just to name few, with every organization has their own functions and accountabilities (Disaster Management Handbook, 2016). Apart from that, there are also many NPOs that are helping the victims – directly or indirectly.

Supply chain practice is set of a system which helps to deliver humanitarian assistance effectively and promptly based on the optimal use of resources (Munguti, 2010). Several social issues had been identified due to the mismanagement in SCM. The issues are as follows.

i. The top-down theory is failed

Roosli and O'Brien (2011), in a study related to the flooding in Malaysia policies has stated that the policies were formed in Malaysia for flood disaster management is based on the top-down theory is failed to meet the demands of the victims. Even Chan (2012) in studies on flood risk management was also argued that using the top-down theory, which developed and implemented the policy does not become effective because the government will only act after a disaster occurs without preparing in advance to take the perception of the community related policy really necessary.

ii. The attitudes of flood victims

The attitudes of flood victims during the flooding events are mostly change because of flood impact. They will pressure and perceived negative attitude like selfish and just thinking about their own necessity (Roosli and O'Brien, 2011).

iii. Lack of the utilities

Lack of the utilities during the flooding is the one of the important issues were list out by previous researchers. According to Mohd Zulhafiz et al. (2013), all the victims agreed that the all utilities at evacuation center is not maintained and properly managed.

iv. Poor Disaster Relief Management at the Evacuation Center

The distribution system used in humanitarian relief operations may depend on each situation's. The problems that arise during of disaster relief operations may differ depending on the various factors, such as the type, impact, and location of the disaster occurs, and local conditions in the regions affected (Balcik et al., 2008). As a consequence of the rise in the number and impact of manmade or natural disasters, the need of disaster relief, humanitarian aid provided during disasters, is expected to continue and will be increase. The inability of humanitarian relief organizations to properly scale capacity to face of increasing needs on that time, although has led to a generalized scarcity of resources and the intense pressure to improve operational efficiency of disaster relief efforts (Thomas and Koczak, 2005).

3. Methodology

The proposed will utilize qualitative research method to meet the research objectives. The chosen method has the ability to provide complex textual descriptions of how people experience in a given research issue. In the meantime, the researchers are still in the middle of completing the research preparation stage – content analysis and research method training. In this stage, comprehensive literature review will be carried out, looking at the findings from previous researches on current distribution practices of NPOs in disaster relief. In addition, professional documents on related issues are also being studied in order to see the similarities and differences among the practices. This process will help to come up with comprehensive components of supply chain practices used by NPOs in managing disaster relief to be used in the latter stage.

At the same time, the researchers will invite prominent trainers to deepen the researchers' knowledge on qualitative research methods. The research method training stage will assist the researchers to validate the method chosen to conduct this study and also to prepare them for series of interviews and focus groups that will be conducted on NPOs and beneficiaries of humanitarian aid later on. After these two stages of preparation, the researchers will conduct interviews and focus group with NPOs and beneficiaries of humanitarian aid.

4. Discussions

When disaster hits us unexpectedly, it is anticipated that the authorities have to be able to come up with the plan to help the victims. Flood victims need to be evacuated from their house and stayed at temporary evacuation center. At the same time, they need basic cleaning kits such as toothbrush and toothpaste, soap, sanitary pads, diapers (for kids) and towel. Not to forget, the volunteers should prepare the meals for the victims as well. These basic things offered to the victims need a proper plan and also should be available as soon as possible. However, the aids to be provided after that is also important.

Recent storm disaster that affected several houses in Penang in August 2019 indicated that the victims might be able to receive financial assistance from the Penang State Disaster Fund and Governor's Disaster Relief Fund. The victims (owner of residential homes) which were affected must lodge a police report and take photos of the damage as evidence before applying for the aid. Affected households will get a one-off payment of RM500 each while property owners will receive 10% of the property damage subject to a maximum of RM5,000 (freemalaysiatoday.com, 2019). Meanwhile in Perlis, the state government provided basic necessities such as food and drinks to the victims as well as will provide financial aid of between RM5,000 and RM30,000 each to the 883 affected residents to repair their damaged house (freemalaysiatoday.com, 2019).

The assistance provided by the state government and NPOs might be totally different and subjected to the rules and regulations applied by the organizations. Looking at the scenarios, the SCM framework will benefit many stakeholders especially NPOs, authorities and public since it is emphasize the importance of co-production for disaster policy and its implementation and leads to ongoing change in government and community behaviors

5. Conclusion

This on-going study is hoped to establish the SCM framework for NPOs in Malaysia. Thus, the disaster SCM and distribution will be more effective. The SCM framework also will be resulted optimization in operations to maximize both speed and efficiency. In the future, the level of preparedness of the society and government in facing disasters can be improved.

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The Moral Economy and Islamic Economics: Is There Any Place for Universal Man?

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Abstract

According to Gotz (2015), the origin of the phrase ‘moral economy’ is attributed to E. P. Thompson (1971). Since then, its historical evolution sees its usage to enter into a wide array of fields of study; including history, anthropology, political science and economics. Notably, starting primarily with welfare state policy instruments, the importance of the concept has been given more attention by economists, despite the fact that there is no consensus concerning how best to define and use that neologism. At least in economics, the moral deficiency and greed factors that led to the recent global financial crises could be viewed as possible reasons for the rise in interest about the idea of moral economy. Interestingly, Islamic economists claim that Islamic economics is also one big project of Islamic moral economy. Therefore, this qualitative paper aims to offer basic comparisons between the conventional moral economy and Islamic moral economy. Later, we bring into discussion another neologism; universal man, as proposed by Mahyudi and Abdul Aziz (2017). This inclusion is relevant in light of effective policy formulation. Thus, this paper also seeks to determine the role of the universal man concept in the common discourse of conventional and Islamic moral economy. From thereon, the probable influence of the universal man concept in furthering the moral economy agenda is explored. The expected implication of this paper lies in the aspect of policy design in such a way that it could help to propose private and public strategies to develop a functioning moral economy.

Keywords: Moral economy, Islamic economics, policy design, Universal man, Islamic moral economy

1. Introduction

The global village that we live in today presents a stage where local problems, challenges and opportunities would get immediate and widespread coverage and attention. The Brexit debacle of Europe, the aging population of Japan and South Korea, the young population of India, the immigration issues of the US and the development of Islamic finance in Malaysia and Indonesia are not only known by laymen in different parts of the world but also catch the interest of human rights activists, social scientists, politicians and policy makers who reside in faraway lands. This scenario commands closer interactions between individuals, NGOs, firms, research institutions and governments in order to search for ingenious solutions that serve domestic and international needs. One concept that seems to host this kind of debate and discussion is ‘moral economy’ for it brings into fore the deep concern for human flourishing while dealing with our use of existing available resources.

According to Gotz (2015), the origin of the phrase ‘moral economy’ is attributed to E. P. Thompson (1971). Since then, its historical evolution sees its usage to enter into a wide array of fields of social sciences; from history, anthropology, political science to economics (Gotz, 2015; Booth, 1994). It offers a fertile ground for ‘an intersection of debates over rational choice theory, the character of modern and premarket societies, and the normative standing of the market’ (Booth, 1994, 653). Notably, starting primarily with welfare state policy instruments, the importance of the concept has been given more attention by economists, despite the fact that there is no consensus concerning how best to define and use that neologism. At least in economics, the moral deficiency and greed factors that led to the recent global financial crises could be viewed as possible impetus for the rise in interest about the idea of moral economy.

Expectedly, there is a shared appeal in this moral economy discourse. The contributions among Western scholars is alluded to in the preceding paragraph. The fact that the idea of moral economy ‘contains both descriptive and prescriptive elements’ increases the reach and intensity of the discussions (Arnold, 2001, 85). On the other side of economic thinking, Islamic economists have been making continuous claims that Islamic economics as a whole is, in essence, one grand project of Islamic moral economy (IME). Therefore, this qualitative paper firstly aims to offer basic comparisons between the Western-style moral economy and IME.

Secondly, this paper also seeks to determine the role of the universal man concept in the shared discourse of conventional moral economy and IME. Hence, we wish to bring into attention another neologism; universal man, as proposed by Mahyudi and Abdul Aziz (2017). This inclusion is relevant in light of effective private and public policy formulation to promote the development of a functioning moral economy.

In view of these dual aims, this paper provides some concise exposure on this moral economy concept's history and scope aspects of discussion as covered in Western literature in section 2. Section 3 presents a similar case for writings on IME. The comparative exercise between conventional economy and IME is undertaken in section 4. We make our arguments for the role of universal man in the moral economy discourse in section 5. In that section, the probable influence of the universal man concept in furthering the moral economy agenda is explored. Section 6 concludes this paper.

2. Brief history and scope of conventional moral economy

As stated earlier, the new usage and meaning of the term 'moral economy' in current academic discourse is attributed to historian, E.P. Thompson who published his article entitled 'The moral economy of the English crowd in the eighteenth century' in 1971. Even though it is a neologism, there exists considerable amount of literature on this topic. This is owing to the fact that it has been utilised in a wide range of disciplines such as anthropology, political science and sociology. Its common usage among social scientists has shown a very unique evolution of the combined power of these generic words of 'moral' and 'economy'. Analysing the evolution of this term via the method of conceptual history, Gotz (2015) justifies that the term has moved away from the restricted manner Thompson applied it. Note that Thompson initially introduced this phrase to be strictly applicable to the 18th century England and in the context of hunger riots of the peasants against the paternalist authority held by the wealthy landlords. Later, this paper would highlight that that particular progress in the usage of the term is actually welcomed given that it becomes a platform in scientific writings for the furtherance of socio-economic justice against the prevalence of market mentality and individualistic societies.

Given its universal meaning, moral economy has been treated as synonymous to either a divine order given to the world or ideas to improve the general human condition. In short, it is clearly an agenda to promote human flourishing. Interestingly, current moral economy discourse has also been framing itself as an antithesis to the dominant rational choice's hidden force behind the present shape of political, economic and social landscape of human interactions. Hence, in the wake of recurring socio-economic crises that are caused by decisions of the rational economic actors, the increasing appeal of the moral economy project among both secular-minded economists and religiously-inclined ones is indeed an encouraging trend.

The relevance of moral economy in the frame of economic thought is indirectly suggested by Bell (1990, as cited in Gotz, 2015). He conditionally signifies the term moral economy with the historical evolution of economic thought over the past centuries. This could be understood as a three-stage movement from moral economy to political economy to economics. The moral economy of the first stage has a close affiliation to religious doctrines and values while operating in a paternalistic structure of society. To support this point, Gotz cites James Burgh's (1767) work; in which the greatness of this moral economy concept is related to the divine order of the universe; and Stockdale's (1777) assertion that refers the 'moral economy of God' as divine judgement over human immorality and benevolence. Regarding the second stage, Thompson (1991, as cited in Gotz, 2015) reports on Bronterre O'Brien's (1804-1864) 'directly anti-capitalist usage' of the phrase. That phrase tries to explain the polemic against classical political economy; which was the dominant economic thought that started at the end of 18th century as the ideology of free market gained popular acceptance post Adam Smith's *The Wealth of Nations*. Presumably, the third stage then coincides with the rise of neoclassical economists' reign in the late 19th century after the Marginal Revolution in economics science theorizing. However, Bell's signification would be highly disputed by many economists, for example Berry (2010) and Roberts (2014), who prefer to view Adam Smith himself as a promoter of moral economy. This stance takes into account the undeniable fact that Smith wrote 'The Theory of Moral Sentiments' and taught moral philosophy at the University of Glasgow. Notwithstanding Bell's signification quality, the moral economy concept is deeply entrenched in economic thinking since the past four centuries of Western thought.

On the scope of moral economy, Gotz (2015) criticises Thompson's limited position as Thompson insists on that concept's strict association to the 18th century English crowd's subsistence rights and the attached pursuit of justice during food riots in that epoch. This restrictive stand is of course an example of the conflation of economic theory and practice problem that should be avoided in scientific contributions as it would cloud intellectual clarity over any topic under study. To Thompson however, any discussions on moral economy that are brought beyond that limited scope risk the concept to a loss of focus.

In contrast, upon taking cognizant of the scholarly critics on the market system post 1970s that tries to retrieve the moral element in economic conducts, Gotz (2015, 155) has no issue at all towards extending the concept of moral economy to capture 'an ideal of economic relations in their totality, or could as well refer to a particular dimension or economic sector'.

The former is pushing for a systemic change while the latter is content with every idea that seeks to correct failures that exists as blind spots in the current economic operations. Nonetheless, both shares the character of being critics on the market economy's ethics. Evidently, this accommodative approach of Gotz allows us to summarize moral economy differently from Thompson; hence, appreciate it as an expression of collectively held values and feelings in economic choices. Therefore, its scope is most suitable when moral concerns and economic resources coincide; and this includes the applied economics studies on welfare state, humanitarianism, civil society and non-profit or third sector. This unbreakable linkage with the economics sphere, viz. production and distribution of goods and services, is crucial so as to protect this term from being loosely extended to mean 'an organized system that displays certain regularities' as espoused by Lorraine Daston (1995, as cited in Gotz, 2015, 156) in her attempt to connect moral economy with humanitarian efforts. In sum, the scope is deemed to be a middle course between Thompson's historically contextualised usage and Daston's revisionist view on the word 'economy'.

3. Brief history and scope of Islamic moral economy

The preceding section deliberates on the history and scope of moral economy in the Western academic literature. This section offers perspectives on the Islamic version of moral economy. To the best of our knowledge, no study has been carried out in tracing the history of the phrase 'Islamic moral economy'. Among Islamic economists, one can straight away identify Mehmet Asutay as a major contributor to works along the moral economy topic. In 2018, he was enlisted as part of the organiser for the SASE's 'Socio-economic Justice, Equality, SDGs and the Constituting Participatory Society: The Islamic Moral Economy and Finance Project'. A general search on the internet reveals that the IME phrase has only started to be used by Islamic scholars after the turn of the 21st century. Before that, we could easily notice the use of the phrase 'Islamic political economy' (IPE) that resembles the substance, spirit and passion of moral economy discourse. Surprisingly, Asutay himself has somehow abandoned the IPE phrase recently and started adopting the IME phrase instead. His earliest identified work that carries that phrase is dated 2012 entitled 'Conceptualising and locating the social failure of Islamic finance: Aspirations of Islamic moral economy vs. the realities of Islamic finance'. It turns out that this research output is also the earliest dated academic article when one searches for 'Islamic moral economy' in Google Scholar. Basically, we may conclude that the discourse on moral economy amongst Islamic economists only appears around four decades after that of their conventional social sciences colleagues.

Broadly speaking, as a result of the 'Islamization of Knowledge' project, Islamic economists are bound to have a consensus on the nature of IME discourse as being the counter narrative to the contemporary secular economic thought. Collectively, their writings are a religiously-inspired response to the godless, one-dimensional and material ethos that characterize the Western civilization. Presented in this frame, Asutay (2013) explains that IME emerged in the post-1960s as the main agenda of the reformist movements across the Muslim world. Meanwhile, in an earlier work, he mentions about the same phenomenon involving Muslim intelligentsia by coining the phrase 'a political economy approach to Islamic economics' instead; an action that clearly carries the IPE theme which is more common among Muslim writers (Asutay, 2007, 3). If one agrees with this interchangeable use of IME and IPE, then the consensus position becomes more justified.

On the scope of IME or IPE for that matter, Asutay (2013, 55) explains the following: 'The discourse on IME is shaped around social justice and conducting economic and financial activities in considering their larger social impact and contribution to social good'. Apparently, the emphasis on the societal side of economic behaviour describes the aims behind IME. While Asutay prefers to examine one type of shariah-compliant activity; namely Islamic banking and finance, El-Sheikh (2008) prefers that a pervasive moral-legal framework, or what he calls FiqhiConomic, to be highlighted as a central component of IME discourse. The different takes on the scope issue between these two notable contributors becomes obvious after considering that Asutay focuses on modern day practices; whereas, El-Sheikh deliberates on the economic morality of the classical period of Islam. Nonetheless, both of their analyses share the same underpinning, that is, the idea that Islamic shariah or legal framework prevails in all activities of man that are labelled as Islamic. This is understandable because it is a fundamental part of Islamic belief that the divinely-ascribed laws are propagated with the goal of promoting perfect conduct among members of a Muslim community. Taking into account this foundational similarity, this paper is suggesting that all kinds of economic and financial activities that are shariah-compliant could encompass the entire scope of IME.

However, going deeper into the above difference in preference and focus between Asutay and El-Sheikh could shed more light on the orientation of IME discussion. Asutay delves into the issue of the failure of Islamic finance to match up with the social goals of IME which have been shaped and framed mainly by those Muslim scholars who are very much inspired by the reformist agenda to revamp the whole economic system for the newly-independent Muslim nations. They are contributors to MawdudiConomics, a term coined by El-Sheikh that refers to the version of Islamic economics writings that have the tendency 'to hypostatize Shari'ah and separate it from its historical context, be it socio-economic, political or technological' (El-Sheikh, 2008, 119). On the other hand, El-Sheikh's FiqhiConomic model presents a sketch of day-to-day economic activities that were actually practised by Muslims of the past based on historical evidences. In this modelling exercise, the dynamics of the shariah is inherently captured by the evolving *fiqh* (Islamic jurisprudence) positions of new cases. Bear in mind that this FiqhiConomic approach in displaying IME reflects a more piece-meal approach given that *fiqh* rulings are arrived at by Islamic law experts who are merely responding to fresh cases that arise out of immediate needs of the economically active market participants. In other words, despite being less adopted by Islamic economists, FiqhiConomic is less concerned with system change than MawdudiConomics. Therefore, one could indirectly argue that FiqhiConomic approach of El-Sheikh displays a greater affinity to the empirical orientation of conventional moral economy than MawdudiConomics of the likes of Asutay. Unfortunately, generally speaking, the orientation that colours Asutay's work are more widely seen in Islamic economics literature. Note also that this orientation matter is one apparent reason behind the earlier chorus of critics lamenting the inability of Islamic economists to answer the question of how to practically develop an Islamic economic system, given the scenarios and challenges of today (Kuran, 1983, 1995a and 1995b; Shams, 2004; Farooq, 2011; Mahomedy, 2013; Nienhaus, 2013; Mahyudi and Abdul Aziz, 2018).

4. Comparison between conventional moral economy and IME

The preceding sections have shown that the concept of moral economy is well-accepted in both conventional economics and Islamic economics. This shared discourse somehow continues to take its own separate paths on both tracks of studying economics. Apart from highlighting this interesting point about the discourse development, this paper makes an attempt to compare and contrast the manner moral economy is relevant to both disciplines. The discussions are confined to points extracted from the history and scope of moral economy as covered in the previous two sections.

Firstly, let us look at the origin of discourse. In a typical scientific fashion, Thompson brought up this moral economy concept to depict the happenings in pre-modern England. It is emphasised that his moral economy is tightly linked to actual events that took place in Western history. Given his coinage of that term is both novel in academic setting and empirical in nature, Thompson was not surmising a noble cause that ought to be championed by a social scientist when he introduced that concept. To put it simply, the 'moral economy' neologism was born out of the occasion where Thompson was just exercising a scientist's customarily endowed naming right over his 'scientific discovery'. On the other hand, the four-decades later adoption of this moral economy term in Islamic economics literature has a different point of entry. As mentioned above, the initial discourse took the form of IPE. Both IPE and IME were not directly about a fact-based description of happenings in the Muslim world. Rather, they have been very much packaged as an aspiration towards the ideal form and substance of the overall Islamic teachings and precepts. In all honesty, Asutay (2012, 93) avers, 'Islamic moral economy emerged in the modern sense in the late 1960s and early 1970s as an attempt to develop an authentic understanding of the Islamic system of economics and develop policies accordingly'. In other words, the referred phrases came about as a reflection of the sincere zeal belonging to concerned Muslims who were romanticising the heyday of Islamic civilisation. As a conclusion, the conventional usage of the term is more scientifically sound; unlike the Islamic economists' usage that painstakingly tries to mirror the rhetoric of Islamic reformers that has been persistently heard, especially in the political arena.

Secondly, by looking at the moral economy conceptual coverage, the Western scholars are presently expanding the discussions in the applied fields of welfare, civil society, third sector and humanitarianism. The literature also includes works that calls for a new economic system, for example Hajnal (2018); in which she suggests the UN Sustainable Development Goals to be utilised as clear measures in order to operationalise this more humane and environmental friendly economic system notion. This variety of fields is seen as related to moral economy because of them being a marry of economics and moral discussions. As for IME, at the moment, the discussion is primarily concentrated on Islamic finance topics. Notwithstanding the social failure of the Islamic finance profit-making entities, Asutay (2012) affirms that Islamic banking and finance companies constitute the institutional aspect of IME. With such clarity over this pivotal self-identity matter, Asutay (2013) declares that those companies should serve the aims and objectives of IME. To do so, Platonova (2013) strongly advocates the role of corporate social responsibility by paying due attention to the social and developmental programmes that could mitigate or moderate the reported social failure of the Islamic finance industry as a whole.

Nonetheless, this study comes across Mahyudi (2015a) and El-Sheikh (2008) who depart from this typical line of discussion. The former proposes a shariah-based values infusion public policy. Mahyudi argues that this policy could help to naturally develop an Islamic economic system; one that operates under the integrated guidance of Islam's societal norms and moral-legal institutions. Essentially, such an economic system aptly fits into the form of an embedded economy given that it projects the 'dominance of noneconomic norms and institutions' (Booth, 1994, 654). El-Sheikh also adopts an economy-wide concern in his analysis of classical Islam's commercial practices. He historically describes a shari'ah market model by delineating on the classical markets' economic structure, moral and social embeddedness, legal framework, and operational and policy institutions such as *hisbah*. Interestingly, both conventional disciplines and Islamic economics share the agenda for an economic system that positions itself as a credible challenger to the status quo. However, conventional moral economy literature seems to have a more varied spheres of applied discussions compared to Islamic economics.

Benefitting from our extended elaboration on the scope of IME, this paper could identify a third point. At this juncture, this paper is of the opinion that the overall orientation of scholarly contributions on moral economy is worth to be emphasised too. Upon reading both sets of literature, it becomes apparent that the disposition taken by conventional moral economy and IME are in stark contrast against one another. The former tends to be more empirically inclined. But, the latter tends to express a pietistic disposition. One plausible explanation on this particular piece of observation comes from the history of the discourse itself. For the former, Thompson's introduction of the term is very much a straight-forward description of an actual event in the history of Western civilisation. Furthermore, the usual empirical studies template initially moves from theorizing or modelling based on some empirical observations, on dependent and independent variables, and ends with some proposed practical solutions that are grounded on the model used. As for IME, the heavy influence of the Islamic revivalists and movements steer the discussion along the lines of how we should be more Islamic after gaining independence from the Western colonizers. The discussion normally starts from axioms and principles; continues with identification of gaps between ideals and realities in observed behaviour; and ends with the contributor's own view on how to close the identified gap; usually by capitalising on the ideal shariah position of his proposed solutions.

Throughout that process, the Islamic social scientists tend to give little reference and weight to the constraints that presently exist in the real-world. Understandably, this orientation point of ours about the moral economy discourse fairly describes the Western analysts' superiority in proffering practical yet marginal improvements. In similar fashion, this orientation point sums up the description for IME's continuous championing of the normative approach with the inadvertent small regard to impeding factors. In short, orientation matters in making significant progress in the theory and practice of moral economy.

5. The role of universal man in moral economy

The above comparison exercise promotes greater appreciation over the academic and scientific ideas on moral economy. This paper believes that the discourse could be improved further by adopting another neologism; that is, universal man or *homo universal*. This paper's second aim is met by arguing for the constructive role of universal man in the moral economy discourse. In this section, the probable visible influence of the *homo universal* concept is expounded on.

The universal man is introduced by Mahyudi and Abdul Aziz (2017). They suggest it as a replacement for the economic man model predominantly presumed by Islamic economists, *homo Islamicus*; and by conventional economists, *homo economicus*. The behavioural norms of *homo universal* could be summarised as follows: the ends in his economic pursuit is incremental welfare, his process to achieve those ends is described as dominant activated human element and the concept that he treats as cardinal virtue is justice and fairness. The rationale and justification for this replacement is beyond the scope of this paper, but could be understood better by reading Mahyudi (2015b; 2016), and Mahyudi and Abdul Aziz (2017).

Here, we posit that *homo universal* does have its relevance when one ponders upon the critical issue of how to develop a moral economy. By now, the fact that the moral economy notion is antithesis to the value-free position of the neoclassical economists should be easily grasped and agreed upon. Moral economy is a value-based discourse with the broad aim of human flourishing. In moral economy debates, a clear moral or value judgement stance is indeed imperative.

Since any attempt to contribute to the moral economy idea is a value-laden endeavour, it is not possible to bypass the theory of value. First and foremost, the organic source of such theory must be identified. According to Dyke (1981), a theory of value originates from the theory of human nature. This important connection leads us to confidently state that any value-based effort, including moral economy, should be a natural extension to any credible version for human nature

theory. Consequently, this line of argument also suggests that the closer the link between any moral economy discussion with the most solid theory of human nature, the more valid is that discussion.

Thence, the influence of Mahyudi and Abdul Aziz's (2017) universal man or *homo universal* to this paper is established. The authors argue that *homo universal* seeks to improve his own welfare in every rational decision in his life. By welfare, *homo universal*'s welfare is one that is comprehensive since it covers his spiritual, emotional, intellectual and physical (SEIP) needs and wants. This SEIP welfare concept stems from the complete nature of man's four intrinsic elements; namely, *rūḥ* (spirit), *qalb* (heart), *'aql* (intellect) and *naḥs* (appetent self). This is what the authors mean when they mention Al-Ghazali's R-QAN model of man. This present paper concurs with Mahyudi and Abdul Aziz's assertion that Al-Ghazālī's four-part identification of human nature is necessary and sufficient in any attempt to bring morality into economic analysis and policy formulation, be it from either the conventional or Islamic perspective.

To illustrate the potential of this R-QAN model, we borrow the example given by Bowles (2016) and Rodrik (2015). Both of these prominent contemporary economists cite this example of Haifa day care centres to show that the usual economic incentive of issuing fines does not work, as concluded in the study of Gneezy and Rustichini (2000). Those fines were imposed to parents who picked up their children late. Surprisingly, parents responded by doubling the time they arrived late after the policy on the fine was introduced. This undesirable change in the parents' behaviour shortened the implementation of that policy to just twelve weeks only. This shocking behaviour continued even after the policy ended. Hence, this study of Gneezy and Rustichini prompts Bowles and Rodrik to claim that there is a negative synergy between economic incentives and moral behaviour.

This paper strongly believes that the R-QAN model of the *homo universal* could offer a better outcome. Arguably, the reason for such negative synergy lies in the wrong policy design. Based on the R-QAN model, a day care centre service serves mainly the emotional welfare of the parents; without any need of us to presume total absence of physical, spiritual and intellectual kinds of welfare pursuit among those parents. Out of their sense of love and compassion, parents send their kids to a day care centre so that the kids are well-taken care of while they are at their workplace. This economic decision improves the parents' emotional well-being. Due to the predominance of the emotional welfare over other kinds of welfare pursuit, one may generally classify a day care centre service as an offering that caters to the emotional welfare of the economic agent. Assuming that the probability for this classification to be correct is high, then logically, a more proper policy design must introduce emotional incentive, instead of relying on the typical pecuniary ones.

For instance, in that Haifa case, the day care service operator could evoke emotional appeal in its attempt to make sure that parents fetch their children on time. One possibly simple way is to immediately inform the parents that their kids become less and less happy as more and more of their classmates leave the day care centre; if this feeling is truthfully observable from the child's behaviour. This mechanism could be more potent when it is executed by the staff of the day care via face-to-face communication as soon as the parent fetches his or her child. A harsher punishment could be that when parents are late for say two times in a week, their child would not be allowed to join the coming week's wading pool session or any other very interesting session in a week's schedule. A much harsher punishment could be that if parents pick up their kids late for more than, say 8 times over a month period, their kids will be banned from joining the day care's trip or any other activity or event that is perceived as the ultimate highlight of the kids' one-year schedule at the day care centre. Done tactfully, name shaming the parents could be another way to hurt them emotionally.

Alternatively, positive reinforcement or reward policy could also be introduced. As a qualifying statement, this policy design does not need to totally rule out the introduction of fines and penalty as policy instruments because they are still useful. Perhaps, they could be imposed at a very high amount to those small number of parents who are notoriously known to always fetch their kids late regardless of the emotion-based punishment. It is crucial to remember that the basic idea here is that the R-QAN model of *homo universal* requires us to rightly classify private goods and services based on the predominant human welfare that the economic agent is enjoying as he consumes those products. Once rightly classified, policy makers could design incentives beyond those that are typically offered by both conventional and Islamic economists in order to strategically induce the desired pattern of behaviour.

Note that, the above template of policy design could potentially be effective in the context of public policy analysis and formulation too. Another additional way for R-QAN model to improve the efficacy of public policies is by identifying the character of majority number of any policy target group audience. It is a known fact that some societies and subgroups within those societies display subtle differences in terms of trait and character. Utilising the R-QAN model, the policy makers could classify the policy audience either as being predominantly concerned with spiritual, emotional, intellectual

or physical welfare. For those groups that value religious concerns highly, then spiritual incentives should be a vital part of the policy design. Similarly, when the norms subscribed by the target group members display unambiguous affection for material welfare, subsequently, pecuniary and material incentives would come in handy. The same structure of understanding is implied for the other two types of welfare for *homo universal*. Having said this, it is naive to assume that in a particular policy, only one type of welfare is to be identified and thus, given due focus. In fact, we could combine multiple incentives strategies depending on the policy maker's strong view about the character of the policy audience. Equipped with this clarity, it is easier to grasp why in the case of a public policy that is meant for the entire citizens of a country, a combination of incentives that serves all four types of *homo universal* welfare would probably be the most effective policy design. This is because such a complete policy strategy increases the likelihood for the policy audience to behave accordingly given that each different incentive type would work its magic to motivate every individual in its own unique manner. In summary, that is how the R-QAN model of *homo universal* can play a crucial role in moral economy.

6. Conclusion

This paper presents two primary arguments. First, there are some similarities and differences between the conventional and Islamic economics discourse on the concept of moral economy. Their main common denominator is the perceived attempt to match purposive rationality with value-based aims and considerations. Regarding their different elements, secular conventional discussions carry a more empirical disposition than IME; which shows a more pietistic inclination. Apart from that, the conventional discussions exhibit greater breadth and depth than IME that tends to focus on Islamic banking and finance subtopics. Second, the *homo universal* concept proffers some practical benefits in developing the right policy design. This extended assistance to policy makers relies on the most correct classification of tradable goods and services in provision of private goods settings; and fair characterisation of *homo universal* welfare pursuit goal prior to the promulgation of public policies. These new lights on the moral economy discourse could then have positive implications in some aspects of policy strategies, particularly the incentives component. Eventually, such considerations do have the potential to increase the value of this moral economy discourse in both conventional and Islamic economics.

As a final reminder on IME, this paper's comparative exercise underlines one serious note for improvement. The stark contrast in orientation of discussion should indicate that some changes are necessary if Islamic economists are really concerned about materialising IME's socio-economic objectives. In our humble opinion, as a much proper way to celebrate their sincere attempt to be part of the scientific community, Islamic economists should free themselves from the hyperbolic rhetoric of identity politics played by Islamic revivalists of yesteryears. For a change, it is due time for them to put more attention to the concrete realities and practical challenges of reform. Only then can they significantly contribute to the global movement that is dying to see the sensible idea of moral economy to not only work; but more importantly, be functioning extremely well in the real-world for the sake of humanity.

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Managing Waqaf Funds from the Portfolio Management Perspective: Strategizing Waqf Fund, Adopting a Portfolio Model for its Sustainability

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Abstract

The history and origin of Waqaf has yet to be agreed upon but the concept of wealth re-distribution is strongly emphasised in the Qur'an (2:215, 264, 270, and 280). Since Prophet Mohamed's time (pbuh), Waqaf had established itself into the Islamic way of life. But its real potential in this modern era had been only recently exploited since the Islamic perspectives had been able to create a dent in the understanding of classical economics, finance and banking system. Waqaf being one of the Islamic wealth distribution tool contributed significantly and expanded exponentially. While many were not surprised at its economic contribution, but those that were, took an aggressive position and discover the potentials that it can generate. It is believed that Waqaf portfolios generated are now in a state of "mark time" or at a cross-road, where adding new ones might not be of high priority but managing the existing ones efficiently and effectively are, and planning strategically for its future healthy development. Strategizing for the future development of Waqaf is what this paper will attempt. It will look at how Waqaf portfolios can be managed by considering the use of some strategic tools. The portfolios can be looked at from several angles like the nature and types (property, corporate, cash etc.), categories of beneficiaries (public, family, joined), its purpose (members, charity, public and emergency) and many others. For this particular paper the strategic models that focus on managing portfolios such as BCG, GE and Shell will be exploited. From the research outcome, managing Waqaf portfolios in the future should no longer be just reactive and situational only but perhaps strategizing them and adopting a proactive stance can lead to a new dimension of effectiveness for the sustainability and dynamic development of Waqaf fund for the future.

Keywords: waqf funds, portfolio management, wealth distribution tool

1. Introduction

In its initial historical development in Malaysia, the Waqaf movement or industry had to deal with the fundamentals, explaining the definition, purpose and the various dimensions of its operations as the Malaysian public was awoken suddenly from a phase of ignorance (majority) and non-involvement, to a state of 'realisation of a new born golden goose' that was kept in seclusion by the mother all these while, suddenly appeared in the public and attracted an overwhelming interest from several interested parties, both organisational and individuals (Arshad 2016). Since then its development has not only been phenomenal but also exponential though there is an absence of tangible data to validate this (except perhaps from the total monetary value declared by the relevant institutions).

Nevertheless, the areas of development had been quite explosive in nature. Suddenly there are so much information available that need to be digested as the number of individuals, parties and institutions getting involved grew, covering both the government as well as the general public (confined perhaps to the Muslims). As the understanding grew, so are the interested parties.

In the business world, portfolio management has been common, where individuals as investors in the share market manage their investment portfolios to optimise the returns, product managers look at their product portfolios for achieving competitive advantage and procurement managers on their list of suppliers to optimise their respective supply chain

components. Almost every manager with portfolios to handle would have its own tools and models to facilitate and ensure an efficient management system.

Individuals in each sector would have their own portfolio management models to assist in their decision regarding their respective decision on the portfolios that they handle.

2. Portfolios in Waqf Fund

The subject of ‘**managing Waqaf Funds from a strategic perspective**’ can be very foreign to many Waqaf Fund managers. Exposures to such tools are rare as the Waqaf product life cycle is still believed to be in its Phase 1 or perhaps going into Phase 2. Almost all Waqaf Fund managers are in the midst of getting their Phase 1 activities in full swing, getting information on project briefs funded by the Waqaf Funds, distributing them to all available channels to reach the target market. **Going into Phase 2:** as more individuals and institutions catch up and trying to cope with the development, the areas of concern has diversified indicating a healthy trend, but together with these are the challenges that the fund managers had to face as these new breed of interested parties and more so the professionals who not only have the resources to contribute but expect the governance level of managing these funds to be at a high level of delivery.

Many are looking at the Waqaf Fund managers as still going all out on the Phase 1 activities whereas if Phase 2 has been entered then the shape of the product life cycle graph is expected to be increasing at an increasing trend. Are there enough facilitation to make this happen? Many potential contributors are doing a ‘mark-time’ on their decision, waiting for the ‘governance’ component of managing the fund to be revealed. What can this be?

Straight to the Issue: potential contributors believed that many fund managers are still in their reactive mode of attracting contributors, going on a campaign programmes within their own family members, organisation, institution, district, state and at best nationwide. These might not be enough to satisfy the needs for the Phase 2 portion of the Product life cycle (PLC). There is a need for a proactive model to be created so as to realise the Phase 2 component of the cycle.

There are several proactive models that handles portfolio issues but none so far are directly related to management of Waqaf Funds. But the expectation is that there must be professionals that are linked to this area and many are waiting for them to come up with creative models so that they can be proactive and make decisions after studying the models rather than participate when there is a promotion drive and solicited by the top management of the institution or through some political and religious ceremonial fanfares. This would be good for their publicity but more likely unsustainable.

Are there Portfolios in the Waqf Fund?

Officially, this has not been declared and from the literature, Table 1 is an attempt to look at them from a portfolio perspective. Waqaf Fund can be looked at from various angles such as the forms, types, function, mutual fund, investment fund, and property. From the institution point of view, each of these could be given specific names and labels. With such categorisation, then an analysis can be done on each one of them so as to reveal the potential that each of them might be able to portray and Waqaf investors enthusiasts can then decide on which portfolio to put their philanthropic desires or intention to its maximum expectation. Enthusiasts thus have the liberty to choose which portfolio to place their money in.

Table 1. Possible Portfolios of Waqaf Fund

1	Forms	Economic	Social			
2	Types	Religious	Philanthropic	Family		
3	Function	Economic	Social	Institutional	Poverty alleviation	Social entrepreneurship
4	Mutual Funds Waqaf	cash	Cash and Security	Security		
5	Investment Funds Waqaf	Mutual	Investment	Securities		
6	Waqaf Property	lan	Cash	Educational	Health	Social Entrepreneurship

For this paper, the portfolio model selected is the Boston Consulting Group Growth Share matrix proposed by Henderson in 1970. The concepts and principle will be borrowed and adapted to fit the requirement of a Waqaf fund portfolio analysis. The principle used is to identify one most relevant measurement of both the external and internal factor of the institution that will be able to cover and chart all the portfolios that are to be analysed into a 2X2 matrix chart. [The classical measures

are: the relative market share as the internal factor and the portfolio annual growth rate as the external factor]. Figure 1 is the classical representative of the matrix.

		RELATIVE MARKET SHARE	
		HIGH	LOW
PORTFOLIO GROWTH RATE	HIGH	STAR	QUESTION MARK
	LOW	CASH COW	DOG

Fig. 1. A Typical BCG matrix

But for the Waqaf Fund portfolios, the ‘star, cash cow, dog and question mark’ label will no longer be appropriate and a new term will have to be coined. By placing all the portfolios in the said four quadrant, Waqaf Fund managers will now have different approach towards promoting investment for the respective Waqaf Fund portfolios. Each portfolio in the different quadrant will have different characteristics to portray in line with the variables of measurement used. Even potential professionals who are into the philanthropic mood can decide which portfolio(s) to get involved in based on their own judgment and preference or priorities.

The greatest challenge however is to identify the critical and relevant external and internal variable to be used as a measurement indicator so that the portfolios can be placed in the matrix. Only then can a specific strategy can be generated to fit the portfolios concern in line with the quadrant that they are in.

		ONE INTERNAL MEASURE	
		HIGH	LOW
EXTERNAL MEASURE	HIGH	A	B
	LOW	C	D

Fig.2. Modified BCG matrix

Figure 2 is the suggested template of the portfolio matrix and will be filled once data in Attachment Table 2 and 3 is completed. Each of the portfolios in the various quadrant will be subjected to different possible strategic decision and to be deliberated ad decided upon by the potential philanthropists. This paper will attempt to pursue this objective.

3. Methodology

The methodology used is probably unique and this is part of the answers to meet the call for Waqaf Fund managers to be more proactive as commented and called upon by various enthusiasts from feedback during conferences and meetings. Because of its newness, an exploratory approach using case studies was adopted. Three institutions were identified that are actively involved in the managing of their respective Waqaf Fund: two state Waqaf agencies and an academic institutions. After going through a list of Waqaf Fund managing institutions, and charting their activities, all of them do not have a common portfolios that can be used by all and thus this exploratory case study approach was felt to be the most appropriate.

The data that need to be collected are the various portfolios that exist in the three cases under study. These will be charted and categorised so that a rational logical list of portfolios can be identified, grouped and given labels and data on them analysed. Since the Boston Consulting Group Portfolio Model has been identified as the basis for analysing the Waqaf portfolios, its concepts and principles will be used as a guideline to generate a new portfolio model to be used in Waqaf portfolio management decisions. It is hoped (we believe so) that this will generate interest, feedback and opinion and criticisms are expected and welcomed.

The BCG Portfolio model has reduced the number of external and internal factor variables to just one for each dimension. With this one variable each for external and internal variable, all the portfolios to be analysed can then be mapped in one graph and evaluation made on their position in the chart and strategies generated for each, will depend on its position in the chart. For the business scenario, the relative market share (for internal factor) and the growth rate has been identified as the selected factors that represent the internal and external variables. The challenge for the Waqaf portfolio managers is to search and identify the critical all important one internal and one external variable. These will have to be quite comprehensive in nature where each portfolio will have its own score of the 2 selected measure. Identifying these measure will be the main focus of the analysis.

3.1 Data Collection

The data gathered were from three different waqaf institutions (cases), and they were exploratory in nature, where as much information were gathered for each portfolio in each case. The objective was to understand the various activities of the portfolios so that various possible measurements on them can be recorded as these are the important criteria required in identifying and choosing the most appropriate measure for them.

Initially one state agency and one academic institution was identified and all the waqaf portfolios in them investigated (exploratory study). Unfortunately the portfolios in these two were quite diverse and not easily comparable. So coming up with a common measure (as required by the portfolio model) might not be easily done. So a second state agency (or another academic institution) need to be incorporated in the research as a new case to provide additional data source so that comparison can be made. A state agency was identified and upon her consent, chosen as the third case. [another academic institution also agreed and will be involved at a later phase of this research. Interview sessions were carried out in all the three cases, and the respective summary of the transcribed data are as shown as attachments in the appendix.

4. Data Analysis

As mentioned and explained earlier, the two state waqaf agencies will be used as the major focus for coming up with the two needed variables for the portfolio mapping (one each for the external and internal factor). As shown in the summary of the transcribed data (attachments A and B), all the various measurable factors recorded about the portfolios, need to be screened and those selected listed in the two columns under the headings of external and internal factor variables and shown in Table 3 as shown below.

Table 3. Case Study 1: State Waqaf Agency A

POSSIBLE PORTFOLIO	INTERNAL FACTOR EVALUATION			EXTERNAL FACTOR EVALUATION		
	Fin measures	Total value yearly	Cost Price	Total personnel benefitted	Impact on public	Value per beneficiary
1. Buy buildings for housing (76 2-storeys) & 27 shop lots (3-storeys).	Shop lot Rental@2.5 K = RM 67.5K per month. House sold to Muslims.	Total rev avg/yr = 810K. Property owned by Inst after 99 years.	RM 13.79 Mil (2010)	Developed by UDA Holding sold for 600K for 99 years (L.hold)	Relocate Muslims in urban location	76 Muslim Families and 27 Muslim entrepreneurs.
2. Buy 2 floors high-rise building for commercial rent.	Rental return monthly @2k	2 level office lots as waqaf property after 99 years.	RM 33M (1998)	Amanah Capital, SEA Corp and JKP.	Lower urban rental rates for Muslims.	2 level Office space fully for waqf, after 99 years. Other floors belong to developer for Muslim clients.
3. One apt block of 77 housing units.	Rental 52-units @1.2K and 25unirs @700 per month or. RM 62.4K and 17.5K monthly respectively.	Total revenue of 958.8 K yearly	RM 17.5 mil (JAWHA R-MAIPP)	Owned and developed by state Syarikat Wakaf and operate as rental's collector (2018). RM 958.8 K per year.	Land change to Muslim's ownership and collect rental.	25 units rent to Asnaf (below market price). pay for RM 700 per month (all with maintenance and service charge).
4. Education's complex Waqf Type : Education	Istibdal 1) 2 ^o school (SMKA al-Mansoor) 2) on the 30 acres of plot for development.	(not revealed)	RM 41M from Federal	Education Complex of al-Mansoor	Students of al-Mansoor in English & Arabic.	Affordable Islamic based education for Muslim
5 Mosque at Kelawai, Timur Laut District	Non-financial return	Non-financial return	RM 3.14 M	Cash for heirs RM 700 – 800k. MAIPP	Free acquired from heirs	For qariah and society at large.

Note: Consolidated from the transcribed data in Attachment A in Appendix.

Table 4. Case Study 2: State Waqaf Agency B

POSSIBLE PORTFOLIOS	INTERNAL FACTOR EVALUATION			EXTERNAL FACTOR EVALUATION		
	Financial Measures	Total value yrly	Cost Price (million)	Total personnel benefitted	Impact on public	Value per beneficiary
A. Hotel of 180 rooms, with multi-purpose hall and shopping Waqf Type Commercial	Agency rent it out, @50K per month, Rental review after every 2 years.	Revenue of RM 600K per year (Rental) With 60:40 profit sharing (JAWHAR :MAIDAM)	RM 41.68 mill.	JAWHAR through YWM run the hotel (profit portion 60:40, JAWHAR:MAIDAM)	Providing job opportunity to the asnaf	Average Muslim/ Asnaf employee around <100
B. Culinary Akademi Waqf type: Education	Non-Financial Benefit	None	RM 2.48 YWM as fund provider and operator	Forty female students from asnaf With their fees covered by agency Training provided by GIATMARA	Provide training skill on culinary for asnaf children	Average 40 student per intake,
C. Six shop lots at R&R station along highway. Waqf type: Commercial	Rental @6-800 month, for the shop lot RM3600/ month	Revenue of 43.2K year, with 10% to MAIDAM and 90% to nearby mosque.	Not stated	Low rental for Muslim entrepreneurs	Providing business opportunity,	Direct benefit to 6 entrepreneurs and family members.
D. Student residential hostel. Waqf type: Education	Non-Financial Benefit, cost covered	None. All expenses covered by agency	RM 3.7	Benefit to Asnaf families (orphans and poor family; B40s). For state residents.	Assist education, for the asnaf children.	In 2019, 130 students (both primary and secondary) for asnaf and poor family.
E. Thirty units of housing for asnaf families. Waqf type: Housing	Rental @ RM50 /house RM1850/ month	Revenue of 22.2K a year	RM1.3 Project funded by BIMB (CSR/ Zakat)	Benefit to the asnaf family (poor family)	Provide housing for 30 family & members. For asnaf community	Currently the house occupied by 30 poor family
F. Religio us complex for Islamic knowledge dissemination. Welfare	Muallaf attend courses with subsidised funding.	Free for all mualaf.	RM2.10	Open to all mualaf in the country. Providing Islamic classes to deepen and strengthen the faith. Allowances funded by MAIDAM	Number attending not consistent. (fekah, tajwid etc)	RM800/month allowances to the muallaf for 3 years

Note: From Attachment B in Appendix.

The same has been done on the possible portfolios of an academic institution. This is one of the academic institution that has established itself as a senior university and its Waqaf Fund has been established for more than 5 years and the total fund collected is quite impressive when compared to the other academic institutions in the country.

Table 5. Case Study 3: An Academic Institution

POSSIBLE PORTFOLIOS	INTERNAL FACTOR EVALUATION			EXTERNAL FACTOR EVALUATION		
	Financial perf measures	Total value yearly	Cost price	Total personnel benefitted	Impact on public	Value per beneficiary
1. University's mosque: (describe project)	<i>Data available not shown as agreed until all of them are cross checked because of some discrepancies and will be utilised in the next phase of the research once validated.</i>					
2: Ambulance for health centre						
3: Home for seniors						
4: Library facilities						
5: U's will						
6: cash collection & disbursement						
7: Waqaf cash scheme						
7a: General						
7b: Books (Kitab)						
7c: Facilities						
7d: Others ?						

With regard to case study 3, the various portfolios identified and shared by the Waqaf unit of the academic institution, seems to be based on projects and the sustainability component is not as in the other two state waqaf agency cases. In fact in terms of selecting the cases, the academic institution was the second case selected, but when the data collected was rationalised and mapped, comparing their respective portfolios based on their characteristics were not compatible. Thus it was felt that a third case study need to be brought in (either a state agency or another academic institution). The former was preferred as a quick scan of the few academic institutions that had Waqaf unit established were not only relatively young but their waqaf portfolios were quite similar. This is as expected as their clients are confined to the academic institutions staff and students thus restricted in their portfolio choices.

The case analysis done will then be confined to the two state agencies. From the eleven portfolios listed in both cases, an attempt is made to group them into some kind of categories to differentiate them between one another. This is shown in Table 5.

Table 5. Consolidating the Various Portfolios in the Two State Agency Cases	
Case 1: 5 portfolios	
1a. houses 76 1b. 27 shop lots; commercial	1a, houses as a commercial venture
2c. Buy 2 floors off. Space for rent.; commercial	3a. houses 77; commercial
3a. houses 77; Commercial	1b. shop lots; commercial
4e. education	Cb. Shop lots; commercial

5f. mosque; Religious/community	2c. Office space for rental; commercial
Case 2: 6 portfolios	Ad. Hotel; commercial
Ad. Hotel; commercial	4e, education
Be. Culinary academy; education	Be, education
Cb. shop lots; commercial	De, education
De, hostel; education	5f, mosque, Religion
Ea; houses 30 for poor; Housing	Ff, religious complex, Rel/community
Ff. Religious complex; Community	Fa. Houses for poor; community

From Table 5, the different colour scheme will indicate 5 different portfolios existing in the state waqaf agencies. And they are labelled as:

- commercial venture in housing,
- commercial venture in shop lots,
- commercial venture in higher levels (office space and hotel)
- venture in education and
- venture in religious and community activities.



An attempt was then made to determine the appropriate external and internal factor measurements that would fit all the portfolios. At this point in time of the research, the measurable dimensions in education and religious /community services provided does not exist in the two state agencies (no necessity to do so as it has always been treated as a community service and are rarely subject to direct accountability to any units). Thus their measurement has not been seriously considered and as discussed will be the area for future research.

But as for the first three commerce-related projects, numerical data of costs, investments and expenses as well as revenues and profit could be investigated, sought and rationally fit into the like of the BCG Portfolio model. Table 6 is this endeavour. An attempt is made in the table to standardise the measures so that each portfolio can be compared against each other.

Table 6. Justifying the Portfolio Measurements

POSSIBLE PORTFOLIOS	INTERNAL FACTOR EVALUATION			Extension of internal factor measurement		
	Financial perf measures	Total value yearly	Cost price	Monthly revenue per unit	Annual revenue/ total cost	
1a, houses (76) as a commercial venture	Sold to owners	810K	13.78 mill	RM10660	810/13,776 =0.06	
3a. Appt houses (77); commercial	Rental @700-1.2K	958.8K	17.5 mill	RM 1000	959/17,500 =0.06	
1b. shop lots (27); commercial	2.5K rental each	810K revenue	13.8 mill	RM 2500	810/13,800 =0.06	
Cb. Six Shop lots; in R&R; commercial	Rental @6-800 per month	57.6K income yearly	600K	RM 800	57.6/600 =0.1	
2c. Office space for rental (two floors); commercial	@2K per unit with	960K	33 mill	RM 80000	960/33000= 0.03	

	20 units per floor					
Ad. Hotel; commercial	50K rental per month	600K yrly, Share 60:40	41.68 mill	RM 50000	600/41600 =0.014	
4e, education complex	School, no rent		41 mill			
Be, education (Culinary)	-		2.48 mill			
De, education (hostel)	Free		3.7 mill			
5f, mosque, Religion			3.14 mill			
Ff, religious complex, Rel/community	800 allowance per head for participants		2.1 mill			
Ea. Houses (30) for poor; community	@50		1.3 mill	30 families		

For this case analysis, the annual revenue per total cost column has been identified as suitable measure to represent the internal variable for the portfolios. The six portfolios are then charted in a canvas to indicate their relative position in a common measuring scale (annual revenue/investment) as shown in chart x. The chart indicate that the 6 portfolios can be arranged in ascending order, based on the annual revenue per investment measures.


Cb	1a	3a	1b	2c	Ad	
Six shop lots in R&R	Seventy six houses	Seventy seven Appt houses	Twenty seven shop lots	Two floors of office space	Hotel;	Portfolio
57.6/600 =0.1	810/13,776 =0.06	959/17,500 =0.06	810/13800 =0.06	960/33000 = 0.03	600/41600 =0.014	Annual revenue/ total cost
						
high					low	

Chart X: From Table 6, The transpose columns of Portfolio and Annual revenue/investment of the internal variable measurement.

To complete the portfolio matrix, an external dimension measure need to be brought into the chart. The classical model identified the portfolio growth rate as an important measure. This is to enable the decision maker to look for the portfolio with the higher growth potential in the selection process of which portfolio to focus on in the coming years. Thus all the six portfolios growth rate measure will be an ideal data to possess. But unfortunately, both the state agencies do not have such data at their disposal. Another possible measure is the demand for the service of the respective portfolios and this data was also not available. Another possible avenues are the growth rate of the industry that are closely associated with the respective portfolios. Such data can also represent the growth rate of the portfolios. (These are available but require time and effort in getting them from the respective data provider. Thus charting the portfolio model as expected is not possible. However theoretically if they are available, then chart x can then be redrawn differently with the additional dimension added and would have been in the form as shown in Chart Y.

		Internal factor variable						Annual revenue/ total cost
		57.6/600 =0.1	810/13,776 =0.06	959/17,500 =0.06	810/13800 =0.06	960/33000 = 0.03	600/41600 =0.014	
		high					low	
External measure	High	Cb			1b	2c		
	Low		1a	3a			Ad	

Chart Y. A theoretical perspective for Waqaf management

Chart Y now indicate the position of the 6 portfolios and with additional information indicating which portfolios are place in the high growth rate and more likely has the potential for growth in the future.

5. Results and Conclusion

The outcome of the analysis should indicate that various portfolios are placed in different quadrant of the external and internal matrix. Each matrix require a different type of promotion activities in order for the portfolio to grow as intended or that the potential of each portfolio can be gauged and interpreted by the prospective enthusiasts for them to make a decision befitting of his own need and desires.

But as shown in Table 4, only the data on the financial performance measures for the commercial ventures are complete and could proceed towards computing them to fit into the portfolio model. But this is just one dimension of the model. The external variable factors does not satisfy the requirement needed to chart the portfolios. The initial requirement is that there should be some measure of growth rate (2 year data available), and this has not been the focus of the state waqaf agencies. A demand data for the 7 portfolios would also be a good indicator for the portfolio managers to plan for the future. Thus this initial exploratory research on the two state Waqaf agencies in attempting to chart a portfolio matrix for them is only 50% complete. This is so as only the internal dimensions are seemed to be available for further computation. The external data variable measurements have yet to be instituted. They need to be systematic in nature and can assist in future decision making, with regard to being creative in the managing of their respective Waqaf portfolios.

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Integrating Waqf and Sadaqah for Funding Higher Education in Malaysia: A Prospect of Waqf Mat'am Model

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Abstract

National Higher Education Fund Corporation, abbreviated PTPTN is the government agency responsible for giving study loans to students pursuing tertiary education in Malaysia. Every year, PTPTN allocates around RM5 billion for funding study loans for students undertaking higher education certificates in public and private higher learning institutions. Recently, there are indications that student loan fund may not be sustainable due to low repayment rate and an increase of enrolment into higher learning institutions. PTPTN has reduced the amount of student loan distributes to students enrolling into public and private higher learning institutions by five and fifteen percent respectively. There is therefore a need for examining the factors undermining the sustainability of the existing student loan model and for developing an alternative model for funding student assistance scheme to cover the cost of tuition fee and living expenses of the students. The present study adopts library research and secondary data to critically survey the literature on funding student loan scheme in Malaysia. The study also develops a Waqf Mat'am Model which integrates waqf and sadaqah fund for mobilizing a fund programmed for the needy and underprivileged students. The findings are expected to provide some insights on the extent to which waqf and sadaqah fund can be integrated for the benefit of tertiary education in Malaysia. The study concludes with policy recommendations and suggestions for future research.

Keywords: higher education funding, student loan, waqf, sadaqah

1. Introduction

The shift into sharing the cost of funding higher educational sector between the stakeholders comprises of the government, parents, students and institutions/philanthropists have been accepted and practiced in several countries. The method of totally dependent upon financial support from the government or public fund deem not feasible in the light of the global phenomenon of an increase cost of higher-education provision, and the diminution of expenditure allocated to the sector. Under the innovative concepts of cost-sharing, the students and parents are required to share tertiary education expenditure through the imposition of certain fees for admission into public higher learning institutions. In the meantime, student loans scheme and financial assistance from government agencies, private companies and charitable organization are offered to ease the financial burden towards the students. However, public higher education in a few countries, including Malaysia has been facing sustainability issue of funding an increased cost of student-loan arrangement. This challenge has been accentuated with the high rate of defaulters of student loan.

Based on the above-mentioned background, this paper provides an overview on the public funding of universities in Malaysia and on the prospect of Waqf Mat'am Model (WMM) as an alternative to the existing funding model. This paper is divided into five sections starting with an introduction. Higher education in Malaysia is discussed in section two. The third section provides the structure of higher education funding in Malaysia. This is followed in the fourth section by discussion on cost sharing concept applies in developed and developing countries including Malaysia. Then, the fifth section examines the issues related to the sustainability of public funding of higher education in Malaysia. The fifth section focuses on the prospect of WMM for financing modern higher education in the Malaysian context, and the final section concludes and elucidates the recommendations of the paper.

2. Higher Education in Malaysia

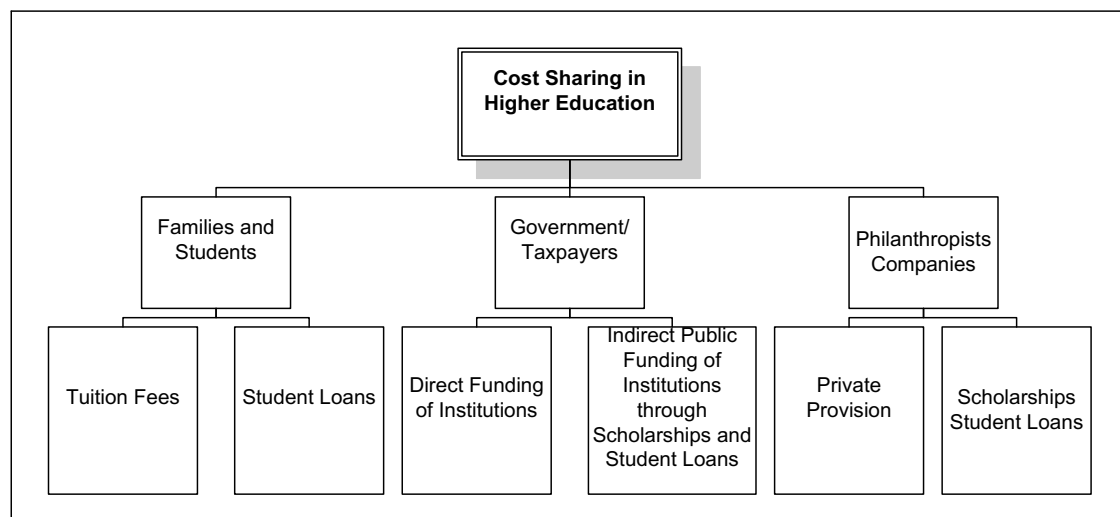
Tertiary and higher education are used interchangeably to refer the highest education level. International Standard Classification of Education (ISCED) established by UNESCO defines tertiary education the programmes with a

qualification level 5 to level 8 comprise Diploma, Advanced Diploma, Postgraduate Diploma, Professional Certificate, Bachelors, Masters, and PhD programmes (UIS, 2013). In Malaysia, higher education refers to the ISCED level 3 and above, thus comprises tertiary-level programmes and non-tertiary programmes such STPM, Matriculation, Foundation, Pre-Diploma, Pre-University, and Post-Secondary non-tertiary programmes (MOE, 2015).

Tertiary education is the backbone for supporting economic growth and the engine for human capital development. The advancement of the developed countries, for instance, USA and UK are accredited to the achievement and advancement of their higher learning institutions (Aik Hoe Lim and Saner, 2011; Chapman, 2011; Whiteley, 2012). In Malaysia, higher learning institutions are the main supplier of human capital to support economic growth of the nation. Public and private universities offer higher learning courses that expose students with the latest technology and expertise to support economic growth. Obtaining tertiary education certificates, thus, become the main criteria for better employment opportunity in the k-economy system. To this effect, the demand for tertiary education courses and programmed in Malaysia increases simultaneously from 921 797 enrolments in the public and private higher learning institutions recorded in 2009 to 1.2 million in 2014 (Tham, 2011; MOE, 2015). This figure is projected to increase significantly to 4.5 million in 2025. For that reason, higher education funding will be facing a challenge of sustainability due to rising rate of enrolments.

3. Higher Education Funding

The government, private entities and philanthropists are among the financial contributor for higher education sector (Barnabè, 2012; Estermann & Pruvot, 2011). In many European countries, for example Denmark and Germany, public fund is the major sources of fund for funding the operational expenditure of public universities. In contrast, higher-education authorities in Anglo-Saxon countries such as the United States implement market-oriented funding system that places the greater roles to private and philanthropists fund for financing tertiary education sector. Private companies and philanthropic organizations contribute fund to maintain the operational expenditure of higher learning institutions and offer huge amount of research grants (Barnabè, 2012). However, higher education funding system in most countries for the past four decades has gradually shifted into mix-oriented funding model with the participation of key stakeholders such as the government, private parties and philanthropic organizations in financing higher education sector (Carpentier, 2012). This type of financing is influenced by cost sharing concept that has transformed higher education funding system worldwide as shown in Figure 2.3. The developed and developing countries including Malaysia has adopted mix-oriented funding model with the sources of fund for financing higher education are shared between the government, private entities and philanthropists.



Source: Adapted from (Salmi, 2013) with modifications.

Fig. 1. Cost Sharing Funding Model for Higher Education

The developed and developing countries including Malaysia has adopted mix-oriented funding model with the sources of fund for financing higher education are shared between the government, private entities and philanthropists. The

government applies direct and indirect allocation mechanisms for funding higher education sector. Whilst the former refers to the allocation of annual grant for financing the development and operational expenditures of public universities, the latter denotes the financial assistance schemes distribute to the students in the form of scholarship and student loan (Barr, 2005; OECD, 2012; Salmi & Hauptman, 2006; Salmi, 2013a). Direct allocation for public universities is based on the traditional negotiation method that reliance on several inputs such as the number of staffs and enrolments (Abd. Rahman, Farley, & Naidoo, 2012). Meanwhile, the provision of student loan scheme indirectly funding the institutions as students paying student fees upon obtaining the loans. The loan is eligible to all students undertaking higher education courses with the condition that the programme offered validated by MQA.

Student loan scheme is the cost-sharing instrument that provides financial supports for students paying tuition fee and cover their living expenses. Contrary to other student assistance schemes like scholarships, the recipients must settle the amount borrowed upon graduation in accordance to the terms and conditions of the agreement. This distinctive feature provides a long-term financial solution for the government to reduce tertiary education expenditure by substituting scholarships with student loan programs. Malaysian government initiated mortgage-based student loan program in 1997 and established The National Higher Education Funding Council popularly known as PTPTN to operate and manage the fund. The institution of the loan is expected to widen the access into tertiary education programs whereby students regardless of ethnic and economic background have the opportunity of pursuing tertiary education without encountering financial problem. All students enroll into public and private higher learning institutions are entitled for the loan with the condition that the courses validated by Malaysian Quality Assurance (MQA) (Elistina, Masud, & Md Jusoh, 2006; R. Ismail, 2009; S. Ismail, Sergueeva, & Singh, 2011; Rahman, 2009; Yunus, 2009). PTPTN allocated RM25 billion between 1997 and 2008 for funding 1.25 million students representing 80 per cent of the total 1.57 million of higher-education students at that period (Shafinar et al., 2011; S. Benjamin et.al 2011). Every year, PTPTN allocates around 5 billion for funding loans for students undertaking higher education certificates in public and private higher learning institutions. Recently, there are indications that student loan fund may not be sustainable due to low repayment rate and an increase of enrolment into higher learning institution.

4. The Sustainability Issue of Higher Education Funding in Malaysia

The sustainability of student loan scheme that emerged as the main financial support for students is questionable amid the high numbers of defaulters. For example, since its inception in 1997 until April 2019 PTPTN had allocated RM56billion amount of loans to 3 million students enrolled into public and private higher learning institutions (The Star, 2019). Nevertheless, the rate of defaulters is considerably high as only fifty-eight per cent of the borrowers repay back the amount due. In 2008, the low repayment rate affected the operational expenditure of PTPTN that had forced the agency applied RM2billion loan from the government, which went unsuccessful. Alternatively, Employees Provident Funds (EPF); an agency under the Ministry of Finance agreed to provide the loan as per requested. Increasing repayment rate has become the main priority for the agency to cover their operational expenditure and to enable new students continues receiving financial support for completing the study. PTPTN has introduced several mechanisms to increase the repayment rate such as issuing legal actions, compulsory salary deduction for government servant and blacklisted the defaulters from leaving the country.

The shortage of fund has forced PTPTN to impose the reduction of loans allocated to students enrolled into public and private higher learning institutions. Under this mechanism, which was started in 2014, the amount of loans awarded to students undertaking courses in public and private higher learning institutions reduced by five and fifteen percent respectively (Harian Metro, 2014). However, the reduction of student loan amid the rising cost of living expenses has caused the burden for students to balance their budget throughout the study periods. There are a number of reports students have been forced to skip meal due to insufficient fund available to cover the cost for buying food (Berita Harian, 2019; Utusan Malaysia, 2019).

The scholars have proposed several funding alternatives to overcome these challenges. Several researches have suggested alternative models through the involvement of public universities in the income generation activities specifically entrepreneurship and philanthropic activities. However, these alternatives seem not able to completely solve the problems of insufficient funding of public universities and the sustainability of student loan scheme. Hence, there is a need to develop a viable model and to investigate the extent to which such a model can address the issue of financing public universities

and student loan scheme. The present study is motivated by the research gap identified to propose a model by integrating Cash Waqf and Sadaqah. This new model is anticipated to provide sustainable fund to cover the cost of providing financial assistance to students.

5. The Existing Islamic Institutions for Funding Higher Education

The Islamic economic system has several redistribution mechanisms such as zakat, *sadaqah*, and waqf that mobilise funding for socioeconomic programmes, including financing the higher education sector. These mechanisms are accumulated through obligatory and voluntary contributions, then distributed to the poor and needy (Islahi, 2011; Muhammad, Usman, Majid, & Rasool Lakhan, 2013; Widiyanti, 2015). Table 1 shows the attributes and differences of zakat, *sadaqah*, and waqf.

Table 1. The Attributes and Differences between Zakat, *Sadaqah*, and Waqf

Attributes/ Mechanisms	Zakat	<i>Sadaqah</i>	Waqf
Legal	Compulsory	Voluntary	Voluntary
Payer/Contributor	Muslim individuals and institutions (which fulfil certain conditions)	Muslim individuals, non-Muslims, and institutions (no condition applied)	Muslim individuals, non-Muslims, and institutions (no condition applied)
Beneficiaries	<i>Asnaf</i> (Muslim)	Muslim individuals, non-Muslims, and institutions (no condition applied)	Muslim individuals, non-Muslims, and institutions (no condition applied)
Asset	Certain assets and fulfil certain conditions	Asset without any condition	Asset without any condition
The Usage of Asset	The usage of asset with usufruct (no condition to retain the asset)	The usage of asset with usufruct (no condition to retain the asset)	Must retain the asset and the recipient utilises the usufruct only

Sources: al-Qardawi (2000), Sheila et al. (2014), Habib Ahmad, (2004), Kahf (2008).

The above comparative analysis of zakat, *sadaqah*, and waqf as shown in Table 3.1 indicates the flexibility of waqf over zakat and *sadaqah* to be structured as the preferred alternative higher education funding model for the Malaysian higher education sector. Compared to zakat, *waqf* is more flexible, particularly regarding the beneficiaries who may include both Muslims and non-Muslims. In the context of a multi-ethnic country like Malaysia, this criterion is vital to enable equal distribution of waqf benefits without any religious boundaries.

Moreover, waqf is more sustainable compared to zakat and *sadaqah* because waqf assets must be preserved for perpetual usage and the beneficiaries only receive the benefits or *manfaat* of waqf. This unique characteristic could protect the waqf asset from the risks of dilapidating and diminishing. The following sections proposes Waqf Mat'am Model through the integration of waqf and *sadaqah* as an alternative higher education funding model.

6. Higher Education Funding Model Based on Waqf Mat'am Model

The previous sub-section highlights the existing Islamic institutions that have been involved in funding higher education sector. In the context of multi-ethnic country like Malaysia, the flexibility of waqf and *sadaqah* could be viable alternative for funding higher education. Figure 2 illustrates the proposed Waqf Mat'am Model that integrating cash waqf and *sadaqah* for funding higher education sector.

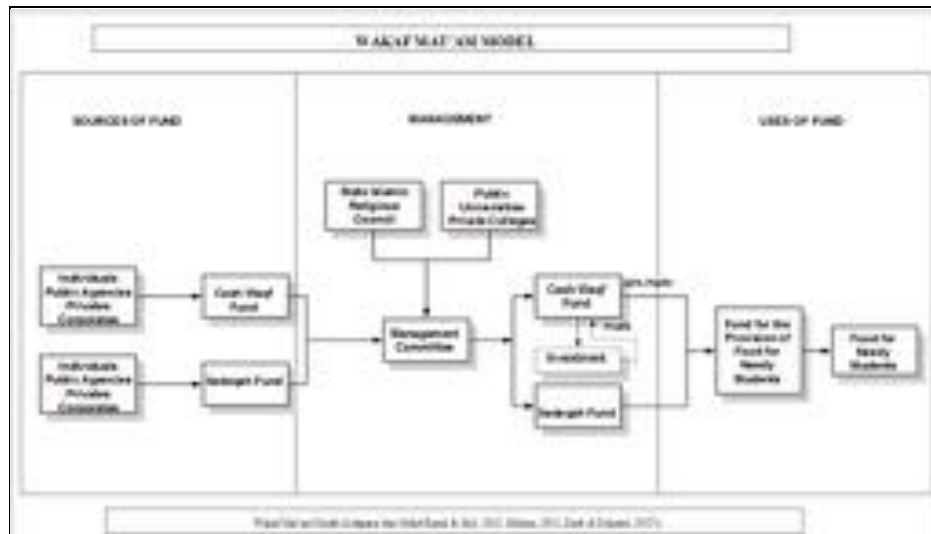


Fig. 2 Proposed Waqf Mat'am Model

The proposed model involves the following stages:

- The proposed source of fund is derived mostly from;
 1. The donors (individuals, public institutions, privates and corporations) contribute cash waqf and *sadaqah* to Management Committee (MC). In return, the donors will receive waqf and *sadaqah* certificates for their contributions.
 2. As to cash waqf fund, the MC will then act as a *mutawwali* and will be responsible for making the necessary investment decisions regarding the pooled cash waqf funds. MC will invest the pooled funds and it may opt to invest them in income-generating investment vehicles such as property, equity, or unit trust funds. Mohsin (2013) suggested for 50% of the accumulated funds to be channelled for investment and the balance to be diverted back to the funds to ensure its perpetuity. At the end of the investment tenure, the principal amount will be returned to the fund, whereas the remaining 50% portion of the profits are used to fund the provision of food for the needy students.
 3. Meanwhile, MC combines *sadaqah* fund and a portion of profits from cash waqf fund for funding the provision of fund for the needy students.
- In order to ensure its perpetuity of cash waqf fund, revenue in the forms of dividends on savings, investments, retained earnings, and contribution to the cash waqf fund, will be distributed accordingly.

6. Conclusion

The challenges of public funding of higher education in the current globalized and uncertainty economic conditions require the adoption of suitable and appropriate financing mechanisms for the sustenance of the sector. The new trend of applying cost-sharing concept has been widely accepted and applied in the developed and developing countries including Malaysia. However, the high number of defaulters of educational loan managed by PTPTN has raised the sustainability issue of public funding of higher education in Malaysia. The proposed Waqf Mat'am Model (WMM) that integrating cash waqf and *sadaqah* could be a viable alternative for funding higher education sector in Malaysia. The proposed model is expected to accumulate and distribute the fund for the provision of food for the needy and underprivileged students.

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تحقيق ليبيا لمؤشرات أهداف التنمية المستدامة حسب الأبعاد والأبعاد

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الملخص:

هدفت الورقة إلى دراسة مدى تحقيق ليبيا لأهداف التنمية المستدامة، حيث تمت دراسة مؤشرات كل هدف من الأهداف، علاوة على تحديد اتجاه سير كل مؤشر منها وإمكانية التنبؤ باتجاه سيرها في المستقبل، كما هدفت إلى تبويب هذه المؤشرات حسب الأبعاد الثلاثة الرئيسية. وتوصلت الدراسة إلى مجموعة من النتائج من أهمها أن مؤشرين فقط يتحسنان بشكل تدريجي وهذا ربما يشير إلى أن الدولة لا تأخذ في مخططاتها تحسين أداءها في تنفيذ أهداف التنمية المستدامة، كما يلاحظ أن أغلب المؤشرات لا يمكن التنبؤ باتجاهاتها وهذا كما ذكرنا سابقاً لقلة توفر البيانات بشكل متواتر لفترات طويلة. كذلك يمكن النظر إلى الأهداف من جانب اتجاه سيرها في تحقيق الأهداف، حيث استطاعت 7 مؤشرات من مؤشرات الهدف الثالث السير في الاتجاه الصحيح ليصبح صاحب أعلى نسبة عند 26%، تلاه الهدف السابع والذي يسير باتجاه الهدف بشكل معتدل. كما تجدر الإشارة إلى أن الهدف 12 لم يستطع أن يبين اتجاه 46% من مؤشرات. ومن الضروري التركيز على البعد الاقتصادي باعتبار أغلبية المؤشرات التي توفرت بياناتها لا يمكن تحديد اتجاهاتها والتي بلغت 80% من المؤشرات، والبعد البيئي الذي كانت 60% من مؤشرات لا يمكن تحديد اتجاهاتها كذلك. **الكلمات المفتاحية:** المؤشرات – أهداف التنمية المستدامة – البعد الاجتماعي – البعد الاقتصادي – البعد البيئي.

المقدمة:

بات معروفاً أن أهداف التنمية المستدامة أكبر وأشمل من الأهداف التي سبقتها، فهذه الأخيرة كانت فقط ثمانية أهداف، أما الأهداف الحالية فهي 17 هدف وضعت لها 244 مؤشراً لقياس مدى تحقيق هذه الأهداف. وبطبيعة الحال فلا يمكن تحقيق كل هذه الأهداف بنسبة 100%، ولكن كل دولة تسعى حسب قدرتها. من الملاحظ عن هذه الأهداف هو تعقيدها وتعقد العلاقات فيما بينها، بل إن الكثير من أشار بأن العلاقات فيما بينها متداخلة جداً ولا يمكن الفصل فيما بينها، ومع ذلك فالبعض يقسم هذه الأهداف تقسيم متباين بحيث لا يتداخل هدف مع الآخر كما في النموذج الذي سندرسه لاحقاً حيث تم التقسيم بناء على الأبعاد إلى ثلاث أبعاد وهي الاقتصادية الاجتماعية والبيئية. علاوة على الأمم المتحدة التي تعتمد في تقسيمها للأهداف إلى خمس مجموعات رئيسية: الناس - كوكب الأرض - الرخاء أو الرفاهية والازدهار - السلام - الشراكة. وبالتالي يندرج تحت كل مجموعة من هذه المجموعات عدد من الأهداف. إن اختلاف وجهات النظر حول كيفية تقسيم والتعامل مع هذه الأهداف أدى بالضرورة إلى نتائج مختلفة عند تقييمها. تم تقسيم هذه الورقة إلى مبحثين تناول المبحث الأول مدى تحقيق ليبيا لكل هدف من هذه الأهداف حيث تم تقسيمها إلى ثلاث مجموعات بناء على الأبعاد الثلاث المتعارف عليها وهي البعد الاقتصادي الاجتماعي والبيئي، وتناول المبحث الثاني مدى تحقيق ليبيا لمؤشرات الأهداف حسب الأبعاد والأبعاد.

المبحث الأول: تحقيق ليبيا لأهداف التنمية:

تستند الورقة في تقسيمها إلى الأهداف بناء على التقسيم الذي طوره مدير العلوم بمركز ستوكهولم كارل يوهان روكستروم وآخرون، حيث قدموا طريقة جديدة لعرض الجوانب الاقتصادية والاجتماعية والبيئية لأهداف التنمية المستدامة. حيث ينظر إلى التنمية الاجتماعية والاقتصادية والبيئية (Stockholm) كأجزاء منفصلة. والشكل التالي يوضح الطريقة التي اعتمدها في تقسيم الأهداف إلى ثلاث أبعاد ولكل بعد مجموعة من الأهداف (Resilience Centre, 2017) :



رسم توضيحي 1 أهداف التنمية المستدامة حسب الأبعاد

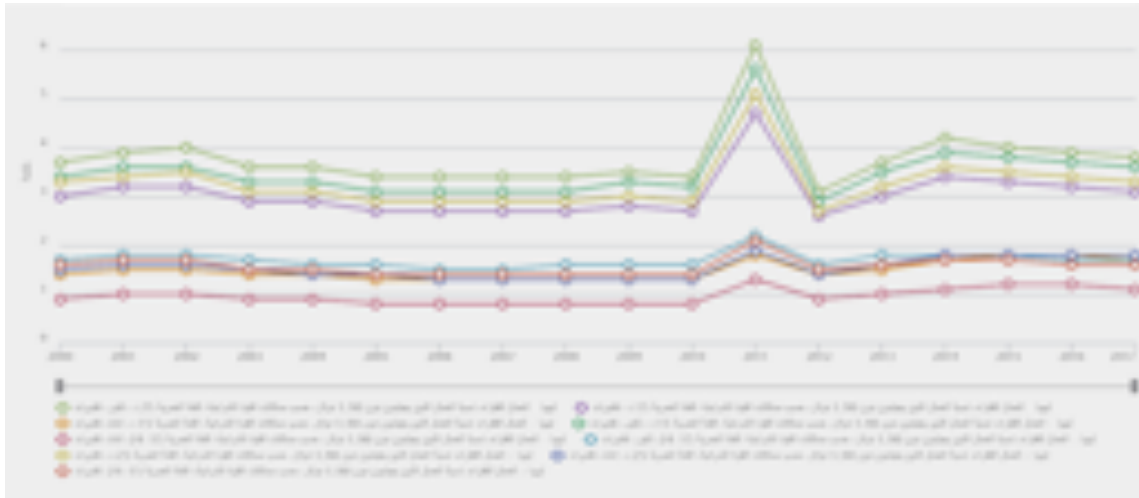
وبالتالي، فإن هذا المبحث سوف يتناول أهداف التنمية المستدامة الأربعة عشر ومدى تحقيق ليبيا لها على أرض الواقع حسب بعض إحصائيات المنظمات الدولية، وفيما يلي تفصيل لأهداف التنمية في ليبيا.

المطلب الأول: البعد الاجتماعي:

الهدف الأول: لا للفقر، وشعاره "إنهاء الفقر بكل أشكاله في كل مكان".

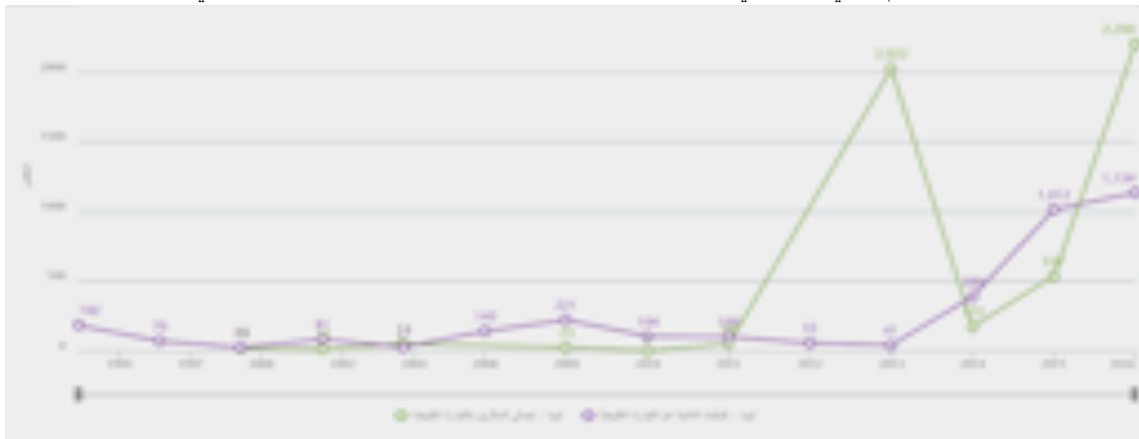
لم تستطع الإسكوا¹⁰ توفير بيانات عن الفقر في ليبيا لعدة أسباب من بينها أنها لا تمتلك بيانات مسحية تعبر عن وضعها خلال السنوات الأخيرة. ومن المهم الإشارة إلى أن استثمار ليبيا في منظومة للمسوحات الوطنية يمكنها من أن تنتج تقييمات دقيقة فيما يخص مؤشرات الحرمان على الصعيدين الأسري والفردى (ابو إسماعيل وآخ. 2017). إلا أن منظمة العمل الدولية استطاعت توفير بيانات عن مؤشر 1.1.1 نسبة السكان الذين يعيشون دون خط الفقر الدولي بحسب الجنس والعمر والوضع الوظيفي والموقع الجغرافي كما في الرسم التوضيحي التالي:

لجنة الأمم المتحدة الاقتصادية والاجتماعية لغرب آسيا¹⁰



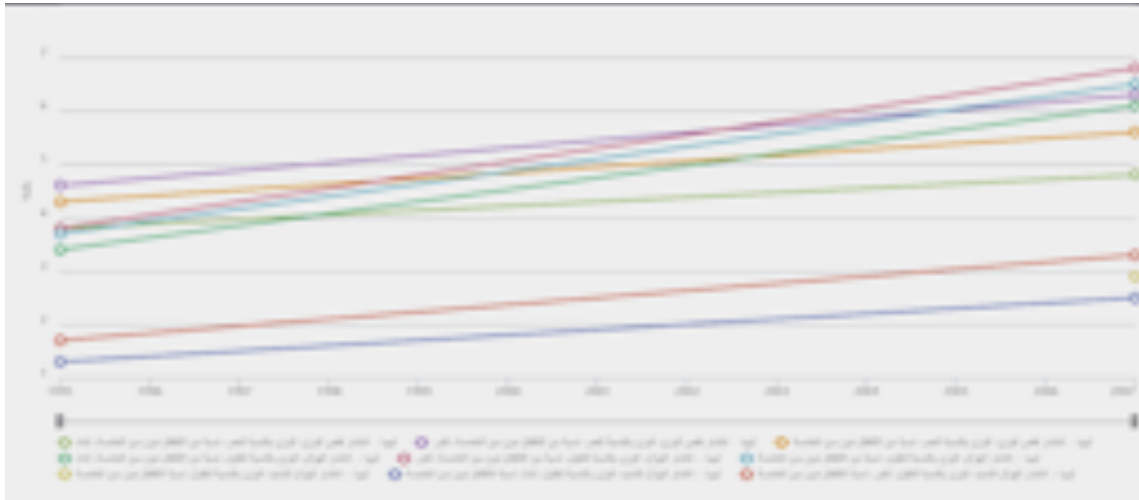
مؤشر 1.1.1 نسبة السكان الذين يعيشون دون خط الفقر الدولي 2 رسم توضيحي

كما استطاعت قاعدة البيانات الدولية للكوارث توفير بيانات عن مؤشر 1.5.1 عدد الأشخاص المتوفين والمفقودين ومن تضرروا مباشرة بسبب الكوارث، والرسم التالي يفصل في بيانات الوفيات الناتجة عن الكوارث الطبيعية وكذلك إجمالي المتأثرين بالكوارث الطبيعية:



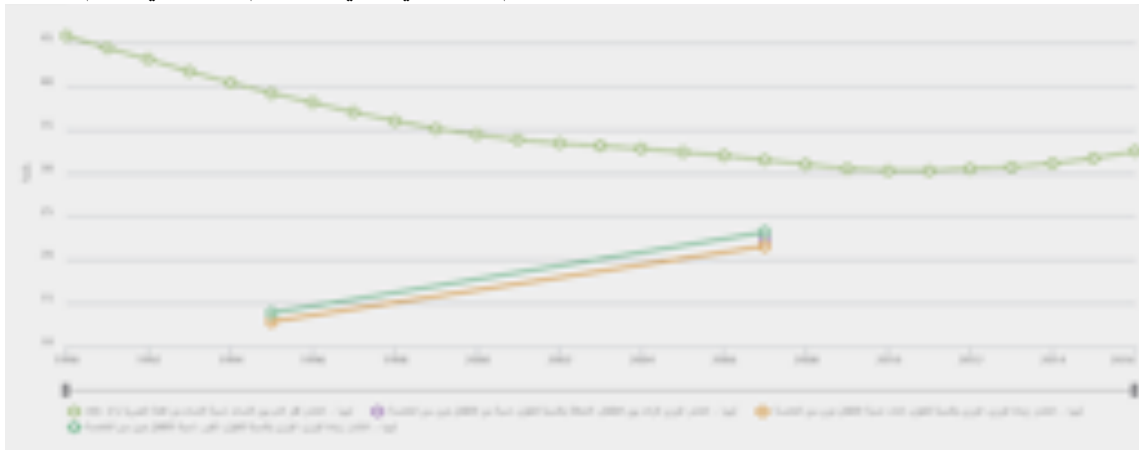
مؤشر 1.5.1 عدد الأشخاص المتوفين والمفقودين ومن تضرروا مباشرة بسبب الكوارث 3 رسم توضيحي

أما بقية المؤشرات فلم يتوفر عنها أي بيانات يمكن عرضها.
الهدف الثاني: لا للجوع، وشعاره "إنهاء الجوع، تحقيق الأمن الغذائي وتحسين التغذية وتعزيز الزراعة المستدامة".
 مؤشرين من أصل 11 مؤشر تم الحصول على بياناتها وهي مؤشر 2.2.2 معدل انتشار سوء التغذية، ولكبر البيانات الواردة من هذا المؤشر والتي تصل إلى 14. تم تقسيمها إلى رسمين توضيحيين:



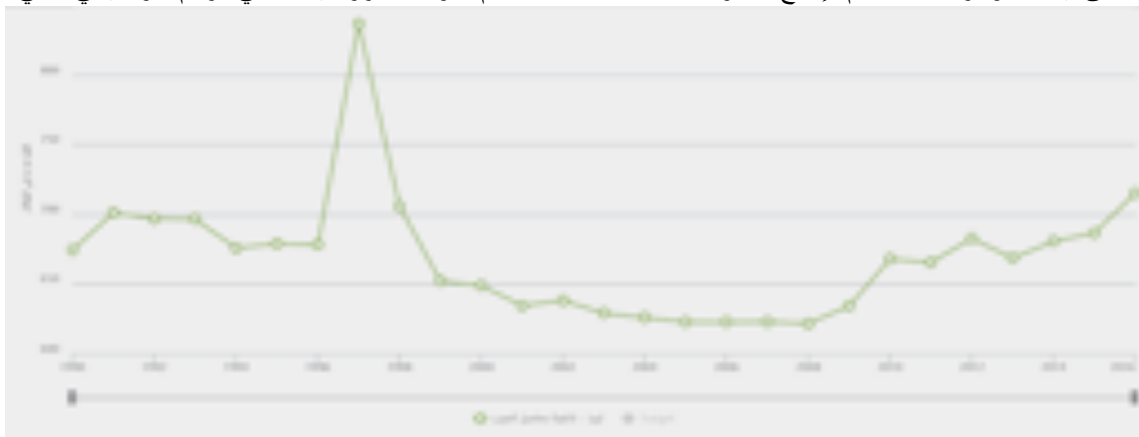
2.2.2 انتشار نقص الوزن والهزل والهزل الشديد برسم توضيحي

والرسم التوضيحي التالي يبين ما لم يعرض في الرسم السابق:



2.2.2 انتشار فقر الدم بين النساء، نسبة النساء من الفئة العمرية 15-49 كرسم توضيحي

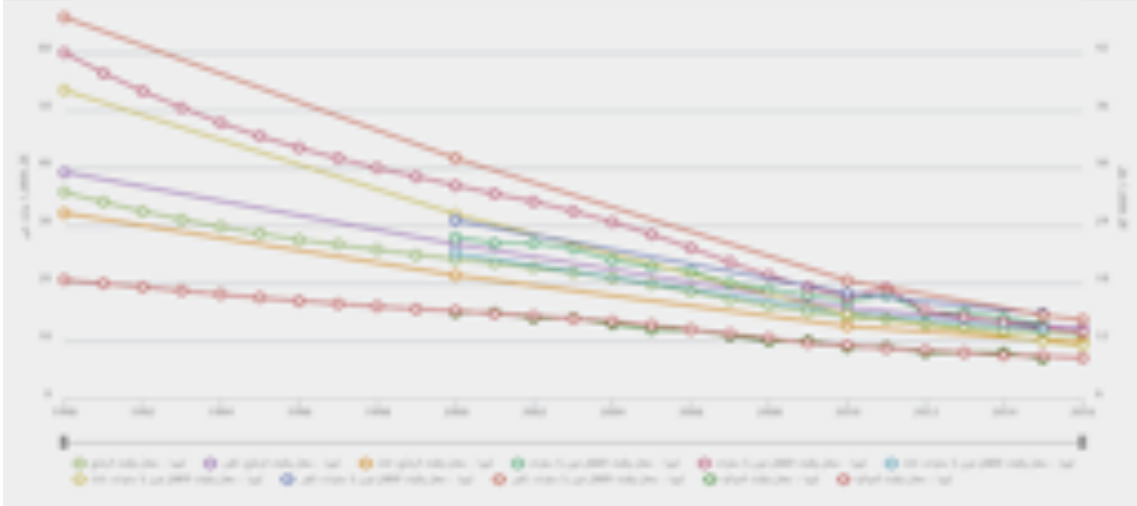
علاوة على بيانات مؤشر 2.3.1 حجم الإنتاج لكل وحدة عمل حسب فئات حجم المؤسسة الزراعية كما في الرسم التوضيحي التالي:



مؤشر 2.3.1 حجم الإنتاج لكل وحدة عمل حسب فئات حجم المؤسسة الزراعية كرسم توضيحي

الهدف الثالث: صحة جيدة، وشعاره "ضمان حياة صحية وتعزيز الرفاه للجميع من جميع الأعمار".

تحصلت ليبيا على 72.1 نقطة حسب مؤشر مدة الحياة المتوقعة عند الولادة الصادر عام 2017، وبصفة عامة يعتبر مؤشر جيد بالنسبة إلى ليبيا، من (HDI, 2017) مقارنة بهونكونج الصين التي تحصلت على 84.1 نقطة وهي الأفضل، وسيرا ليون التي تحصلت على 52.2 وهي الأسوأ. جانب آخر تشير قاعدة بيانات أهداف التنمية المستدامة التي يعدها البنك الدولي أن مؤشر 3.1.1 نسبة الوفيات النفاسية حسب التقديرات النموذجية إلى انخفاض هذا المعدل وهذا يعتبر مؤشر جيد. كذلك مؤشر 3.1.2 عمليات الولادة التي تتم بإشراف عاملين صحيين مهرة شهد تحسن بسيط جداً. وبالنظر إلى مؤشر 3.2.1 معدل وفيات الرضع والأطفال دون سن الخامسة ومؤشر 3.2.2 معدل وفيات المواليد، نلاحظ تحسن كبير في انخفاض المعدلات، كما في الرسم التالي:



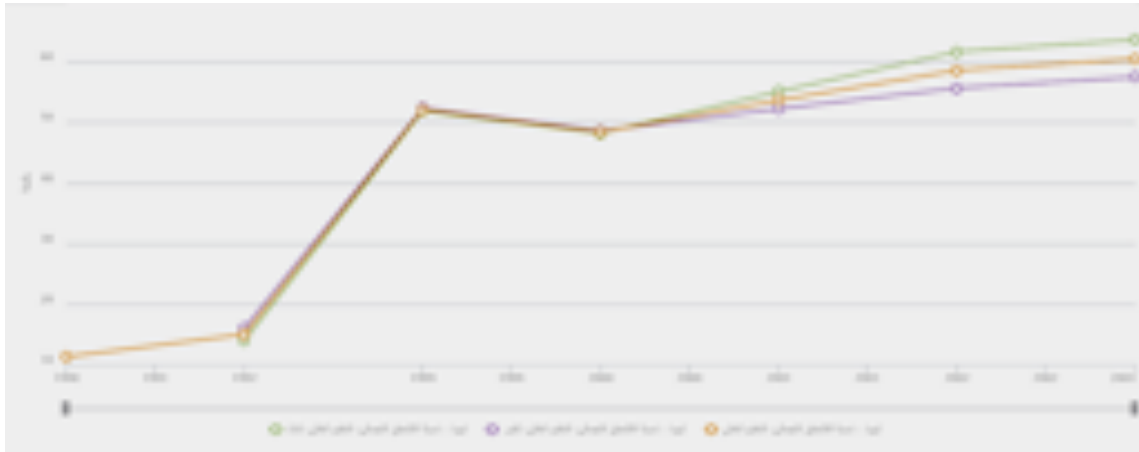
مؤشر 3.2.1 معدل وفيات الرضع والأطفال دون سن الخامسة ومؤشر 3.2.2 معدل وفيات المواليد 7 رسم توضيحي

ومن المؤشرات المهمة والتي تم الحصول على بيانات عنها هو مؤشر 3.3.4 عدد الإصابات بأمراض التهاب الكبد الوبائي باء والذي وفر بيانات ونسبة الأطفال البالغين من العمر سنة واحدة، ومؤشر 3.8.1 تغطية توافر الخدمات الأساسية، وتحديدًا B عن التحصين وفيروس التهاب الكبد 3 معدل كثافة الأخصائيين الصحيين وتوزيعهم c.1 التحصين ضد اللقاح الثلاثي والحصبة للأطفال من الفئة العمرية 12-23 شهر، ومؤشر 3. ويقصد بالأخصائيين هنا الممرضات والقابلات والأطباء لكل شخص.

الهدف الرابع: تعليم ذو جودة، وشعاره "ضمان تعليم ذا جودة شامل ومتساوي وتعزيز فرص تعلم طوال العمر للجميع".

تحصلت ليبيا على 13.4 نقطة في عام 2017 حسب مؤشر 4.3 المتعلق بسنوات التعليم المتوقعة، في حين أفضل دولة وهي أستراليا تحصلت على 22.9، وتحصلت جنوب السودان على 4.8 نقطة وهي الأسوأ. وأما فيما يتعلق بالمؤشر 4.6 المتعلق بمتوسط سنوات الدراسة فقد تحصلت ليبيا على 7.3 نقطة مقارنة بألمانيا صاحبة الصدارة في متوسط سنوات الدراسة وبمؤشر 14.1 نقطة، وبوركينا فاسو صاحبة أسوأ متوسط . لا تتوفر بيانات منتظمة عن مؤشر 4.2.2 معدل المشاركة في التعلم المنظم قبل سنة واحدة (HDI, 2017) سنوات دراسة بمعدل 1.5 نقطة من سن الالتحاق الرسمي بالتعليم الابتدائي.

ويوفر مؤشر 4.3.1 معدل مشاركة الشباب والكبار في التعليم الرسمي وغير الرسمي والتدريب ونسبة الالتحاق الإجمالي بالتعليم العالي



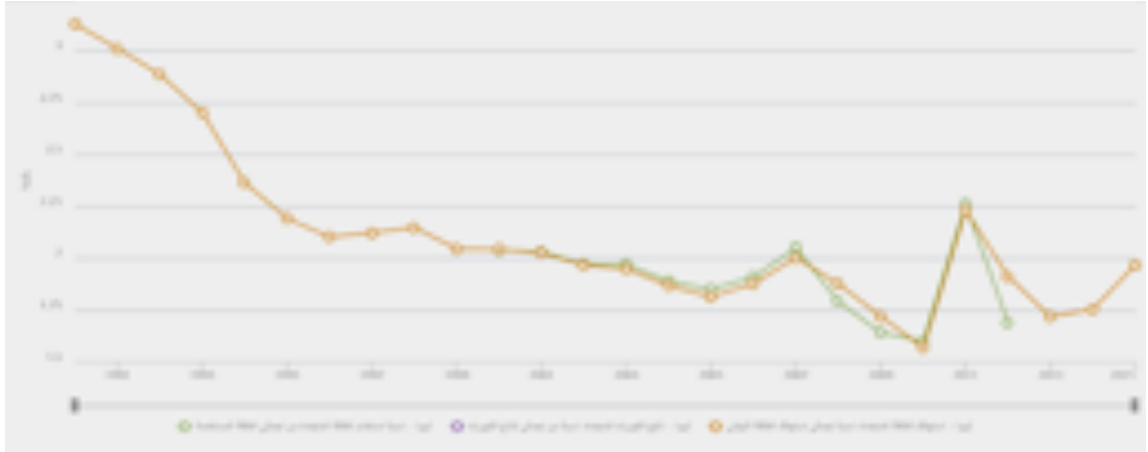
مؤشر 4.3.1 معدل مشاركة الشباب والكبار في التعليم الرسمي وغير الرسمي والتدريب رسم توضيحي

الهدف السابع: طاقة متجددة وبأسعار معقولة، وشعاره "ضمان الحصول على الطاقة الحديثة بأسعار معقولة والتي يمكن الاعتماد عليها والمستدامة للجميع".
من المؤشرات التي توفرت عنها بيانات في هذا الهدف هو مؤشر 7.1.1 نسبة السكان المستفيدين من خدمات الكهرباء، والجدول التالي يبين تفاصيل هذه البيانات:



مؤشر 7.1.1 نسبة السكان المستفيدين من خدمات الكهرباء رسم توضيحي

كذلك توفرت بيانات عن مؤشر 7.2.1 حصة الطاقة المتجددة في مجموع الاستهلاك النهائي للطاقة، الرسم التالي يبين ثلاث بيانات وهي نسبة استخدام الطاقة المتجددة من إجمالي الطاقة المستخدمة، وناتج الكهرباء المتجددة، نسبة من إجمالي إنتاج الكهرباء، واستهلاك الطاقة المتجددة، نسبة إجمالي استهلاك الطاقة النهائي:



مؤشر 7.2.1 حصة الطاقة المتجددة في مجموع الاستهلاك النهائي للطاقة (إرسم توضيحي)

وفيما يتعلق بمؤشر 7.3.1 كثافة الطاقة التي تقاس من حيث الطاقة الأولية والناتج المحلي الإجمالي، فبالنظر إلى الرسم التالي يمكن حساب كثافة الطاقة من حيث الطاقة الأولية والناتج المحلي الإجمالي:



مؤشر 7.3.1 كثافة الطاقة التي تقاس من حيث الطاقة الأولية والناتج المحلي الإجمالي (إرسم توضيحي)

الهدف الحادي عشر: المدن والمجتمعات المستدامة، وشعاره "جعل المدن والمستوطنات الإنسانية شاملة وأمنة ومرنة ومستدامة". مشروع تسهيل الاستقرار في ليبيا والذي -هو أحد مشاريع برنامج الأمم المتحدة الإنمائي في ليبيا- يهدف إلى تعزيز سلطات الدولة الشرعية والمعترف بها دوليًا وتعزيز الوحدة الوطنية. وذلك من خلال خلق فرص للمصالحة السلمية محليًا من خلال مراقبة الصراع المجتمعي والحد منه، والتخطيط البلدي الشامل، والتحسينات العملية في الخدمات الأساسية في كل مدينة تعمل فيها. وبما أن المشروع يساعد الحكومة على تحسين حياة المواطنين، والتواصل بشكل أكثر إيجابية مع السلطات المحلية، فإنه يخلق الفرصة للحكومة لإثبات قيمتها بالنسبة للمواطنين، ولتوفير "عائد السلام" مع انخفاض الصراع وتحسين الظروف المحلية. والذي يهدف إلى:

1. تجديد وإعادة تجهيز مرافق الخدمات الأساسية لتحسين تقديم الخدمات الأساسية.
2. تعزيز قدرة السلطات البلدية على التخطيط الشامل وتقديم الاستثمارات والسلع العامة.
3. مساعدة الحكومة المركزية على التواصل بشكل إيجابي مع السلطات المحلية، ودعم استثماراتها في السلع العامة الرئيسية.
4. دعم علاقات تعزيز الثقة بين الجهات الفاعلة الرئيسية في كل مدينة، وتعزيز وتعميق السلام المحلي.
5. بناء الجسور عبر الفواصل، محلياً ووطنياً، للحد من الكسور وتشجيع الوحدة.

مدة هذا المشروع ثلاث أعوام من 2016 على 2019 وبقيمة 61,606,081 دولار أمريكي، ساهمت ليبيا فيها بمبلغ 50 مليون دولار أمريكي. (UNDP in Libya, 2018) وقام المشروع بأكثر من 285 مشروع استثماري في مدنه السبعة المستهدفة.

الهدف السادس عشر: السلام والعدالة، وشعاره "تعزيز الجمعيات المسالمة والشاملة للتنمية المستدامة، وتوفير الحصول على العدالة للجميع وبناء مؤسسات فعالة وقابلة للمحاسبة وشاملة على كافة المستويات.

مؤشر 16.8.1 نسبة عضوية البلدان النامية في المنظمات الدولية وحقوقها في التصويت، وتحديدًا نسبة العضوية في البنك الأفريقي للتنمية ونسبة العضوية ونسبة حقوق التصويت في كلاً من البنك الدولي للإنشاء والتعمير والمؤسسة المالية الدولية وصندوق النقد الدولي والجمعية العامة للأمم المتحدة، كانت عضواً في المنظمات السابقة الذكر

المطلب الثاني: البعد الاقتصادي:

الهدف الثامن: العمل اللائق والنمو الاقتصادي، وشعاره "تعزيز النمو الاقتصادي النامي والشامل والمستدام والتوظيف الكامل والمنتج بالإضافة إلى عمل لائق للجميع".

تعاني ليبيا من ارتفاع معدلات البطالة الصريحة (الفعلية) والحقيقية¹¹، حيث بلغ معامل الاختلاف لمعدل البطالة 55% خلال الفترة من 1962 إلى 2012، ويرجع السبب في ذلك إلى عدم وضوح السياسات والتشريعات المنظمة لسوق العمل في ليبيا. ومن المشاكل التي تواجه سوق العمل في الاقتصاد الليبي هي عدم وجود بيانات وإحصائيات فعلية ودقيقة (الجروشي وأرباب، 2017).

الهدف التاسع: بنية تحتية مبتكرة وجيدة، وشعاره "بناء بنية تحتية مرنة وتعزيز التصنيع الشامل والمستدام وتعزيز الابتكار". تعاني ليبيا من شبكة طرق قديمة ولا تخضع للصيانة بشكل دوري وبالرغم من مساحة ليبيا الكبيرة والتي تساوي تقريباً 1.75 مليون كم² وتنتشر في وسط صحرائها الكثير من القرى الصغيرة المتناثرة وعلى ساحلها المطل على البحر الأبيض المتوسط أغلب مدنها، إلا أنه حتى عام 1999، كان عدد شبكات الطرق في ليبيا يقدر بـ 83,200 كم، منها 47,590 كم مرصوفة فقط. والطريق الرئيسي في ليبيا هو الطريق الساحلي البالغ طوله 1822 كلم، يمتد من الحدود التونسية إلى الحدود المصرية، غير إنه لا يوفر أدنى مستويات أمن الطرق ولا يمكن تصنيفه ضمن شبكة الطرق السريعة إضافة إلى حجم الكوارث التي تحدث بسبب مخالفته لأدنى مواصفات السلامة العامة. أما القطارات فهو من المشاريع التي لا تتعدى مرحلة الإعداد على الورق، فبعد إغلاق نظام السكة الحديد الليبي الأصلي والذي يربط ما بين بنغازي والمرج منذ أوائل عام 1965، تبعه (Otman & Karlberg, 2015) إغلاق خط سكة الحديد الخفيف بطول 60 كم.

الهدف العاشر: تقليل عدم المساواة، وشعاره "تقليل عدم المساواة في داخل الدول وما بين الدول وبعضها البعض".

مؤشر 10.5.1 مؤشرات السلامة المالية ومؤشر 10.6.1 نسبة عضوية البلدان النامية وحقوقها في التصويت

الهدف الثاني عشر: الاستخدام المسنول للموارد، وشعاره "ضمان الاستهلاك المستدام وأنماط الإنتاج".

استطاعت ليبيا توفير بيانات مؤشر 12.2.1 الأثر المادي، ونصيب الفرد من الأثر المادي، ونصيب الناتج المحلي، ومؤشر 12.2.2 الاستهلاك المادي المحلي ونصيب الفرد من الاستهلاك المادي المحلي.

المطلب الثالث: البعد البيئي:

في هذا البعد ثلاث أهداف وهي: الهدف السادس: مياه نظيفة وصحية، وشعاره "ضمان الوفرة والإدارة المستدامة للمياه والصحة للجميع". والهدف الثالث عشر: التحرك بسبب المناخ، وشعاره "التصرف العاجل لمكافحة التغير المناخي وتأثيراته". والهدف الخامس عشر: الاستخدام للأرض، وشعاره "حماية واستعادة وتعزيز الاستخدام المستدام للنظم الإيكولوجية الأرضية، وإدارة الغابات بصورة مستدامة ومكافحة التصحر ووقف تدهور الأراضي واستعادتها ووقف فقدان التنوع البيولوجي".

لعام 2018 يسجل بيانات 180 بلداً في 24 مؤشراً للأداء (EPI) وفيما يتعلق بليبيا اتجاه هذه الأهداف؛ فإننا نجد أن مؤشر الأداء البيئي عبر عشر فئات من القضايا وهي جودة الهواء، مياه الصرف الصحي، المعادن الثقيلة، التنوع البيولوجي، الغابات، مصائد الأسماك، المناخ التي تقيس المخاطر التي والطاقة، تلوث الهواء، الموارد المائية، وأخيراً الزراعة. والتي تتناول وتستند إلى هدفين رئيسيين هما الصحة البيئية تهدد الصحة البشرية، ونماء النظام الإيكولوجي التي تقيس الموارد الطبيعية وخدمات النظام البيئي. وتوفر هذه المقاييس مقياساً على المستوى القومي حول مدى قرب البلدان من أهداف السياسات البيئية المعمول بها. وغالباً ما يعيق النقاش حول التحديات البيئية غياب تعريف المشكلة وعدم اليقين بشأن طبيعة هذه التحديات والحلول غير المحددة. كما إن تحليل النقاط الفرعية لمؤشر الأداء البيئي يساهم في تمييز القضايا التي تمنع (Yale Center for Environmental Law & Policy, 2018) الاستدامة. ويقدم المؤشر عدداً من الإحصاءات المفيدة في تحديد أفضل الممارسات، وتحديد الأولويات في الحوكمة البيئية (Environmental Law & Policy, 2018).

كما تحصلت ليبيا على الترتيب 123 من أصل 180 دولة، مسجلة 49.79 نقطة في مؤشر الأداء البيئي. ومن الملفت للانتباه أنها تحصلت على الترتيب 32 في هدف الصحة البيئية لوحده بتسجيلها 81.80 نقطة، والتي تحصلت عليها من ثلاثة من أصل عشر: جودة الهواء 96.67 نقطة، مياه الصرف الصحي 54.93 نقطة، المعادن الثقيلة 49.67 نقطة، ولكن في الوقت نفسه تحصلت على ترتيب متدني في هدف نماء النظام البيئي بحصولها على 28.45 نقطة فقط لتتحصل على الترتيب 177 من أصل 180 دولة، وهذا التدني نتيجة لتدني نفاطها في السبعة فئات المكونة لهذا الهدف وهي: التنوع البيولوجي، مصائد الأسماك، المناخ والطاقة، تلوث الهواء، الموارد المائية، الزراعة بنقاط 20.72، 47.50، 11.87، 34.38، 74.57، 24.39، على التوالي باستثناء الغابات التي لم تتوفر بيانات عنها (Yale Center for Environmental Law & Policy, 2018).

البطالة الحقيقية: "هي الحالات التي لا يتم فيها استخدام قوة العمل في المجتمع استخداماً كاملاً وهو ما يعني بقاء جزء كم قوة العمل معطلاً، مما يجعل الناتج الفعلي أقل من الناتج الممكن أو المحتمل أو الطبيعي وهو ما يؤدي إلى تدني مستوى الرفاهية في المجتمع عن المستوى الذي يمكن الوصول إليه"

وعلى الرغم من أن عدد مؤشرات أهداف التنمية المستدامة هو 244 مؤشر إلا أنه ليبيبا تم توفير بيانات 73 مؤشراً فقط. أي بنسبة 29.92% من إجمالي المؤشرات، وهي تعتبر نسبة قليلة جداً. وبالنظر بعمق في بعض هذه البيانات نجد أن بعضها يوفر بيانات غير منطقية أو غير مكتملة. وبناء على هذا سوف نفصل في المبحث التالي بيانات المؤشرات التي توفرت فيها بيانات في أغلب الدول لتكون المقارنة أكثر عدلاً.

المبحث الثاني: تحقيق المؤشرات حسب الأهداف والأبعاد:

2018 تأتي من مزيج من مصادر البيانات الرسمية وغير الرسمية. تأتي معظم البيانات من SDGs البيانات الواردة في تقرير 12 مؤشرات المنظمات الدولية (البنك الدولي، منظمة التعاون والتنمية في الميدان الاقتصادي، منظمة الصحة العالمية، منظمة الأغذية والزراعة، منظمة العمل الدولية، منظمة الأمم المتحدة للطفولة (اليونيسيف)، وغيرها) التي لديها عمليات مكثفة وصارمة للتحقق من البيانات. وتشمل مصادر البيانات (، ومنظمات المجتمع المدني والشبكات (أكسفام، شبكة العدالة الضريبية، وغيرها) Gallup World Poll الأخرى المسوحات الأسرية (Sachs, Kroll, Schmidt-Traub, Lafortune, & Fuller, 2018) هناك خمس افتراضات أساسية تقوم على أساس منهجية وتفسير هذه (Sachs, Kroll, Schmidt-Traub, Lafortune, & Fuller, 2018) المؤشرات:

1. يتم تطوير عدد المؤشرات عندما يتوافر دليل جديد:

تمثل أهداف التنمية المستدامة جزءاً من أجندة ديناميكية، بما في ذلك داخل المجتمع الإحصائي. لذلك، تتطور سلة المؤشرات من سنة إلى أخرى كلما توفرت أدلة جديدة. كما يتم تنقيح منهجية مؤشرات معينة على أساس الجهود المبذولة على المستوى العالمي لتحسين جودة التدابير لرصد ولوحة المعلومات لا يمكن مقارنتها بشكل مباشر من سنة إلى أخرى. أهداف التنمية المستدامة. وهذا يعني أن نتائج مؤشرات الأهداف هي إطار شامل نهائي (لا إعادة تجميع الأهداف):

(الناس، الكوكب، Ps كإطار مفاهيمي شامل نهائي. بمعنى أنه لا يعيد التقرير تنظيم الأهداف في فئات فرعية مثل SDG5 يُستخدم مؤشر الرخاء، السلام والشراسة) أو بين الأهداف الاقتصادية والاجتماعية والبيئية والحوكمة. تمثل أهداف التنمية المستدامة إطاراً شاملاً يشجع واضعي السياسات على دمج كل بُعد في عملية وضع السياسات لكل قطاع ولا يعتبرون هذه القضايا قضايا مستقلة يجب معالجتها بمعزل عن بعضها. كما يستخدم التقرير آراء الخبراء للتعامل مع التداخل بين الأهداف.

3. تساعد البيانات غير الرسمية في سد الفجوات الحالية في البيانات:

يركز التقرير على البيانات المتاحة في الوقت الحالي. فالمؤشرات الرسمية ليست كافية لرصد تنفيذ أهداف التنمية المستدامة بشكل شامل وأن مصادر البيانات غير الرسمية مثل البيانات الصادرة من المؤسسات البحثية والجامعات والمجتمع المدني والشركاء الآخرين يمكن أن تساعد في سد هذه الفجوة وتكمل الجهود.

4. تتطلب مراقبة SDG تقدير الأداء المطلق للبلد استناداً إلى المسافة إلى الأهداف بشكل ثابت:

يركز التقرير على أداء الدول بشكل مطلق وليس نسبة إلى أداء الدول الأخرى، وكل مؤشر يتراوح من 0-100. لذلك يقيس التقرير المسافة التي تحول دون تحقيق الاستدامة.

5. يجب أن تكون النتائج متاحة لجمهور واسع:

ولوحات البيانات إلى تحقيق توازن بين السلامة العلمية والنتائج القابلة للنقل بسهولة والتي يمكن لجمهور واسع SDG يهدف مؤشر الوصول إليها (صناع السياسات والمجتمع المدني والمواطنين العاديين وما إلى ذلك). لذلك كقاعدة عامة عندما تغطي طريقتين نتائج مماثلة تم الاحتفاظ بطريقة أسهل.

على الرغم من أن التقرير استطاع أن يوفر بيانات مترابطة عن 88 مؤشر، إلا أن ليبيا استطاعت أن توفر 57 مؤشراً منها فقط. هذا مع الأخذ بعين الاعتبار أنها ليست من ضمن التصنيف والذي يضم 156 دولة لعدم مقدرتها على توفير 80% من البيانات، بمعنى يمكن اعتبار ترتيبها ما بعد 156. وكما أشرنا سابقاً فإن عدد الأهداف هو 17 هدفاً والنتائج المتوقع تحقيقها هي 169 غاية ويمكن قياس تحقيق هذه النتائج باستخدام 244 مؤشراً وبدون تكرار فإنها تصبح 232 مؤشراً.

أولاً: تحقيق المؤشرات حسب الأهداف:

حسب أهداف التنمية المستدامة فإن لكل هدف مجموعة من المؤشرات لقياس مدى تحقيق هذا الهدف، وطبيعة الحال فإن كثير من الدول قد لا توفر بيانات متكاملة عن مؤشرات هذه الأهداف. وبالنظر إلى ليبيا فإننا نجد أنها استطاعت توفير بيانات 57 مؤشراً من المؤشرات التي توفرت في التقرير و195 من مؤشرات محل الدراسة.

وبصفة عامة فإن الهدف الثالث قد تم وضع له 27 مؤشراً وهو الأكثر مقارنة ببقية الأهداف، أما الهدف السابع فقد تم وضع 6 مؤشراً فقط مقارنة ببقية الأهداف. ومع ذلك لم يتمكن أي هدف من جمع بيانات لكل مؤشرات، حيث استطاع الهدف الثالث توفير بيانات 14 مؤشر من

(من قبل الأمين العام للأمم المتحدة بان كي مون في عام 2012 لتعبئة الخبرات العلمية والتقنية من الأوساط الأكاديمية SDSN تم تكليف شبكة حلول التنمية المستدامة (12) والمجتمع المدني والقطاع الخاص لدعم حل المشكلات العملية من أجل التنمية المستدامة على المستوى المحلي والوطني، والمقاييس العالمية.

أصل 27 ليصبح الأعلى نسبة مقارنة ببقية الأهداف وبنسبة 51.85%. أما الهدف العاشر فكان الأسوأ على الإطلاق فلم يستطع توفير بيانات عن أي مؤشر من المؤشرات الإحدى عشر بمعنى أنه حقق 0%. والجدول التالي يفصل هذه الأعداد والنسب:

الهدف	عدد المؤشرات التي تم تجميع بيانات فعلية عنها	عدد المؤشرات لكل هدف SDGs وفقاً	الفرق	النسبة
1	2	14	12	14.29%
2	4	13	9	30.77%
3	14	27	13	51.85%
4	1	11	10	9.09%
6	3	11	8	27.27%
7	2	6	4	33.33%
8	3	17	14	17.65%
9	6	12	6	50.00%
10	0	11	11	0%
11	2	15	13	13.33%
12	6	13	7	46.15%
13	3	8	5	37.50%
15	4	14	10	28.57%
16	7	23	16	30.43%

وفيما يتعلق بعدد المؤشرات التي تم تحقيقها والتي تواجه تحديات رئيسية وذات أهمية ونسبتها لكل هدف. نجد أن الهدف الثالث استطاع إنجاز وتحقيق 7 مؤشرات من أصل 27 مؤشر بنسبة 30% وهو الأعلى مقارنة ببقية المؤشرات، أما المؤشرات التي لم تستطع أن تحقق أي إنجاز في أي من مؤشراتنا فهي أكثر من نصف أهداف محل الدراسة وهي (1، 2، 4، 6، 8، 9، 10، 11). وفيما يتعلق بمؤشرات الأهداف التي تواجه تحديات رئيسية، فإن الهدف الثالث من جديد كان يواجه تحديات رئيسية في مؤشر واحد فقط أي بنسبة 4% ليصبح أقل هدف من بين بقية الأهداف، وأعلى نسبة مؤشرات تواجه تحديات رئيسية في تحقيقها تمثلت بمؤشرات الهدف التاسع عند نسبة 33%، وعاد الهدف الثالث ليظهر أنه يواجه تحديات ذات أهمية في 5 مؤشرات وبنسبة أعلى فيما بين الأهداف عند 17%. والجدول التالي يفصل هذه النسب:

الهدف	درجة تقييم المؤشرات	عدد المؤشرات بالنسبة لكل درجة تقييم	نسبتها إلى مؤشرات ليبيا	نسبتها إلى عدد مؤشرات SDGs
1	المؤشرات المنجزة	0	0%	0.00%
	مؤشرات تواجه تحديات رئيسية	1	50%	7.14%
	مؤشرات تواجه تحديات ذات أهمية	1	50%	7.14%

0.00%	0%	0	المؤشرات المنجزة	2
23.08%	75%	3	مؤشرات تواجه تحديات رئيسية	
7.69%	25%	1	مؤشرات تواجه تحديات ذات أهمية	
29.63%	57.14%	8	المؤشرات المنجزة	3
3.70%	7.14%	1	مؤشرات تواجه تحديات رئيسية	
18.52%	35.71%	5	مؤشرات تواجه تحديات ذات أهمية	
0.00%	0%	0	المؤشرات المنجزة	4
9.09%	%100	1	مؤشرات تواجه تحديات رئيسية	
0.00%	0%	0	مؤشرات تواجه تحديات ذات أهمية	
0.00%	0%	0	المؤشرات المنجزة	6
9.09%	33.33%	1	مؤشرات تواجه تحديات رئيسية	
18.18%	66.67%	2	مؤشرات تواجه تحديات ذات أهمية	
16.67%	50%	1	المؤشرات المنجزة	7
0.00%	0%	0	مؤشرات تواجه تحديات رئيسية	
16.67%	50%	1	مؤشرات تواجه تحديات ذات أهمية	
0.00%	0%	0	المؤشرات المنجزة	8
11.76%	66.67%	2	مؤشرات تواجه تحديات رئيسية	
5.88%	33.33%	1	مؤشرات تواجه تحديات ذات أهمية	
0.00%	0%	0	المؤشرات المنجزة	9
33.33%	66.67%	4	مؤشرات تواجه تحديات رئيسية	
16.67%	33.33%	2	مؤشرات تواجه تحديات ذات أهمية	
0.00%	%0	0	المؤشرات المنجزة	10
0.00%	%0	0	مؤشرات تواجه تحديات رئيسية	
0.00%	%0	0	مؤشرات تواجه تحديات ذات أهمية	

11	المؤشرات المنجزة	0	0%	0.00%
	مؤشرات تواجه تحديات رئيسية	1	50%	6.67%
	مؤشرات تواجه تحديات ذات أهمية	1	50%	6.67%
12	المؤشرات المنجزة	3	50%	23.08%
	مؤشرات تواجه تحديات رئيسية	1	16.67%	7.69%
	مؤشرات تواجه تحديات ذات أهمية	2	33.33%	15.38%
13	المؤشرات المنجزة	2	66.67%	25.00%
	مؤشرات تواجه تحديات رئيسية	1	33.33%	12.50%
	مؤشرات تواجه تحديات ذات أهمية	0	0%	0.00%
15	المؤشرات المنجزة	2	50%	14.29%
	مؤشرات تواجه تحديات رئيسية	1	25%	7.14%
	مؤشرات تواجه تحديات ذات أهمية	1	25%	7.14%
16	المؤشرات المنجزة	2	28.57%	8.70%
	مؤشرات تواجه تحديات رئيسية	3	42.86%	13.04%
	مؤشرات تواجه تحديات ذات أهمية	2	28.57%	8.70%

أما من جانب اتجاه ليبيا في تحقيق الأهداف فنجد أن المؤشرات التي تسير في الاتجاه الصحيح هي 10 مؤشرات تسعة منها أنجزت أو حققت الأهداف المرجوة منها والأخيرة تواجه تحديات ذات أهمية. وبالنظر إلى المؤشرات التي تسير نحو تحقيق الأهداف بشكل معتدل فهما مؤشرين فقط أحدهما يواجه تحديات رئيسية الآخر يواجه تحديات ذات أهمية. و 10 مؤشرات أخرى توصف بالركود في حركة اتجاها 6 منها تواجه تحديات ورئيسية والبقية تواجه تحديات ذات أهمية. علاوة على 8 مؤشرات توصف بالهبوط أو التراجع في تحقيق الأهداف 7 منها تواجه تحديات رئيسية وواحدة تواجه تحديات ذات أهمية. وأخيراً فإن 27 مؤشر هي الحصاة الأكبر بين مثيلاتها لا يمكن التنبؤ بحركة هذه المؤشرات لا صعوداً ولا هبوطاً ولا حتى ركوداً، على الرغم من أن 9 منها أنجزت تحقيق أهدافها، هذا بالإضافة إلى 6 تواجه تحديات رئيسية و 9 تواجه تحديات ذات أهمية. والجدول التالي يفصل هذه النسب:

الهدف	يسير في الاتجاه الصحيح	باتجاه الهدف بشكل معتدل	ركود	لا يمكن تحديد اتجاه المؤشر
يسير في الاتجاه الصحيح	باتجاه الهدف بشكل معتدل	ركود	لا يمكن تحديد اتجاه المؤشر	يسير في الاتجاه الصحيح
يسير في الاتجاه الصحيح	باتجاه الهدف بشكل معتدل	ركود	لا يمكن تحديد اتجاه المؤشر	يسير في الاتجاه الصحيح
يسير في الاتجاه الصحيح	باتجاه الهدف بشكل معتدل	ركود	لا يمكن تحديد اتجاه المؤشر	يسير في الاتجاه الصحيح
يسير في الاتجاه الصحيح	باتجاه الهدف بشكل معتدل	ركود	لا يمكن تحديد اتجاه المؤشر	يسير في الاتجاه الصحيح
يسير في الاتجاه الصحيح	باتجاه الهدف بشكل معتدل	ركود	لا يمكن تحديد اتجاه المؤشر	يسير في الاتجاه الصحيح
يسير في الاتجاه الصحيح	باتجاه الهدف بشكل معتدل	ركود	لا يمكن تحديد اتجاه المؤشر	يسير في الاتجاه الصحيح
يسير في الاتجاه الصحيح	باتجاه الهدف بشكل معتدل	ركود	لا يمكن تحديد اتجاه المؤشر	يسير في الاتجاه الصحيح
يسير في الاتجاه الصحيح	باتجاه الهدف بشكل معتدل	ركود	لا يمكن تحديد اتجاه المؤشر	يسير في الاتجاه الصحيح
يسير في الاتجاه الصحيح	باتجاه الهدف بشكل معتدل	ركود	لا يمكن تحديد اتجاه المؤشر	يسير في الاتجاه الصحيح

7.14%	7.14%	0.00%	0.00%	%0.00	1	1	0	0	0	1
0.00%	7.69%	7.69%	7.69%	%7.69	0	1	1	1	1	2
11.11%	3.70%	11.11%	0.00%	%25.93	3	1	3	0	7	3
0.00%	0.00%	9.09%	0.00%	%0.00	0	0	1	0	0	4
18.18%	0.00%	9.09%	0.00%	%0.00	2	0	1	0	0	6
0.00%	0.00%	0.00%	16.67%	%16.67	0	0	0	1	1	7
11.76%	5.88%	0.00%	0.00%	%0.00	2	1	0	0	0	8
33.33%	8.33%	8.33%	0.00%	%0.00	4	1	1	0	0	9
0.00%	0.00%	0.00%	0.00%	%0.00	0	0	0	0	0	10
6.67%	0.00%	6.67%	0.00%	%0.00	1	0	1	0	0	11
46.15%	0.00%	0.00%	0.00%	%0.00	6	0	0	0	0	12
25.00%	0.00%	12.50%	0.00%	%0.00	2	0	1	0	0	13
14.29%	0.00%	7.14%	0.00%	%7.14	2	0	1	0	1	15
17.39%	13.04%	0.00%	0.00%	%0.00	4	3	0	0	0	16

عدد المؤشرات التي حققت أهدافها 18 مؤشر نصفها يسير في الاتجاه الصحيح والنصف الثاني يصعب تحديد اتجاهه. وعدد المؤشرات التي تواجه تحديات رئيسية هي 20 مؤشر، تختلف اتجاهاتها بين مؤشر واحد فقط يسير باتجاه الهدف بشكل معتدل، و6 في حالة ركود من ناحية تحديد الاتجاه، و7 اتجاهها هبوطي و6 لا يمكن تحديد اتجاهها. وبمؤشر واحد أقل من ناحية العدد أي 19 مؤشر، وأقل تحديات أي أنها تواجه تحديات ذات أهمية، فإن أغلبها وتحديداً 12 مؤشر لا يمكن التنبؤ باتجاهه و4 منها توصف بالركود، أما الثلاثة البقية فهي موزعة بالتساوي ما بين انطلاقها نحو المسار الصحيح وباتجاه الهدف بشكل معتدل والأخير تناقصي.

ثانياً: تحقيق المؤشرات حسب الأبعاد:

تجدر الإشارة إلى أنه بالرغم من أن منهجية التقرير لا ترى بتقسيم الأهداف إلى أبعاد ثلاث، إلا هذا لا يمنع من إعادة استخدامها بناء على الأبعاد، وهذا الذي تقوم عليه هذه الدراسة.

توفر البيانات:

بصفة عامة فإنه البعد الاجتماعي يسعى إلى تحقيق 7 أهداف من أصل 14 هدفاً أي بمعدل النصف، وضمن البعد الاقتصادي 4 أهداف وينطوي تحت البعد البيئي 3 أهداف فقط، ليصبح الإجمالي 14 هدفاً وهو محل هذه الدراسة. وقد أوضحنا سابقاً سبب استبعاد الثلاثة أهداف المتبقية. وكذلك الحال فيما يتعلق بالنتائج المرجوة فإن البعد الاجتماعي لوحده يأمل منه تحقيق 65 نتيجة مرجوة من أصل 131 نتيجة محل الدراسة والتي تمثل النصف تقريباً، فيما ينتظر من البعد الاقتصادي الوصول إلى 41 نتيجة مرجوة، ويكتفي البعد البيئي بـ 25 نتيجة مرجوة فقط. أما على صعيد المؤشرات فإن البعد الاجتماعي يمكن قياسه بـ 109 مؤشراً من أصل 195 مؤشراً أي ما يقارب 56%، والبعد الاقتصادي يمكن كذلك قياسه بـ 53 مؤشراً بنسبة 27%، أما البعد الاجتماعي فإن 33 مؤشراً كانت كافية لقياسه عند نسبة 17% تقريباً.

في ليبيا، تم توفير بيانات 32 مؤشراً لقياس البعد الاجتماعي من أصل 109 مؤشر أي بنسبة 29.4%، كما تم توفير بيانات 15 مؤشراً لقياس البعد الاقتصادي من أصل 53 مؤشر أي بنسبة 28.3%، أما البعد الاجتماعي فتم توفير بيانات 10 مؤشرات من أصل 33 مؤشر أي بنسبة 30%.

تحقيق الأهداف حسب الأبعاد:

النسب كانت متقاربة فيما بين الأبعاد الثلاث مقارنة بتحقيقها للأهداف، حيث كانت تتراوح النسب ما بين 30% إلى 34.5%، باستثناء البعد الاقتصادي الذي لم يستطع أن يحقق أكثر من 20% فقط، في حين كانت 46.7% من مؤشرات البعد الاقتصادي تواجه تحديات رئيسية. بخلاف البعد البيئي الذي كانت 40% من مؤشرات البعد قد حققت أهدافها المرجوة. ومن الملفت للانتباه أن استطاعت 8 مؤشرات تحقيق الأهداف وفي نفس الوقت كانت اتجاهاتها تصاعدياً وهي تمثل 25% من المؤشرات المتوفرة عن البعد الاجتماعي.

اتجاهات الأبعاد:

أكثر من نصف بيانات المؤشرات المتوفرة كان لا يمكن تحديد اتجاهاتها، حيث يعتبر البعد الاجتماعي الأفضل مقارنة بالبعدين الآخرين، حيث كانت 28.1% من مؤشرات البعد غير محددة الاتجاه. غير أن الوضع في البعد الاقتصادي كان مختلفاً فكانت أغلبية المؤشرات التي توفرت بياناتها لا يمكن تحديد اتجاهاتها والتي بلغت 80% من المؤشرات. ولا يختلف الوضع كثيراً في البعد البيئي الذي كانت 60% من مؤشرات البعد لا يمكن تحديد اتجاهاتها.

	تقييم	الاتجاه الصحيح	باتجاه الهدف بشكل معتدل	ركود	تناقصي	لا يمكن تحديد اتجاهاتها	
اجتماعي	منجز	8 (%25)	(%0)	(%0)	(%9)	3 (%34)	11
	تحديات رئيسية	(%0)	(%3)	(%9)	(%16)	1 (%3)	10 (%31)
	تحديات ذات أهمية	1 (%3)	(%3)	(%9)	(%3)	5 (%3)	11 (%34)
		0	0	0	0	0.2	0.2
		0	0	0.07	0.13	0.27	0.47
		0	0	0	0	0.33	0.33
اقتصادي	منجز	(%0)	(%0)	(%0)	(%0)	3 (%20)	3 (%20)
	تحديات رئيسية	(%0)	(%0)	(%7)	(%13)	4 (%27)	7 (%47)
	تحديات ذات أهمية	(%0)	(%0)	(%0)	(%0)	5 (%33)	5 (%33)
بيئي	منجز	1 (%10)	(%0)	(%0)	(%0)	3 (%30)	4 (%40)
	تحديات رئيسية	(%0)	(%0)	(%20)	(%0)	1 (%10)	3 (%30)
	تحديات ذات أهمية	(%0)	(%0)	(%10)	(%0)	2 (%20)	3 (%30)
		2	10	8	27	10	

المناقشة:

على الرغم من أن التقرير الذي استندت عليه هذه الدراسة في توفير البيانات عن مدى تحقيق ليبيا لأهداف التنمية المستدامة، إلا ولأن التقرير قد وضع خمس افتراضات أساسية تقوم على أساس منهجية وتفسير هذه المؤشرات، فإنه لم يستطع الوقوف على مدى نجاح كل بعد من هذه الأبعاد وبالتالي لم يخرج بنتيجة عن تحقيق ليبيا لهذه المؤشرات حسب الأهداف وكذلك حسب الأبعاد.

يلاحظ أن مؤشرين فقط يتحسنان بشكل تدريجي وهذا ربما يشير إلى أن الدولة لا تأخذ في مخططاتها تحسين أداءها في تنفيذ أهداف التنمية المستدامة، كما يلاحظ أن أغلب المؤشرات لا يمكن التنبؤ باتجاهاتها وهذا كما ذكرنا سابقاً لقلة توفر البيانات بشكل متواتر لفترات طويلة. كذلك يمكن النظر إلى الأهداف من جانب اتجاه سيرها في تحقيق الأهداف، حيث استطاعت 7 مؤشرات من مؤشرات الهدف الثالث السير في الاتجاه الصحيح ليصبح صاحب أعلى نسبة عند 26%، تلاه الهدف السابع والذي يسير باتجاه الهدف بشكل معتدل. كما تجدر الإشارة إلى أن الهدف 12 لم يستطع أن يبين اتجاه 46% من مؤشرات البعد.

من الضروري التركيز على البعد الاقتصادي باعتبار أغلبية المؤشرات التي توفرت بياناتها لا يمكن تحديد اتجاهاتها والتي بلغت 80% من المؤشرات، والبعد البيئي الذي كانت 60% من مؤشرات البعد لا يمكن تحديد اتجاهاتها كذلك. كما تجدر الإشارة إلى أنه لا يمكن تقسيم الأهداف

على القطاعات تقسيماً مباشراً وذلك لأن كثير من الأهداف تتداخل فيما بينها. وبالتالي لا يمكن القول بأن قطاع الصحة مطالب فقط بالتركيز على الهدف الثالث (الصحة الجيدة والرفاه) فقط، متجاهلين دورها في المساهمة في تحقيق بقية الأهداف الأخرى.

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Unlocking the Value of *Waqf* Assets via Islamic Real Estate Investment Trusts (Islamic REIT): A Deliberation on the Preliminary Framework

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Abstract

Insufficient fund to develop *waqf* properties remains as the main challenge and concern faced by the majority of *waqf* administrators in Malaysia. Thus, this paper aims to explore the potential of one of the Islamic capital market instruments, specifically Islamic Real Estate Investment Trusts (Islamic REIT), to unlock the value of underdeveloped and abandoned *waqf* properties through asset unitisation into share units in raising the capital for *waqf* development. A preliminary conceptual framework of REIT *waqf* is proposed. This study employed a qualitative research designed through the use of document analysis of classical Islamic books, Islamic ruling (*fatwa*), journal articles, books, online resources, and policy documents as well as interviews with *waqf* stakeholders. The characteristics of both *waqf* and Islamic REIT were analysed in order to determine the feasibility of the establishment of REIT *waqf*. Based on this study, a number of emergent major themes and sub-themes contributing towards the development of preliminary framework of REIT *waqf* were identified. On the whole, the idea of REIT *waqf* is still at its nascent stage. The findings demonstrate that despite several obstacles, Islamic REIT structure is viable to be advanced as a future framework to develop *waqf* properties provided that necessary measures are undertaken in order to address few legal and administrative issues.

Keywords: *waqf*, development, capital market, Islamic REIT

1. Introduction

One of the biggest impediments faced by *waqf* administrators in Malaysia is availability of adequate fund to develop *waqf* properties in Malaysia. This situation, however, is perceived to be due to poor management of *waqf* institutions, as a result of limited supervision mechanisms and professionalism in managing *waqf* assets. In Malaysia, most *waqf* properties are connected to religious institutions: mosques, madrasas, and cemeteries (Siti Mashitoh, 2006). According to Siti Salwa (2007), Baharuddin Sayyin, Asmak Ali and Salahudin Suyurno (2006), few *waqf* assets generate income for the *waqf*'s sole authorities, the *mutawallis*, who are the respective State Islamic Councils (SIRCs) in Malaysia. Furthermore, the financial aids to develop *waqf* assets are notably sourced from cash *waqf* contribution from the public as well as the government's grant (Norhaliza & Mustafa, 2009). According to Aminah and Sabit (2011), most *waqf* properties in Malaysia suffer from two major problems, namely inadequacy of liquid funds and illiquidity of *waqf* assets. Hence, developing a sustainable and self-reliant *waqf* model that could provide stable and continuous returns to *waqf* institutions is still a big hurdle to *waqf* administrators. Kahf (1998) asserts that ongoing research pertaining to contemporary methods of developing *waqf* assets is always on high demand.

These underdeveloped *waqf* properties and lands are largely due to their non-strategic location in the rural areas, uneconomical size, being scattered across large areas and little potential for development (Kamarudin Ngah, 1992; Osman Sabran 2002; Siti Mashitoh, 2006; Abu Bakar, 2007) Current statistics

indicate that of Malaysia's nearly thirteen and a half thousand hectares of *waqf* land, only two (2) per cent has actually been developed (JAWHAR, 2017).

In the same note, Jamil Khir bin Baharom (2014), the Minister at the Prime Minister's Office voiced out his concern that all *waqf* administrators should no longer rely on the allocation from the Federal Government to develop *waqf* properties. In line with the rapid trend of urbanisation in Malaysia, *waqf* assets have to be self-reliant and independent in generating income to finance their development (JAWHAR, 2014). While improving *waqf* governance is essential, we must also consider the ways in which the *waqf* system can work alongside and complement other instruments of Islamic finance. There is a recent call for the revival of idle, immovable *waqf* assets through the adoption of new innovative Islamic finance, such as *sukuk* issuance and shares offerings by increasing participation from the public. Thus, the main objective of this study is to examine the characteristics of property trust, specifically, Islamic real estate investment trusts (Islamic REIT), with the aim to unlock the full value of *waqf* assets and help to finance *waqf* development projects. Islamic REIT is a collective investment tool which is a form of unit trust.

Thus far, few studies have shed lights on the potential of property trusts as a mechanism to develop *waqf* properties. The application of REITs model to develop *waqf* properties, however, is not new. Islamic Religious Council of Singapore (MUIS) had initiated an "internal REITs" which involved a migration of low value *waqf* property to high yielding asset through *istibdal* (substitution) process. Institutional investors such as Baitulmal, which is under MUIS had also participated in acquiring the units of the property trusts which are offered internally and received dividend in the form of *hibah* (Shamsiah Abdul Karim, 2011). According to Shamsiah Abdul Karim (2011)), the structure had contributed in raising capital to develop and refurbish *waqf* properties. Moreover, they suggest that the new *waqf* buildings not only contribute to generating high and stable income for MUIS and beneficiaries, but also provide other advantages in terms of good location and efficient management.

In the case of Malaysia, Johor Corporation, through its subsidiary KPJ Healthcare, had also benefited from Islamic REIT structure in expanding its healthcare business. It is worth mentioning that a small portion of the Islamic REIT units in KPJ Healthcare constitutes of *waqf* units which contributed to upholding charitable activities not only for Johor citizens but also Malaysians as a whole. The idea of developing *waqf* assets via Islamic REIT structure had been voiced out by *waqf* experts such as Siti Mashitoh et al. (2007) in developing Iskandar Malaysia City in Johor. Islamic REIT has been further envisaged by Securities Commission of Malaysia (2014) as an underlying investment instrument for maximising returns as well as generating consistent and sustainable flow of income stream to *waqf* institutions.

This study examines Islamic REIT and *waqf* characteristics in order to determine Islamic REIT potential as an instrument to finance the development of *waqf* assets. The objective is to propose a future conceptual framework of REIT *waqf*. This paper is divided into five sections. Section 1 provides the introduction which is followed by reviewing relevant literature in Section 2. The review of literature utilised content analysis of secondary sources such as journal articles, books, conference papers, guidelines, statistics and reports by national authorities of Malaysia as well as interviews. Based on the review of literature and interviews, a preliminary framework of REIT *waqf* is developed. Research methodology and analysis of results are covered in Section 3 and Section 4, respectively, and this is followed by Section 5, which concludes the article.

2. Review of Literature

2.1 Concept and Characteristics of Waqf

The word *waqf* is derived from Arabic verb *waqafa* which means withholding (*al-habs*) and preventing (*al-man'*) (Al-Sarakhsi, 2005). According to Ibn Qudamah, *waqf* is "withholding the original (properties) and distributing the products (outcome)" (Ibn Qudamah, 1985). *Waqf* is distinguished from other concepts of *infaq* (spending) such as grant (*hibah*), donation (*sadaqah*), and gift (*hadiyyah*) by

way of the perpetuity element of *waqf*, i.e. preserving the corpus and only the benefits distributed for charity (Mohd Zamro, 2008). Furthermore, Kahf (1999) asserts that the repeatability of benefits generated from *waqf* assets has theoretically differentiated *waqf* from ordinary *ṣadaqah* since the concept of *ṣadaqah jāriyah* (perpetual charity) only applies to the latter and not the former.

The perpetual or continuous feature of *waqf* is further manifested through progressive approach of developing *waqf* property, where no *waqf* asset should be left idle and unattended in order to ensure sustainable return for beneficiaries. Essentially, the *ṣadaqah jāriyah* concept implies a Muslim's willingness to sacrifice his belongings for the sake of others, so that he will be rewarded eternally in this world and hereafter (Al-Qushayri, 1997). A *waqf* also reflects the concept of *qurbah* as a means of drawing closer to Allah SWT. The practice of *waqf* works not only within the boundaries of self-devotion to Allah, but it is also a central role in bonding and bridging social gap among humanity based on the principles of *maḥabbah* (love), *ta'awwun* (cooperation) and *ukhuwwah* (brotherhood) in the community (Syahnaz, 2008).

Waqf is basically an exclusive religious endowment in Islam. For a *waqf* to be valid, it is subjected to three characteristics or underlying principles or restrictions, namely perpetuity, inalienability and irrevocability (Mohsin, 2009; Mohamaad Tahir, 2011). These underlying principles are derived from a prominent hadith narrated by Ibn Umar that when Umar wanted to give his most valuable garden of date palms (*al-thamgh*), the Prophet told him that he should give it to charity (*waqf*) with conditions that the land and the trees will neither be sold, nor given as a present, nor bequeathed, but the fruits are to be given to charity. Thus, the majority of Muslim scholars view that once *waqf* is created, it must be perpetual to ensure regular and perennial support from the property to finance charitable activities related to mosques, hospitals, universities, schools and orphanage (Mohsin, 2009). It is also a consensus among the Muslim jurists that the ownership of *waqf* asset is regarded as being transferred to Allah SWT and that only the benefits can be channelled for the well-being of mankind. Another important feature is that the founder (*wāqif*) cannot revoke the dedication of the property once it had been declared as *waqf*. All three characteristics of *waqf* are designed to ensure that once created for philanthropic purposes, its benefits shall remain eternally for the beneficiaries, while the founder will continue to reap the blessings and rewards from Allah SWT in this world and hereafter.

2.2 *Waqf's Contributions toward the Muslim Civilization*

Consistent with the *waqf* characteristic of perpetuity, *waqf* assets have ideally generated stable flow of revenues to serve their objectives throughout the Muslim civilization. According to Hodgson, the *waqf* system is the primary vehicle for financing activities in Muslim society (Hodgson, 1974). *Waqf* institution is one of the key components of the social sector (*ijtima'iy*) in the theory of Islamic economic system (Surtahman & Sanep, 2010). It functions as the safety net instrument for socio-economic security (Kahf, 1998) that distributes the usufructs to the poor and needy, which, to a certain extent, is parallel to the role of *zakāh*.

Waqf system has also inspired the establishment of western endowment of Merton College of Oxford University (Gaudiosi, 1988) which remains in operations until today. In the era of Ottoman empire, *waqf* as a social and economic tool flourished, supporting numerous economic and social sectors in an efficient manner without any expense from the government (Cizakca, 1998; Mohsin, 2010). *Waqf* was not only servicing societies for basic necessities and sustainable aspects of life, but also comprising of various iconic and high quality assets, such as agricultural lands, commercial complex and hotels which were not only generating income but also providing employment opportunities to the society (Mohsin, 2010). Significantly, these endowments have contributed the most to the life of Muslims around the world.

2.2 Contemporary Modes of Financing *Waqf* Malaysia

There have been concerted efforts among various *waqf* stakeholders to revive the institution of *waqf*, in line with contemporary development. Federal agencies, such as Jabatan Wakaf, Zakat dan Haji

(JAWHAR) and Waqaf Foundation of Malaysia (YWM) together with the private sectors have joined hands with SIRC's to employ various mechanisms in advancing the untapped *waqf* properties. Apart from the allocated fund by the federal government (Asmak, 2009), other sources of financing are in the form of cash and share *waqf* schemes which involve the public in raising *waqf* funds (Siti Mashitoh, 2009; Naziree, 2010).

Corporate *waqf* is a very popular *waqf* concept in Malaysia involving the intervention of corporate entities to achieve both philanthropic and business objectives (Ibrahim, 2016). Within this initiative, the SIRC's have collaborated with strategic corporate partners, such as business entities, Islamic banking and financial institutions, universities, hospitals or clinics and cooperatives, resulting in positive impacts to the economy and society through various appropriate and suitable methods and financial schemes (Siti Sara, 2016). Some examples of corporate *waqf* collaboration are between:

- Federal Territory Islamic Religious Council (MAIWP) with Bank Islam Malaysia Berhad in developing Bank Islam Tower based on the build-operate-transfer (BOT) contracts on a piece of *waqf* land located in the heart of Kuala Lumpur (Azman Mohd. Noor & Saidatolakma, 2011);
- the establishment of Waqaf Siti Aishah shoplots and housing estates as a result of joint-venture between Penang Islamic Religious Council and UDA Development;
- Selangor Wakaf Corporation's (PWS) joint-venture with Nada Sepakat Corp Sdn. Bhd. in developing affordable house project on a piece of *waqf* land in Jalan Kebun, Klang (Abu Bakar Yang, 2014); and,
- share *waqf* scheme between PWS and Bank Muamalat Malaysia Berhad in financing various charitable projects in education, healthcare and investment.

The latest development of corporate *waqf* model is Waqaf Saham Larkin Central involving a large engagement of the public in subscribing listed share *waqf* for the redevelopment of Larkin Sentral Transportation Terminal and Wet Market with a development value of RM85 million. The shares are offered by Waqaf An-Nur Corp Bhd, a JCorp subsidiary that requires a minimum commitment of 1,000 units for RM100. In return, those who subscribe to the *waqf* shares will be eligible for a tax deduction of 7 percent for individuals and 10 percent for institution or organisation (Waqaf Saham Larkin Sentral, 2018).

From legal perspective, thus far, only five states in Malaysia, namely Selangor, Malacca, Negeri Sembilan, Terengganu and Perak, have enacted specific laws related to administrative and substantive provisions of *waqf*. An interesting development can be observed in the state of Perak where Section 10 (2) (h) Wakaf (Perak) Enactment 2015 has acknowledged the creation of "*waqf* of share" which means "to endow paid-up share held in any company or business, or trust shares or other financial instruments". This demonstrates that most states in Malaysia are moving forward to implement contemporary modes of financing *waqf* assets (Siti Mashitoh, 2011).

However, the innovative movement to develop and finance *waqf* properties through *sukuk* or Islamic REIT has yet to materialise since no attempt has been made. It seems that the best strategy to develop and empower *waqf* is to integrate it with the Islamic finance system. Contemporary financial applications, particularly the Islamic capital market, can facilitate and accelerate the development of *waqf* assets on a larger scale.

2.3 Overview of Islamic Real Estate Investment Trusts (Islamic REIT) in Malaysia

Islamic Real Estate Investment Trusts (Islamic REIT) is a collective investment instrument (similar to mutual fund/unit trust) with funds raised from investors for the purpose of buying, managing, and selling properties such as houses, commercial buildings, farms and carparks or other financial assets related to property such as property company's stock and *sukuk* issued by real estate companies (Securities Commission, 2006; 2007).

The holder of one REITs unit is actually buying a fraction of a managed pool of real estate which serves the unit holder the entitlement for the beneficial ownership or beneficial interest to the real estate in terms of right to the receivables. This securitised real estate provides periodic returns to investors due to the increase in value of properties owned. The return on investment or dividend of REITs is generated from rental income and capital appreciation of property assets throughout the holding period (Securities Commission, 2006). Islamic REIT offers more than 90% of net income to its unit holders. The return is around six (6) to seven (7) per cent a year, which is

higher than the returns from bonds and fixed deposits saving in conventional product. A listed Islamic REIT company which reaches 90% of its threshold of total income distribution to its unit holders will also enjoy tax exemption for a year of assessment (IRB, 2017).

REIT is an asset class that has more liquidity in comparison to investment in real estate since it can be traded in a real time similar to shares across various sectors and geographical positions. It is viewed as the best combination of investment in real property and stocks. The return is indeed lower than stocks but would be more stable as it generates stable incomes (Anuar Alias & Soi Tho, 2011). In addition, REIT is recognised as a group of financial assets which is defensive and low risk (Newell & Atasya, 2009) especially with exposure to uncertain market condition (Yeap, 2011). This is due to the characteristic of REITs which consists of diversified portfolio across various types of sectors. As a comparison, Islamic REIT performed fairly well and able to survive during the global financial crisis in comparison to conventional REITs (Newell & Atasya, 2009). However, report shows that the Islamic REIT's performance has dropped in the recent years, for example, Pavilion REIT, KIP REIT, KLCCP Stapled Group, Al-Salam REIT, Al-'Aqar Healthcare REIT and Capital Land Malaysia Mall Trust (Toh, 2017).

In Islamic REIT, tenant plays an important role in this sector because the income of this sector is derived mainly from the rental income which is contributed by the tenant. However, due to the stringent rules of Islamic REIT, there are not many secure business activities that may pass the benchmark set by the Shariah Advisory Council of Securities Commission. Hence, it will leave the unsecure business to operate in the Islamic REIT framework. Unstable tenants mean inconsistent rental to the property manager. Therefore, this will lead to lower return for Islamic REIT investors in Malaysia.

For the investor who is focused on Islamic REIT as their main investment, they might feel insecure because of the unstable rate of return generated from this sector and might be uncertain of the rental income performance in the future. In other words, fluctuations in real estate market can negatively affect the rental income for investors. For example, a study found that the return rate of Malaysian REITs (M-REITs) between August 2005 and December 2010 is 0.004% more than the return for (Islamic REIT). This shows that the return rate from is lower compared to the Malaysian REITs (Zaemah & Norhafiza, 2016).

For the sponsor, Islamic REIT has the potential to attract wider pool of institutional and individual investors to help support the expansion of the property sector by acquiring more properties into the structure and stimulate the industry. The proven ability of REITs to raise equity capital may also provide funding for upgrading and maintaining the infrastructure and facilities such as airports and healthcare institutions.

Table 1. Statistics on REITs and Islamic REIT in Malaysia for the year 2016 & 2017

	2016	2017
Islamic REIT	4	4
Total Industry	17	18
Market Capitalisation of Islamic REIT (RM billion)	18.53	19.07
Market Capitalisation of total industry (RM billion)	44.31	46.48
% Market Capitalisation of Islamic REIT to total industry	41.82%	41.02%

Source: Securities Commission of Malaysia

Table 2. List of Islamic REIT in Malaysia

No	Fund	Fund Management Company
1	Al-'Aqar Healthcare REIT	Damansara REIT Managers Sdn Bhd
2	Al-Salam Real Estate Investment Trust	Damansara REIT Managers Sdn Bhd
3	Axis-REIT	Axis REIT Managers Bhd
4	KLCC Property & REIT-Stapled Securities	KLCC REIT Management Sdn Bhd

Source: Securities Commission of Malaysia

Malaysia became the first jurisdiction to set a benchmark in the global financial sector to issue the Islamic REIT Guidelines (Securities Commission, 2006). Malaysia's Securities Commission guideline on REITs stipulates that REITs must invest at least 50 per cent of its total assets in real estate, whether via direct ownership or through a single purpose company whose principal assets comprise of real estates (Asyraf Wajdi et al. (ed.), 2011). This allows shareholders to invest in property without actually having to own the property outright (Security Commission, 2006). Currently, there are 4 Islamic REIT companies in Malaysia namely, Al-'Aqar Healthcare REIT (formerly known as Al-'Aqar KPJ REIT), Axis REIT, KLCC REIT and As-Salam REIT (Securities Commission, 2017). The KLCC REIT carries a special feature—a stapled-security¹³ consisting of equity and Islamic REIT. As at September 30, 2017, the market capitalisation for REITs amounted to RM44 billion compared with RM5 billion in 2007, while the market capitalisation of Islamic REIT stood at RM18 billion in 2017 (Securities Commission, 2017). With established regulatory framework that facilitates the creation of a new asset class, this opens up a huge opportunity for Malaysia to attract foreign investors especially from the Middle East to invest in this country. This was true as in the case of Al-'Aqar Healthcare REIT which had already attracted Middle East investors support via a \$100 million syndicated *ijarah* facility after it was launched in 2006 (Newell, & Atasya, 2010).

2.4 Features of Islamic REIT

The new revised Guidelines on Real Estate Investment Trusts 2018 stipulates that in the establishment of Islamic REIT in Malaysia, a Shariah adviser must be appointed by the management company to advice on all Shariah matters in relation to an Islamic REIT. A Shariah adviser must either be an individual or a corporation, registered with the SC, a licensed Islamic bank or a licensed bank or licensed investment bank approved to operate Islamic banking business. Where individuals are appointed as Shariah adviser, they must comprise at least three individuals to form a Shariah committee. An Islamic REIT may invest in real estate where all of its tenants carry out fully Shariah compliant activities; or some of the tenants carry out Shariah non-compliant activities, provided the percentage of rental received from all Shariah non-compliant activities (Shariah non-compliant rental) is less than 20% of the total turnover of the Islamic REIT (the 20% threshold). An Islamic REIT is also required to reduce the percentage of the Shariah non-compliant rental from less than the 20% threshold to less than 5% of the Islamic REIT's total turnover (the 5% threshold) by the end of the 10th financial year post listing. An Islamic REIT may also invest in other Shariah compliant investments such as non-real estate assets, deposits and money market and financing facilities.

Islamic REIT which is classified as a form of ethical investment prohibits non-*halal* or non-permissible rental activities in its premises which include conventional banking, conventional insurance, gambling, liquor, pork, non-halal food and beverages, tobacco and their related activities, stockbroking or share trading in Shariah non-compliant securities, Shariah non-compliant entertainment and other activities deemed non-compliant according to Shariah. The latest REIT Guidelines also specified that Islamic REIT is obliged to employ *takaful* schemes to insure its real estate and must use Islamic derivatives for the sole purpose of hedging which must be Shariah compliant hedging instruments.

¹³ Stapled security is the stock of two separate companies that are under the management or supervision of a single corporation. Paired shares are traded as if they are one stock and are sold as one unit. See http://www.investorwords.com/6931/stapled_security.html, 3 April 2018.

However, if Islamic derivatives are not available or are not commercially viable, the Islamic REIT may use conventional derivatives subject to obtaining prior approval from the Shariah adviser.

The non-permissible activities and the benchmark set by the SAC of SC is based on their *ijtihad*¹⁴ considering the current environment or reality in order to allow the principles of Shariah to be upheld in such transactions. This is in line with the Islamic legal maxim which stipulates “It is undeniable that rules of law vary with change of time” (لا يَنكُرُ تَغْيِيرُ الْأَحْكَامِ بِتَغْيِيرِ الْأَزْمَانِ). On this basis, a certain forms of transactions may be exempted from a general rule due to the change of custom (العرف) and situations.

2.5 Global outlook of Islamic Real Estate Investment Trusts (Islamic REIT)

The development of Islamic REIT continues to show great progress and is indeed prominent globally. In GCC region, Kuwait established Al Mahrab Tower REIT in Makkah in 2007 valued at USD100 million with the rate of return of 24%. In line with the development, Bahrain also authorised the first Islamic REIT in June 2009 with market capitalization of USD80 million for profit-generating properties in Gulf Cooperation Council (GCC) countries with the annual return of 8.5% using buy-and-leaseback agreements. Furthermore, in the UAE, Dubai Islamic Bank partnered with Eiffel Management to finance Emirates REIT (incorporated in the Dubai International Financial Centre) and was valued at USD200 million. (ISRA & SC, 2015)

Inspired by the outstanding success of Malaysia’s Islamic REIT framework, Singapore and UAE also embarked on developing their own Shariah compliant products when they launched their first Shariah compliant REIT, namely Sabana REIT and Emirates REIT respectively. Sabana REIT is known to be the world’s first REIT to adopt the Shariah compliance standards that are accepted among investors in the GCC countries. In addition to that, Singapore also launched their own Islamic REIT and was listed in 2010 Singapore Exchange Securities Trading limited. The Islamic REIT invested in the income-producing real estate for industrial purpose in Asia. Singapore made the largest Islamic REIT in the world which consist of 22 properties in four main sectors: industrial, chemical, logistics and warehouse. (ISRA & SC, 2015)

3. Preliminary Framework of REIT *Waqf*

Figure 1 illustrates the theoretical framework of REIT *waqf* which covers two major themes, namely Islamic REIT structure and its characteristics and *waqf* concept and its characteristics, as deduced from the literature review. The integration of both themes is the key initial framework toward the establishment of REIT *waqf* to generate regular and sustainable return for beneficiaries and empower socioeconomic activities for the public.

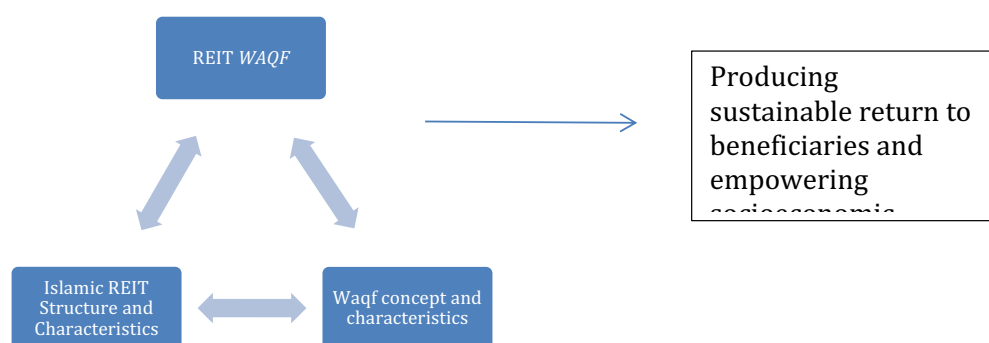


Fig. 1. Theoretical Framework of REIT *waqf* Concept

¹⁴ *Ijtihad* is intellectual reasoning by qualified scholars to obtain legal rulings from the sources of Shariah.

Figure 1 above depicts the theoretical conceptual framework of REIT *waqf* which is modified from the current Islamic REIT structure in Malaysia along with the integration of *waqf* concept. Figure 2 below illustrates the proposed REIT *waqf* structure to be implemented in Malaysia. YWM may take the responsibility to supervise the establishment of REIT *waqf*. First, YWM together with the SIRC in respective states would have to identify under-developed and abandoned *waqf* lands or buildings in Malaysia to be potentially developed. After getting approval from the Fatwa Committee of the respective states, the pool of *waqf* assets will undergo the *istibdal* process. The new assets will be “sold” to Islamic REIT company, the proceed received from the “selling” of the *waqf* property will be used to buy income generating real estate, such as commercial or office buildings. *Waqf* Property Fund which represents the shares of all *wāqif* or endower in REIT *waqf* will turn as the majority shareholder of this structure. The fund is to be managed by YWM with the consent of the SIRC as the sole trustees of *waqf* assets in Malaysia. The SIRC may also invest in REIT *waqf* through Baitulmal which in return will secure the position of the SIRC as the one of the main shareholders of REIT *waqf*. The involvement of the government as the shareholder is highly recommended as a guarantor to secure the rights of *waqf* beneficiaries and the REIT *waqf* structure collectively from uncertainties, such as shortage in liquidity when there is sudden withdrawal from the investors at one time. In this regard, government subsidiaries or government linked companies (GLCs) such as Pilgrims Fund Board (LTH) or Permodalan Nasional Berhad (PNB) are welcomed to participate as investors in this scheme.



Fig. 2. REIT Waqf

Based on the proposed structure, the *Waqf* Property Fund which reflects the shares of the *wāqif* will constitute 50% of shareholding in the REIT *waqf*, the Baitulmal or GLCs may hold 40%, while the rest of 10% will be offered to the general public, individual or other institutional investors. Essentially, the inception of REIT *waqf* structure reflects the application of *waqf mushtarak* concept that involves the consolidation of properties and cash *waqf* from the public in order to establish a new version of *waqf* property. The Trustee will acquire real estate such as commercial or office buildings, hotels, plantation and hospitals in prime location with generating income from Shariah compliant activities. Then, the assets will be injected in REIT *waqf* portfolio whereby all the shareholders are entitled for the beneficial ownership in the assets.

The REIT *waqf* manager apart from managing the fund in the best interest of the unit holders, will be responsible for appointing Shariah Advisors to ensure the compatibility of REIT *waqf* with the Shariah principles. The *waqf* would be managed by professional managers with good governance to ensure transparency that would enhance public trust.

The introduction of REIT *waqf* would also contribute towards the establishment of cross border *waqf* where the *waqf* properties as well as the *wāqif* (endower) may not necessarily be in the same country of origin (Shamsiah Abdul Karim, 2010). The attractive tax regime as stipulated in section 61A of Income Tax Act 1967 which provides tax exemption at fund level if at least 90% of total income is distributed to unit holders would stimulate the growth of Islamic REIT including REIT *waqf* in future.

The creation of REIT *waqf* through assets securitisation or unitization into small units or shares would open up opportunity for small investors to subscribe and endow the units. Now, everybody can endow their shares as it requires low investment inlay. To enable implementation of REIT *waqf*, there is a need to look into support system for the implementation.

This initiative would be in line with the recommendation by Ahcene Lahsasna (2014) who proposes on the establishment of a new segment in Islamic financial system namely “*waqf* market” (Figure 3). *Waqf* should be an additional market segment in the composition of Islamic finance, besides Islamic banking, takaful and Islamic capital market. The *waqf* market should be structured in a similar way to the current Islamic financial markets where there should be a regulator under the purview of the Central Bank and the Securities Commission along with the SIRC. This regulatory body will assume the role of supervision, monitoring, issuing guidelines, standards and other related mandates which govern the business operation of the *waqf* market including REIT *waqf*.

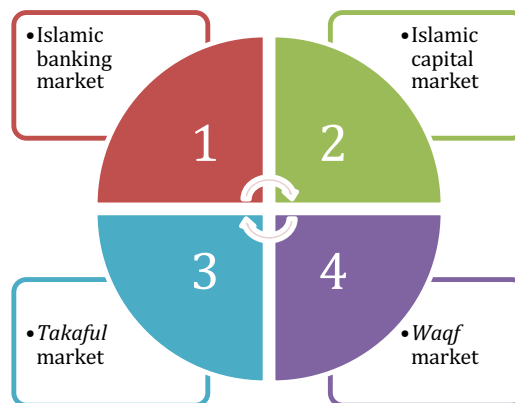


Fig. 3. Comprehensive Islamic Financial Market in Malaysia with *Waqf* Market

The proposed REIT *waqf* framework in Figure 2 served as the basis for developing the semi-structured interview protocol with selected experts and as the term of reference in interpreting the interview findings.

4. Research Methodology

The semi-structured interviews with the selected stakeholders and experts were conducted between November 2017 until July 2018 to gather the necessary information and feedback on the feasibility for future framework of REIT *waqf* to be adopted for use in the Malaysian context. The interviews involved 20 informants including *waqf* administrators, Shariah scholars, REITs experts, and those who are directly involved in Islamic REIT structuring and documentation including Islamic capital market regulator, REITs manager and lawyer. The profiles of the informants are given in Table 3.

The aim of the interview was to examine their understanding and perception of *waqf* and Islamic REIT stakeholders in Malaysia and of the feasibility to develop *waqf* properties via the Islamic REIT structure. Their level of readiness in embracing the Islamic REIT concept was also explored. Issues as well as potential solutions to address challenges were also recorded during the interviews to provide more insights on the feasibility to establish REIT *waqf* framework. The questions that guided the conduct of the interviews include: Is Islamic REIT a viable structure to develop *waqf* properties? Why or why not? Is your agency or organisation ready to develop *waqf* properties by using Islamic REIT structure? Can Islamic REIT unit be a subject matter of *waqf*? What are the issues and challenges to develop *waqf* properties via Islamic REIT mechanism? What are the potential solutions to address the issues?

Table 3. Profiles of Key Informants

	Occupation	Residential	Gender	Age
Informant 1	<i>Shariah</i> expert	Qatar	M	55-60
Informant 2	<i>Shariah</i> expert	Kuala Lumpur/International	M	50-55
Informant 3	<i>Shariah</i> expert	Kuala Lumpur	F	50-55
Informant 4	<i>Shariah</i> expert	Kuala Lumpur/International	M	45-50
Informant 5	<i>Shariah</i> expert and industry practioner	Kuala Lumpur	M	40-45
Informant 6	<i>Waqf</i> administrator	Kuala Lumpur	M	40-45
Informant 7	<i>Waqf</i> administrator	Putrajaya	M	55-60
Informant 8	<i>Waqf</i> administrator	Putrajaya	M	45-50
Informant 9	<i>Waqf</i> administrator	Selangor	M	40-45
Informant 10	<i>Waqf</i> administrator	Penang	M	40-45
Informant 11	<i>Waqf</i> administrator	Johor	M	45-50
Informant 12	Private <i>waqf</i> administrator	Johor	M	45-50
Informant 13	Private <i>waqf</i> administrator	Johor	F	45-50
Informant 14	<i>Shariah</i> Expert in Islamic Capital Market regulatory body	Kuala Lumpur	M	50-55
Informant 15	Senior executive in Islamic Capital Market regulatory body	Kuala Lumpur	M	30-35
Informant 16	REITs Expert	Selangor	M	50-55
Informant 17	REITs Expert	Kelantan	M	55-60
Informant 18	Islamic REIT asset manager	Kuala Lumpur	F	40-45
Informant 19	Islamic REIT asset manager	Kuala Lumpur	M	45-50
Informant 20	Islamic REIT asset manager	Kuala Lumpur	M	45-50
Informant 21	Lawyer	Kuala Lumpur	M	30-35

4. Findings and Discussion

Based on the interviews, we are able to capture the general views of the informants, as well as to identify emerging themes, which need to be seriously considered in the implementation of REIT *waqf* framework. These themes are discussed in the following sections.

4.1 General views of *waqf* administrators and other stakeholders in Malaysia concerning the development of *waqf* properties via Islamic REIT mechanism

There were mixed response by the informants regarding the proposal of developing *waqf* assets via REITs structure. The majority of the *waqf* administrators (4 out of 6) were not really interested to develop *waqf* properties through contemporary mechanisms such as *sukuk* or Islamic REIT, since they preferred “to stick to the traditional ways of developing *waqf* assets either by *istibdal* or fund raising through cash *waqf* which is proven to be successful.” (Informant 7, 8, 9 and 10)

Specifically, informants 7, 8 and 10 expressed their concerns on the risk of liquidating *waqf* assets through REITs particularly on the probabilities of losing the *waqf* assets should any uncertainties occur due to the vulnerability of the market. Informant 7 added that:

“It is the responsibility of the trustee to ensure that all the *wāqif* won’t lose their portion in the REIT *waqf* structure as the assets have been liquidated or converted into units. The record of the *wāqif* must be protected and the return must be distributed accordingly to the beneficiaries. This is because the conditions set by the endower (*wāqif*) stand at par with the *Shariah* prescriptions.” (Informant 7)

It is worth mentioning that there are 4 *waqf* administrators who were not interested and ready to invest cash *waqf* fund in any Islamic capital market instruments such as unit trusts, Islamic REIT or shares stressing that the exercise may be subjected to losses due to market fluctuation. In this regard, they will maintain depositing cash *waqf* fund in Islamic fixed deposit account which is much safer and less risky even though the return is low and less competitive (Informants 7, 8, 9 and 10). However, they admitted that Islamic REIT as Islamic capital market instrument might have the potential to develop most abandoned and scattered *waqf* assets and to examine its feasibility must be further explored.

Meanwhile, an expert in the Malaysian Islamic capital market regulatory body cited the success story of KPJ Healthcare in expanding healthcare services in Malaysia by using Islamic REIT as an instrument in providing capital to KPJ Healthcare. According to him, this exemplary model should be considered by *waqf* administrators to develop and enhance the potential of *waqf* properties. This point is specifically mentioned by Informant 13:

“*Waqf* assets must not be left idle anymore. It should be developed using Islamic capital market instruments. We have *sukuk* and some other instruments to be considered like REITs. We should learn from the experience of KPJ on how they can expand their healthcare services by using REITs and acquiring lots of hospitals. The capital raised through REITs can be used to refurbish the old buildings and buy modern hospital equipment. Basically, Securities Commission welcomes and is ready to entertain proposals to develop *waqf* assets through REITs. But doing this needs a drastic move and paradigm shift among SIRC in Malaysia. REITs buildings are able to generate a lot of income and will benefit *waqf*, SIRC and beneficiaries.” (Informant 13)

Informants 6 and 8 are also agreeable on the need to address the issues of *waqf* assets management and the viability of REITs:

“REIT is a viable tool to develop *waqf* assets. In developing thousands of abandoned and scattered *waqf* assets, we should not do it through conventional way. We have to think like a bank to raise capital but need to find a mechanism to develop it (*waqf* property) without compromising the *waqf* characteristics. There must be a way of doing it.” (Informant 6)

“REIT *waqf*, just like unit trust is an interesting structure. The establishment of REIT *waqf* is possible provided that we can find a mechanism to preserve *waqf* assets from any losses due to market performance. Just like the investment of cash *waqf* fund in unit trusts in order to get more return”. (Informant 8)

4.2 The position of Islamic REIT as a subject matter of *waqf*

Islamic REIT is a modern financial instrument whose legitimacy as the subject matter of *waqf* has not been extensively discussed by classical Muslim scholars. Hence, Shariah interpretations on its permissibility by the *fatwa* authorities as well as contemporary Muslim scholars are necessary in order to set the direction of its future implementation. Based on the interviews with the Shariah scholars, they had unanimously agreed on the permissibility of endowing Islamic REIT for *waqf* purpose provided that the trading of such units should be suspended immediately and the underlying assets of the instrument which are largely properties must be Shariah compliant, as explained in these verbatims:

“Units of REITs can be made *waqf* provided that the trading of the units is suspended. The *mawquf* units themselves remain *waqf* and only their revenues (not to include capital appreciation) is to be distributed to the beneficiaries.” (Informant 1)

“...I think technically there is no objection to endow REIT units or unit trusts, shares or *sukuk*. It (REIT unit) becomes a trust or *waqf* so there is no further buying and selling. The tradability of the instrument should be suspended. For example, when I have unit trusts of RM1 million, I can *waqf* (endow) it to ABC institution. Now they can benefit from the dividend, capital gain and what not but the tradability must be suspended. It will be managed by a trustee and the trustee is not in the position to sell it to the market. If the trustee wants to sell it to the market through *istibdal*, it is subject to the board of trustee endorsement for good reason that they want to cash out, take the money to do something else. But, in theory there is no objection to *waqf* the unit trusts (REITs).” (Informant 2)

“For REITs, the unit holders endow the units, meaning that *waqf* has right in the REITs. Whatever income generated from REITs can be channeled for the purpose of *waqf* [pause] but only s can be endowed, if it is conventional REITs, the fear is that the income is not Shariah compliant.” (Informant 3)

“Our structure (REITs structure in Malaysia) is on the unit trust structure.” (Informant 15)

Based on the authors’ knowledge, there is no Shariah resolution (*fatwa*) that has specifically addressed the permissibility of endowing Islamic REIT. However, in 2009, the Academy of Islamic Council in its 19th meeting held in United Arab Emirates resolved the permissibility of *waqf* in the form of financial instruments including unit trust, shares, *sukuk*, intangible rights and benefits in Resolution No. 181, which stated:

“It is permissible to endow shares (which are Shariah-compliant), *sukuk*, intangible rights, benefits and unit trust, as they are all assets recognized by Shariah.”

Since Islamic REIT is also a form of unit trust which is largely invested in real estates, thus, it can be deduced that it is permissible to endow Islamic REIT for the purpose of *waqf* to ensure sustainable return for *waqf* initiatives and projects.

4.3 Liquidating *waqf* assets via Islamic REIT structure through selling of the assets

As a basic rule, *waqf* assets cannot be disposed since the ownership of the *waqf* assets has been transferred to Allah permanently and remains unchanged. Hence, the asset has to remain in the *waqf* domain perpetually (Al-Zuhayli, 1997). Also, the *waqf* assets shall not decrease in size or quantity, as it is prohibited for *mutawalli* to dispose the assets. Nevertheless, the assets should not be left idle by any act of neglect. According to Kahf (1998), *istibdal* is the sale of all or part of *waqf* land and the proceeds from the sale can be used to purchase another piece of land.

It is worth to note that the establishment of Islamic REIT involved the process of securitization of real estates into shares or units that can be subscribed by investors. The liquidation of the real estates is realised by the selling of the properties to a special vehicle (SPV) toward the creation of Islamic REIT. The exercise raises the concern from a *waqf* point of view because selling of *waqf* properties is not allowed as it infringes the inalienability element of the *waqf*. Disposing of *waqf* property through a sale is frowned upon by *fuqaha*, except under extraordinary circumstances, and only after the approval by Shariah judge.

One of the prominent Shariah scholars views that the *waqf* assets can be sold to meet the objective of *waqf* development with a condition that the asset will be acquired back with a specific clause in future. The term must be clearly stipulated in the agreement.

“Yes, I think you can sell the asset and lease the asset with the option you are going to buy back the asset in the future. Because REITs involved a true sale and you have to buy back on the market rate. I think no issue with it. Because the intention is embedded with a condition that you have the right to buy back the property in future [pause]. There is no issue. But for me if I were the Shariah advisor I would ask, what is the purpose of selling the property? If the purpose to get more money to enhance the commercial (value), it should be permissible. In fact, a lot more could be done.” (Informant 2)

“The structure of REIT *waqf*, is not perpetual, just temporary. After five years I have the right to buy it from you and you have no right to say no. No issues provided that we put a condition that the proceeds are to be used to enhance the building of the *waqf* properties. After five years, I will redeem back the REITs, all hundred per cent owned by me and the value go up, all the benefits will go to *waqf* beneficiaries, from the rental income [pause]. This is how *waqf* can be managed to generate more return.” (Informant 2)

“We are going to set a time limit for the REITs (*waqf*) up to 99 years. After 99 years, State Islamic Religious Councils can purchase back the assets.” (Informant 4)

Considering this, the application of an *ijarah* contract for a long term or *al-hukr* (long-lease) may be regarded as a viable option to the current practice in REIT *waqf* establishment. However, the practice of selling the underlying properties on temporary basis in current legal framework of Islamic REIT establishment in Malaysia is not accepted as the nature of Islamic REIT as a company is perpetual. Such exercise would require for an amendment in the current guidelines to legalize the selling or leasing of the property for certain period.

“The selling of asset temporarily to REITs is not right. It is against the law. REITs involved true sale to the fund due to the perpetual nature of REITs. It can be materialised, provided that the current law is changed. The application of *ijarah*

contract for a long term may be considered as an alternative option to the current practice.” (Informant 4)

“*Waqf* assets can be developed via REITs structure within current legal framework. The practice has yet to be tested based on the proposal by REITs sponsor or issuer. Arrangement can be made which depends on the approval by Securities Commission of Malaysia.” (Informant 14)

Other Islamic capital instrument which is subject to a more lenient structure such as Islamic unit trust may be considered as well apart from Islamic REIT. For instance, Amanah Hartanah Bumiputera (AHB) with net asset value (NAV) of more than RM3.3 billion (Amanah Hartanah Bumiputera Annual Report, 2016) is an Islamic unit trust funds which is largely invested in real estates.

“Perhaps REIT *waqf* can be structured based on Unit Trust Guidelines instead of REITs Guidelines which involved true sale of the assets. The establishment of AHB, which is a form of unit trust, was done under Unit Trust Guidelines, not REITs Guidelines. It was a smart move.” (Informant 15)

4.4 High quality and sizeable *waqf* assets to establish Islamic REIT

The essential feature of Islamic REIT is that the assets must be an income generating assets and not idle or abandoned piece of land or building.

“To establish REITs, the properties must consist of income-generating properties such as office buildings, shopping complex, industrial and hotel.” (Informant 16)

“To establish REITs from *waqf* assets, we need to have existing *waqf* properties operating and fulfill REITs pre-requisites.” (Informant 17)

Another crucial feature in order to establish an Islamic REIT is that the initial size of the assets in the investment portfolio should be big enough to allow for relatively potential high return for the *waqf* assets. The SC’s Guidelines on REITs stipulates that the minimum size required to issue unlisted REITs in Malaysia is RM100 million. The question arises as to whether or not there is enough number of *waqf* assets to be injected into the Islamic REIT to meet the minimum requirement of the REITs Guidelines.

“To establish REIT *waqf*, the issue is, where are the properties? The biggest issue is the property [pause] unless MAIS or MAIWP has assets [pause] what assets are there [pause] the guidelines clearly stated that the asset must have cashflow.” (Informant 4)

“In order to establish Islamic REIT, it is important to check whether the *waqf* properties are suitable for Islamic REIT’s purpose or not. The *waqf* properties must be sizable. If land, it must be sizeable too and has potential to be developed to be injected into Islamic REIT. If land is small, where only small or few houses can be developed, then the land is not suitable [pause] To start of the Islamic REIT, the minimum value of the properties must be at least RM100 million, although, this value is considered small too. RM300 million is considered to be a proper value which is equal to about USD1 million”. (Informant 16)

“Most of *waqf* properties are scattered with small size. Even if they are located in the city centre, it has to be sizeable to become Islamic REIT. If the scattered *waqf* properties can be sold and replaced with a generating income real estate, then only they can establish Islamic REIT.” (Informant 16)

A sizeable Islamic REIT would present a great potential to attract investors who possess confidence to subscribe the units in order to ensure sustainable return payable from the high rent.

“One essential condition of a REIT is that, it is mostly established from the existing income-producing real estate that is capable of generating good rental. This makes REITs high-yield stocks and extremely attractive as income-generating assets. These are assets in which the public has confidence with their levels of rental income generating capacity. Therefore, a REIT must be able to attract shareholders to invest their money in a particular rental income generating physical asset. Consequently, a REIT comes with a physically existing property, such as a successful shopping complex, a hotel, or a resort and a good management. Is there any *waqf* property in Malaysia that fulfills these criteria?” (Informant 17)

To explain this further, according to Sing and Ling (2003), REITs income extremely depends on the type of commercial property injected into the REITs portfolio. Office, industrial properties, such as warehouse and logistics and retail (shopping malls) are among the type of assets which yield high rent to REITs. In Malaysia, office building is one category of assets that yield higher return to the REITs company, followed by industrial REITs and retail and healthcare services, as shown in Table 4.

Table 4 Average REITs Income in Malaysia by Type of Assets

Type of REITs Assets	Average Annual Income (%)
Office	7.6%
Industrial	6.9%
Retail	6.2%
Healthcare	6.1%

Source: Affin Investment Bank (2014) and Maybank Investment Bank (2013)

By 2018, most *waqf* buildings managed by SIRC in Malaysia have a value of less than RM100 million and only a few of these properties are income-generating assets. This situation reflects the reality that most *waqf* assets in Malaysia are less suitable to be injected into Islamic REIT portfolios because they do not fulfill the requirement set by the REITs Guidelines. However, since there are many scattered uneconomically-sized *waqf* lands in various states in Malaysia, this pool of abandoned lands can potentially be replaced (through *istibdal*) with high quality and income producing high rise buildings in strategic urban location like in Kuala Lumpur, Penang or Johor Bahru. *Istibdal* is one of the pragmatic mechanisms or an “exit policy” that is allowed by Shariah to be considered in order to develop abandoned *waqf* lands all over the nation for the benefit of the *ummah*.

4.5 The concern of losing of *waqf* properties after the selling off to Islamic REIT

In practice, the Sponsor who is the owner of the assets will sell the assets to Islamic REIT. When the assets is converted or liquidated into units, the Sponsor will usually buy a large portion of the units in the market which can reach up to more than 50 per cent. This approach will give the right to the Sponsor as the major shareholders of the Islamic REIT and the rest of the units will be offered to institutional or individual investors. In other words, the Sponsor would still have control over the assets and Islamic REIT company. Upon the winding up of the Islamic REIT company or privatisation due to any unforeseen or unfavorable circumstances, the Sponsor will usually make an arrangement with the Islamic REIT to acquire back all the assets sold to Islamic REIT through a legalised means. This had been experienced by Al-Hadharah Boustead REIT, Malaysia’s first and only Islamic plantation REIT established in 2007. It owned and invested primarily in plantation assets comprising plantation estates and mills.

“Upon its privatisation, Boustead Plantation Bhd as the Sponsor which owns 53.6% in Al-Hadharah Boustead REIT, redeem all the circulated units in the market and proceed with the exercise of acquiring back all the assets on the “first right reserved” basis as stipulated in the clause.” (Informant 19)

Thus, the *waqf* assets which is “sold temporarily” or lease to Islamic REIT can be acquired back with a special clause stipulating the right of the Sponsor to acquire back the *waqf* assets upon the privatisation of the company.

4.5 The challenge of getting a reputable and shariah compliant tenants

Rental is the most crucial element to be secured in Islamic REIT so as to ensure sustainable return to the investors. One of the Shariah experts raised his concern in getting established Shariah compliant tenants to run their businesses in Islamic REIT premises.

"Shariah compliant activities that are permissible based on the SAC of SC benchmark is very limited. Some of reputable tenants with strong financial background are non-Shariah compliant such as the conventional bank [pause], which is not allowed to operate in Islamic REIT premises. As such, it is quite difficult for Islamic REIT buildings to get good tenants to occupy the buildings to ensure good return for the portfolio." (Informant 5)

The authors view that apart from conventional banks, there are some other promising tenants such as new Islamic banking branches, government agencies and government linked companies (GLCs) which can operate in Islamic REIT premises to ensure consistent return to the fund.

5. Conclusion

A mixed view among the *waqf* administrators with regard to the potential of Islamic REIT to contribute toward an effective management of *waqf* assets seems to prevail. Some informants prefer the traditional method, while some informants are more open to new solutions including the use of Islamic REIT to solve the ongoing problems related to *waqf* assets management. The latter group of informants views Islamic REIT as a viable option to support effective *waqf* assets management. A few major themes have been identified in order to determine the potential of Islamic REIT framework to develop *waqf* properties. These themes include the Shariah views on the permissibility of Islamic REIT as a subject matter of *waqf*, the preconditions for implementation of Islamic REIT in *waqf* management, including the need to address issues of liquidation of *waqf* assets, and the required high-quality and large-size *waqf* assets, the concern of loss of *waqf* properties as well as the challenge of securing good and reputable tenants to ensure sustainable return to the fund. Specifically, the Shariah scholars had unanimously agreed on the permissibility of endowing Islamic REIT for *waqf* purpose provided that the trading of such units should be suspended and the underlying assets of the instrument which are largely properties, must be Shariah compliant. The findings demonstrate that despite several obstacles, Islamic REIT structure is viable to be advanced as a preliminary framework to develop *waqf* properties provided that necessary measures are taken in order to address its legal and administrative issues.

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Measuring the Impact of Reference Groups on the Purchasing Behavior of the Family (Case of Consumption of Food in Islamic Society)

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Abstract

This study concerns the impact of reference groups on the decision of families to buy food products, Through the theoretical aspects of the study and a field study on a sample of 100 family, the data obtained was analyzed using the structural equation modelling. The study concluded with several results. The most important is: The impact of the reference groups on the purchasing behavior of the family , It also considered the neighbors of the strongest reference groups influential in purchasing decisions of the family in terms of food consumption, Therefore, the study recommended marketers to take in to account the role of neighbors in promotions, as well as to influence the consumer and convince him of the products.

Keywords: reference groups; purchasing behavior ; family purchasing ; Factor analysis

1. Introduction

The reference groups are one of the most important factors affecting consumer behavior in general. The purchasing behavior of individuals and families in particular is affected by the environment in which they live and the people around them. This helps marketing men to design their marketing strategies. The purchasing decision of the individual is influenced by several factors and activities carried out by the institutions, which are either internal that the institution may be able to control and use in its favor, or external factors affecting the purchasing decision of the family such as political, economic, cultural and social factors. As reference groups are one of the factors that can be used as a frame of reference for individuals in their purchasing decisions, and their attitude towards products, we have attempted to answer the problem of:

- How do reference groups affect the purchasing behavior of family in the food products?

To answer the problem of research, the following hypotheses were developed:

- There is a statistical impact of the reference groups on the behavior of the family in the purchase of food products.

The following hypotheses are derived:

- There is a statistically significant impact for some family members on family purchasing decisions;
- There is a statistically significant impact for friends on family purchasing decisions;
- There is a statistically significant impact for work colleagues on family decisions;
- There is a statistical impact of the neighbors on the purchasing decisions of the family.

- The importance and objectives of the study: The study draws on the importance of the role played by reference groups in influencing the decision making process. Which show their importation by configuring the values, trends and purchasing patterns for individuals and families, in addition to their role in drawing marketing policies, and preparing programs which ensure success for the marketing institutions of these goods and services. The objectives of the study are as follows:

- To determine the extent to which consumers are affected by reference groups and to measure the relationship between variables;
- Help the marketing decision makers to know the reference groups most influential on the purchasing decision of the family in food products, which reduces the risk of not knowing the market, and reduces the promotional expenses.

- The methodology of the study: The descriptive approach was adopted in this study. The data was collected by asking a questionnaire for a group of households in Bashar city and analyzing it using the method of modeling structural equations.

Here introduce the paper, and put a nomenclature if necessary, in a box with the same font size as the rest of the paper. The paragraphs continue from here and are only separated by headings, subheadings, images and formulae. The section headings are arranged by numbers, bold and 10 pt.

5.1. Theoretical literature.

Reference groups are an important and influential factor in the consumer behavior of individuals and families in all human societies. The minimum understanding and prediction of the behaviors or attitudes that individuals may exhibit may be by identifying the groups to which they are affected whether they are formal or informal.

1. The concept of reference groups:

The concept of the group is called on any gathering of two or more persons (Kotler, 2017), where they share certain values, customs or behavior and collect a particular relationship according to their behavior. The reference groups are defined as: "groups that can be used as a frame of reference for individuals in their purchasing decisions and to shape their positions, gatherings and behavior." (Aseel, Mohammed Al-Shareeda, Raed, and Zoabi, 2014, p. 206).

As defined by Tariq Suwaidan's system as: "a group that serves the individual directly or indirectly and acts as points and stations for comparison or a framework that constitutes attitudes and behavior of individuals." (System of Moses and Shafiq, 2003, p. 148)

A- The reference groups include:

- 1.1 *Family*: The family is an important species of reference groups, where the individual draws a lot of information necessary to form his beliefs, values, directions and behavior. (Mohamed Amin, 2012, page 140)

The influence of the family in the configuring of values, trends and patterns of purchase of individuals is something that can not be ignored. Many individuals behave in the same way as their family.

1.2. *Friends*: Friends are one of the types of informal groups, and show the influence of friends as a reference group through the moral influence on the attitudes and feelings of their friends, on the various issues and matters associated with many goods and services, and this effect is influenced by the nature of the relationship between friends produced through the relationship. And permanent friction between friends.

1.3 *colleagues*: colleagues are formal reference groups and are important because of the long time that individuals spend with their colleagues. when creates a great opportunity for individuals to interact with each other in most life and living matters and to use each other as a source of information and expertise on purchasing decisions. , In addition to the nature of the official relationship in the work of individuals to pay attention to the views of their colleagues work.

1.4. *Neighbors*: Considered as a contact groups, which consist of a small number of individuals, the individual is a member and has direct contact with its members, through which he can develop his values and attitudes, so that the neighbors have an influence on his behavior (Zuibi and Batayneh, 2013, page 305).

In order for the group to have a significant and effective impact on consumer consumption patterns, the following conditions must be met: (Khairuddin, 1998, p. 111).

- The commodity being the subject of consumption is a commodity that can be easily seen and identified by others such as clothing, watches and cars.
- That the commodity is a prominent product that attracts attention and is not owned by all people.
- The group should be highly interdependent, encouraging direct or indirect contacts between its members, and this will help to increase the members' knowledge of the purchasing behavior and decisions of each other.

2. *The characteristics of the reference groups and the reasons for the impact of the individual*: The reference groups are characterized by a set of characteristics, most notably: (Amer Abdullah, 2009, page 69).

- The relationship between members of the reference group is continuous;

- The degree of impact of their members varies from person to person;
- The person's preferences and desires are formed according to group rules;
- It is a source of information for all kind of goods and services.

Among the most important reasons for the individual to be affected:

- When the individual's information about the goods and services he wishes to purchase is limited or incomplete, or that his experience few.
- When goods and services purchased by the individual reflect a certain social status (appearance, luxury).
- The more goods and services that the individual buys, the more luxury and entertainment.

3. *Purchasing behavior and purchasing roles: The consumer behavior is defined as:* "When the consumer generally tries to obtain many products that satisfy his current and future needs and desires, and to do so he practices a specific purchasing behavior. The consumer's effort differs in his purchasing behavior, depend on the importance of this product to him. " (Fahd Suleiman and Muhammad Suleiman, 2000, p. 39)

1.3. Purchasing roles for the end consumer: The purchasing roles of the end consumer vary according to the purchasing processes themselves. These roles are: (Ahmed Shaker, 2000, pp. 75-76).

a. *Initiator*: The initiator is the person who proposes the idea of buying for the first time, and not necessarily be the one who took the decision to buy, the initiator can be the husband or wife, depending on the quality and nature of the product .

b. *Influential* : They are the people who influence the purchase decision, who give information about the product or service, and offer others such as: friends, family, colleagues, celebrities, etc.

c. *The decision maker* is the person who make the decision to buy a certain products or marks. For example, when purchasing furniture, the decision maker may be the husband or wife , while in the case of buying children's clothing, the decision may be made by the wife alone.

d. *Buyer* : He who makes the purchase and does not necessarily have the same decision, for example in the purchase of clothing:

- The influential may be the Son;
- The decision maker is the father;
- But the buyer is the mother.

e. *Users of the product*: They are the people who will use the purchased product or service, and the marketing officials should pay attention to them to identify their feelings after the use of the product in order to develop the product by addressing the defects that appear in real usage conditions and to ensure the recurrence of the purchase.

2.3. *Stages of purchasing decision*: The most important thing for marketing men in the behavior of the consumer is to make the decision to buy or refrain from it, because the consumer is under the influence of internal and external pressures to guide this decision.

a. Stage of sense of need and awareness of the benefits of the product: This stage is important and essential to the success of the rest of the stages because the consumer without feeling the importance of acquisition and purchase of this commodity or service will not be the rest of the following stages and complementary to the actual purchase. (Ayman A., 2006, p. 98).

b. The stage of searching for information: After identifying the problem or need, the consumer searches for information about the products that help him to satisfy the need, and depends on the stage of so-called internal research at the same individual. In other words, each individual has a number of information and alternative products that can meet his needs in whole or in part, followed by the second stage, which is the external search, which shows its importance whenever the cost of the product required to purchase or the possibility of error in making the purchase decision.

The primary sources of external research are mostly: (Bakri, 2006, p. 92)

- Personal sources: Family and friends.
- Working Resources: Media, Consumer Protection Organizations, and Governmental Organizations.
- Trading Resources: Advertising, Personnel selling...
- c. Phase of identifying and evaluating alternatives: At this stage the consumer begins to identify alternatives that can fill the existing shortage or achieve the unsatisfied desire, and then put the alternatives in a list where the desired and exclude the other. (Jeraisy, 2006, p. 90)

The evaluation process varies from one person to another, even for the same person from another purchase decision, but it can be said that the consumer in the exercise to satisfy his needs looking for a range of benefits associated with the product provided by saturation.

d. The decision-making process leads to a selection of preferences and intention to purchase, but there are factors that may interfere before making the actual purchase decision such as the opinions of family and friends, or discovering new features in the product that the consumer has not noticed before, Which may corrupt the intention to purchase and lead to a failure to make a purchasing decision. Two factors that highlight the intention of buying the consumer to make the purchase decision are: (Azzam, Hassouna, and Sheikh, 2008, pp. 133-134).

- The attitudes of others: It depends on the amount of power exercised by others on the decision to buy the consumer.

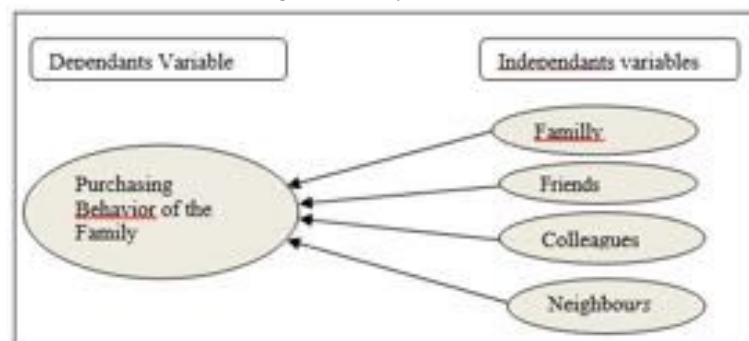
- Unexpected circumstantial factors: They are the unexpected circumstances and situations that occur when the intention to buy is formed and before the purchase decision is made and may lead to a change in the intention to buy.

e. Post-purchase behavior and feelings: The purchase process does not end with the purchase decision, but extends to the post-purchase feeling. If the purchased products succeeds in satisfying the expected saturation, it will strengthen the degree of preference for acceptance by these consumers. Provide the product to ensure that the actual performance of the product equals the expected performance, and the result of this stage either satisfaction or dissatisfaction.

1.2 The applied side

1. The method and procedures: For the purpose of completing this study, we relied on the descriptive and analytical approach as it is based on the study of phenomena as they are in reality and their expression in quantitative or qualitative manner to illustrate the phenomenon and its degree of association with other phenomena.

Figure 1: Study model



Source: Prepared by researchers

Based on one of the techniques of global analysis, whose idea was developed by the British scientist Sprearman in the early 20th century, this idea was developed by many scientists. The essence of this analysis is to simplify the raw data table, which in all studies has a large number of variables and units. The new units are formed by aggregating the raw data. (Hamidi and Sawar, 2016, page 79)

1.1. Community and Study Sample: The study population included a group of households in the South West of Algeria. A simple random sample was selected in the state of Bashar in 100 households.

1.2. Study Tool: The questionnaire was used to collect field data, which includes two parts:

. Part I: Personal variables

. Part II: Study Variables

1.3. Areas of research: The three areas of study can be illustrated by the following:

- Spatial domain: the extent of Bashar.

- Time domain: The questionnaire was prepared and distributed on 12/02/2019 until the collection of the answers and the analysis process on 18/05/2019.

1.4. Analysis tools: Analysis using the statistical analysis program Spss24, Google drive and Amos, was used to process the results obtained and to represent them in the form of duplicates and percentages.

6. Presentation and analysis of the results of the questionnaire:

2.1. *Stability test*: Table 1 shows that the terms of the questionnaire are consistent with the Alpha Cronbach coefficient, which exceeded the statistical significance of 0.6 or 60% in all variables, indicating that the paragraphs of the questionnaire have high dispersion rates. High stability can be used for the purposes of this study.

Table 1: Test of questionnaire Stability

Axes	Number of Phrases	Cronbach' Alpha
Family	06	0.758
Friends	06	0.888
Colleagues	04	0.828
Neighbour	04	0.901
Purchase decision	11	0.916
Total axes	31	0.940

Source: Prepared by researchers based on the outputs of the Spss24 program

2.2. Analysis of Personal data Questions:

Table 2 shows that the percentage of females exceeded the male rate, reaching 68% compared to 32% for males. For the age group, the age group between 18-35 years was the highest frequency of 62%, followed by the age group 35-50 years, 23%, while the percentage of the group was more than 65 years by 40%.

Table 2: Distribution of the sample by gender

sexe		pourcentage
males	32	%32
females	68	%68
Total	100	%100

Source: Prepared by researchers based on the outputs of the Spss24 program

When the majority of the studied sample has a good educational level. We recorded 41% of the sample. This is due to the nature of the sample members who were all young and to the websites where the questionnaire was published. In terms of monthly income, the largest proportion of the category was less than 18000 by 41%, while the remaining percentage was divided among the other categories at close rates.

2.3. Exploratory Factor Analysis

Analysis of the data is reduced, summarized, and reduced to a small number of factors based on the correlation coefficient between a variable and other variables. The screening of the variables of the study by the analysis is based on a number of assumptions as conditions for acceptance of the results.

- Testing the validity of data for global analysis: The results show that the majority of correlation coefficients exceeded 0.30 and statistically significant, in addition to the coefficient of 0.001, which is greater than 0.0001 .

Table 3: Kais-Meyer-Olken (KMO) tests and Bartlett test.

Reference groups	Sample adequacy measurement Kais-Meyer-Olken (KMO)	0.828
	signification level of Bartlett test	0.000
Purchase decision	Sample adequacy measurement Kais-Meyer-Olken (KMO)	0.739
	signification level of Bartlett test	0.000

Source: Prepared by researchers based on Spss24 outputs

The following table shows that Sig = 0.000 is less than 0.05, indicating that the Bartlett's Test of sphericity is statistically significant, and therefore the correlation matrix is available on the minimum correlation coefficients.

For the Kaiser Mayer-Olkin (KMO) test, for the whole matrix is higher than 0.50. According to Kaiser simulation, KMO = 0.863 for the independent variables and KMO = 0.739 for the dependent variable and we consider it very good. In other words, this result enhances our confidence that the sample size is sufficient To conduct a global analysis, with a common variation between the variables of the study constitute a set of hidden factors, which we seek to find.

From the foregoing, it is clear that all the basic conditions of fundamental analysis are available and therefore we can apply them to our current study.

b. *Communal coefficients of variables*: The common coefficient of the variable is defined as the square of the multiple correlation coefficient (R^2) between the variable and the factors as independent variables. Therefore, it expresses the variance ratio in the variable explained by the common factors derived from the global analysis, Part with common factors.

Table 4: Contrast obtained.

Common coefficients			Common coefficients			Common coefficients		
questions	Preliminary	extracted	questions	Preliminary	extracted	questions	Preliminary	extracted
X1F3	1.00	,772	X3C1	1.00	,667	Y1	1.00	,875
X1F5	1.00	,643	X3C2	1.00	,872	Y3	1.00	,662
X1F6	1.00	,729	X3C3	1.00	,770	Y6	1.00	,584
X2A1	1.00	,752	X4M1	1.00	,726	Y7	1.00	,567
X2A2	1.00	,778	X4M2	1.00	,790	Y8	1.00	,604
X2A3	1.00	,783	X4M3	1.00	,851	Y9	1.00	,621
X2A5	1.00	,727	X4M4	1.00	,726	Y10	1.00	,747
						Y11	1.00	,767

source: Prepared by researchers based on the outputs of the Spss24 program

In Table 04 we note that the majority of the values are higher than 0.70 except the questions (Q 28,26,25,22,21,16,6,2,1). However, the average post-extraction common values is 0.694, which is greater than 0.6 and therefore our study is sound.

c. *Explanatory Variance*: Using the Basic Component Analysis method, assuming that the variables or paragraphs of the analysis do not contain measurement errors, that is, all the variance of the variables subject to analysis is a common variation free from the special variance or the wrong variation. The table also shows the extent of the explanatory variance of the latent root in percentages of the explanatory variance of each component (factor) and the percentages of the cumulative explanatory variance, where we note that the extracted factors explain (75.63%) of the phenomenon studied, As explanatory factors for the impact of the reference groups on the purchasing decision of the family.

2.4 Analysis Factor Confirmed:

A. *Model Fit Results*: As for the value of the standard Kai square, the results of Table 05 show that it is equal to 1.182, which is less than 5, meaning that there is a good match.

The same is true for the correlation indices. We note that the value of the Tucker-Lewis index exceeded the accepted value of 0.981, and the Ramsey index, which is one of the most important indicators in the match measurement, which measures the difference between the variance matrix of the model from which the sample was taken. In our study, it was 0.043.

Table 5: Test results of model suitability.

Indicator	value of the test	The accepted value
X ² / (df) The degree of freedom	1.182	<0.05
RMSEA	0.043	<0.08
GFI	0.926	>0.90
AGFI	0.872	>0.80
CFI	0.987	.950 >
NFI	0.922	.950 >
IFI	0.987	.950 >
TLI	0.981	.950 >

Source: Prepared by researchers based on the outputs of the Amos24 program

2.4. Testing hypotheses:

In order to test the hypotheses of the study, a path analysis was used to study the effect of the reference groups on the purchasing decision and the T-statistic was used to determine the expected change in the dependent variable due to the change in one unit of the independent variable. At significance level 0.05 to judge the significance of the effect.

Table 6: Results of regression weights for the research model.

Hypothesis	Estimate	(S.E)	(C.R)	Signification	The Result
Family → purchasing behavior of the family	,242	,101	2,388	,017	There is an effect
Friends → purchasing behavior of the family	,221	,098	2,255	,024	There is an effect
Colleagues → purchasing behavior of the family	,177	,104	1,708	,088	no effect
Neighbors → purchasing behavior of the family	,297	,089	3,340	***	There is an effect

Source: Prepared by researchers based on the outputs of the Amos24 program.

In the following table we conclude:

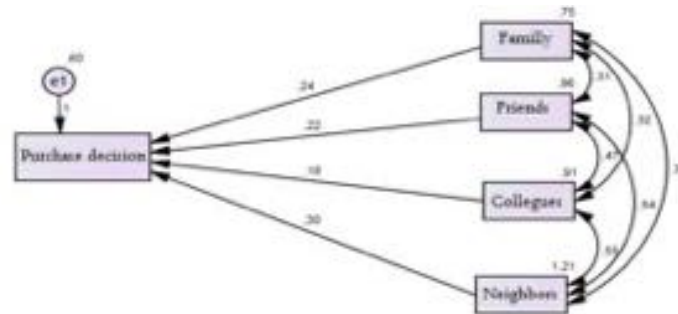
For the first sub-hypothesis: "There is a statistically significant effect at 0.05 level of family members on household purchasing decisions." We note that the calculated t value is greater than 1.96 and the significance level is less than 0.05. Provides that the purchase decision of family affected by some member of the family may be Children or wife.

For the second sub-hypothesis: "There is a statistically significant effect at a significant level of 0.05 for friends on household purchasing decisions". Note that the calculated t value is greater than 1.96 and the significance level is 0,024 which is less than 0.05, so Second, there is a statistically significant effect of the purchase decision by friends.

- For the third sub-hypothesis: "There is a statistically significant effect at 0.05 level for work colleagues on household purchasing decisions." The calculated t value is less than 1.96, and the significance level is 0,088 which is greater than 0.05, So Third, there is no statistically significant effect on the purchasing decision by work colleagues.

- For the fourth sub-hypothesis: "There is a significant statistical effect at the level of 0.05 to the neighbors on the purchasing decisions of the family," note that the value of the level of significance is less than 0.001, which means acceptance of the fourth hypothesis strongly, that neighbors affect the purchasing decisions of the family very much.

Figure 02: Track analysis of the impact of reference groups on the purchase decision.



Source: Prepared by researchers based on the outputs of the Amos24 program.

Figure (02) shows that the influence of reference groups is significant for the neighbors, where 30%, followed by the family at 24%, followed by friends at 22%, and finally the co-workers at 18%.

The influence of the reference group on the behavior of the individual according to three main mechanisms is the "information", which becomes increasingly common with increasing interpersonal convergence ("setting" systems and standards and "integration")) The influence of the group at this point, and even extends to the selection of "brands", according to the "Bearden-Etzel" model, there are two things that govern the influence of the group: the personal or public character of the consumption of the products (if consumed on a "private" Separately or in the middle of the group, in front of others), and the degree of necessity of the product (Engel, Model). The group is raised more when it comes to luxury goods or when the consumption of the product is in front of others. As for the necessary commodities, the impact on this aspect is weak and may be completely absent when the commodity is from those consumed separately.

Finally, how individuals' membership in a particular reference group influences their choices of goods and services depends on the commodity category of interest and on the social structure of the group. Among the most important benefits behind the emergence of reference groups in consumer behavior are: (Iyad Abdel Fattah Mubarak bin Fahid, 2013, p. 213).

- Provide accurate product information to educate consumers about the benefits and benefits that can be obtained in case of purchase.
- Provide opportunities to compare the positions of individuals with the attitudes of groups and are affected by the dialogues planned to target.
- Giving legitimacy to purchasing decisions taken by consumers.
- Reducing the risk associated with the purchase process.

3. Conclusion and Study Results:

Through the statistical analysis of the study tool, we reached several conclusions that can be summarized in the following points:

- First point - The family affects the purchasing behavior of its members positively, especially in the field of food. This is due to the importance that family members like the products of their choice. The consumer also depends on consulting the family members before making the purchase decision
- Second point - The opinion of friends about the behavior of the family in the state of Bashar affects 21%, where the respondents attach great importance to the information and advice they receive from their friends. Shopping with friends can make this necessary and tedious process sometimes more enjoyable. Non-convergence of social acceptance products.
- And so on, for the individuals surveyed, we concluded that the neighbors have a significant influence on the purchasing decision of the family and more than the influence of the family, friends and colleagues. This is due to the fact that the majority of the sample was female and housewives (64%), which indicates that they trust the opinion of neighbors, They are keen to choose products that enhance their image in the eyes of neighbors, as can be attributed to the customs of the Southwest of

Algeria, where the exchange of food, especially on occasions, which leads to an exchange of views regarding food ingredients and prices and the satisfaction of individuals who have tried before.

- - For the co-workers, their influence was weaker compared with the other reference groups, reaching 18%. This is because the majority of the respondents are women who are the same at home. For men, this can be explained by the size of the information, guidance and instructions provided by co-workers Less than other reference groups, especially in the area of food, which is the specialty of women as the process of cooking and preparing dishes.

Based on the results of the study, the following suggestions can be made:

- The ability of decision makers to benefit from the knowledge of reference groups that have the most influence on the purchasing decision of Algerian households regarding food products, thus reducing the risk of not knowing the target market, in addition to reducing promotional costs.
- Setting up lines to serve post-purchase customers, to know their reaction to the product, in addition to giving the institution an opportunity to recognize any imbalance and know the changes that are emerging on the wishes of consumers.
- In addition to the need for institutions to plan for a well-thought-out marketing mix, the opinion of reference groups on marketed brands or products will generally have a positive role in promotional messages included in advertising campaigns.
- Exploiting the influence of the spoken word through creative advertisements that draw consumers' attention to it.
- The need to spread the culture of decision-making among consumers, with the need to conduct future research on the impact of other factors such as social networking sites, and in many domestic and foreign products.

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Extended Theory of Planned Behaviour of Consumer Behaviour in Resolving Adoption Issues of Islamic Life Insurance (Takaful) in Malaysia: A Conceptual Framework

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Abstract

The main purpose of this paper is to examine consumer awareness and perception for Islamic life insurance, i.e. Family Takaful products in Malaysia. Malaysian consumer has already exposed to Islamic life insurance, i.e. Family Takaful as an alternative to the conventional life insurance, nevertheless, the adoption of Islamic products is yet to widely accepted by consumers. Based on literature review regarding adoption studies, this paper suggests and justifies the applicability of the Ajzen's Theory of Planned Behaviour in Islamic life insurance, i.e. Family Takaful adoption. From a literature review and conceptual framework, the problem mainly contributed by the lack of attitude and behaviour among consumers of Islamic financial products, i.e. Family Takaful acceptance. Thus, it is a great challenge for Malaysian Takaful industry to escalate the growth. Therefore, marketing efforts are needed by Takaful organisations to increase awareness, perception, and intention of Malaysian consumers in regards to Islamic life insurance i.e. Family Takaful, as one of Islamic financial products.

Keywords: Consumer behavior, Islamic life insurance, theory of planned behavior, behavioral intention, Malaysia

1. Introduction

Life insurance plays an important part in providing financial protection to individuals and their household. The principal aim of buying life insurance is to protect individuals against any unforeseen financial risks which would be supported by them and their household members due to adverse events (e.g. The untimely death of breadwinner). Even so, life insurance ownership among Malaysians is still considered not as favourable as expected.

In general, there are two categories of life insurance are sold in Malaysia, namely conventional life policy and Islamic life insurance (i.e. family Takaful). According to the Monthly Statistical Bulletin (November 2015) of Bank Negara Malaysia, the market penetration rates of conventional life insurance (measured by the total number of life insurance policies in force divided by total population) fluctuated over years hovering around 40% (i.e. 2010 at 40.4%, 2011 at 39.6% and 2014 at 41.0%).

The Performance Management and Delivery Unit (PEMANDU) (2013), has been tasked with the role, as delineated in the Economic Transformation Programme (ETP), to increase Malaysia's life insurance market penetration rate (both conventional and Takaful) to 75% by 2020. The conventional life policy and family Takaful markets of Malaysia still remain largely untapped. As such, more studies are needed to study the profiles (e.g. Demographic background) of those who have owned life policy (i.e. Existing policyholders) so that necessary actions can be considered to encourage those who have yet to possess life insurance (i.e. Prospective policyholders) to buy life insurance.

Muslims are the majority of Malaysian. Islam is conceived to offer direction in every area of animation which is not restricted to the selected aspects, i.e. social, but it covers wider dimensions, including economic that dealing with human life. For example, Islam provides guidance for consumer with business dealings such as purchasing insurance protection. In this respect, insurance or Takaful product created to offer protection to individuals and businesses against risk or uncertainties. Despite insurance concept is widely accepted, the conventional practices have been identified as non-Islamic. This is due to the existence forbidden elements such as gambling (*maysir*), uncertainty (*gharar*) and usury (*riba*). Thus, Takaful products were created as alternatives to the conventional insurance.

Historically, the initiative of Takaful creation was made in Sudan in 1979. According to Hendon (2009), the increasing need among Muslim over Syariah compliance, financial service instruments led the effort to Takaful development. In order to understand the mechanism of Takaful, Ahmad et al., (2012) explained that the elements of cooperation and mutual aid role as pillars to Takaful business. Furthermore, the term of Takaful derived from Arabic word which mean “a joint guarantee” or “guaranteeing each other” in facing any unexpected events. Literally, Takaful can be divided into two types of merchandise, i.e. General Takaful and Family Takaful. In particular, the General Takaful is created to cover potential losses against unexpected events such as accidents and other risk associated with properties. Meanwhile, the Family Takaful offers its participants with other risk coverages, i.e. protection, savings and investment. From the conventional perspective, Family Takaful also known as life insurance. In detail, Family Takaful provides its participants three types of benefits. Firstly, to ensure the participants have proper financial planning by having adequate, consistent savings over a certain period. Secondly, is to provide the participants with Syariah compliance return on investment through a permissible area of business investment. Thirdly, to secure Takaful benefits not only for the participants, but also extended to their heirs.

The identified issue in Takaful products is its slow growth of acceptance among consumers, despite it has been existed for years. According to Mohd et al., (2010), the reality is the awareness among Muslim consumers over Takaful products is relatively lower than the total Muslim population. This phenomenon providing gaps to be fulfilled (Ahmad et al., 2012). Hence, Takaful players should multiply their efforts into many high potential markets. Prior to strategizing the efforts, it is essential to understand consumer behaviour, particularly the possible and reliable drivers that would increase the awareness of the products. Hence, consumers' intention towards Takaful products should be examined first.

2. Literature review

Various previous studies have investigated demographic variables (e.g. Age, gender, marital condition, education, number of dependents, ethnicity and income) to analyse whether they hold a substantial relationship with the purchase (ownership) of life insurance. Beak and DeVaney (2005) have examined the purchase (ownership) of term life insurance (which is a non-cash value life insurance) and cash value life policy in U.S. Their data are obtained from the Survey of Consumer Finance for the year 2001. Their work examines the demographic background of house heads who owned term life policy and cash value life policy. Their findings on term life insurance ownership show that the household heads tend to be those who have spliced and a White. The likelihood to own term life insurance increases when the household heads' age rises until they get a lot older. Thither is a bigger propensity to have term life insurance among household heads in the second, third and fourth (higher) income tax brackets (between \$35,151 and \$288,350) relative to those in the first (being the lowest) income tax bracket (between \$0 and \$35,150).

Nevertheless, the education level and the number of children of family heads are set up to be not significant factors of term life insurance ownership.

On the other hand, their findings on cash value life insurance ownership show that the household heads tend to be those who have hooked up with, and who are either younger or older as compared to those middle-aged. Household heads who have some college education are found to be more likely to own cash value life insurance as compared to those who possess an education level of less than high school. Household heads who are in the fifth (being the highest) income tax bracket (\$288,351 or more) have a bigger propensity to own cash value life insurance relative to those in the first (being the lowest) income tax bracket (between \$0 and \$35,150). Withal, the family heads who are a White have a low propensity to own cash value life policy. Meanwhile, the number of children of family heads is found to bear no significant relationship with cash value life insurance ownership.

Some other related study on life insurance ownership in the U.S. has been conducted by Gutter and Hatcher (2008). Their information is obtained from various reliable sources i.e. Survey of Consumer Finance 2004. It was understood that the likelihood of subscribing to life insurance increases with the growth in total household earnings and the age of household head. Their findings also indicate that household head who have completed high school education are more likely to have life insurance than those who do not finish high school level. Family size and the mien of a child are not significant factors of life insurance ownership. Although their work has described that there is a slim conflict between African-American and White citizens in life insurance ownership, the determination is not statistically important.

Still, some other related study on life insurance ownership in the U.S., the study by Frees and Sun (2010) found that among the significant factors for an individual to enter into term life insurance policy ownership were, higher income, higher product knowledge (better trained) and many older family members. Meanwhile, for whole life insurance ownership, none of the demographic variables (i.e. income, education and age) examined are found to be significant. These findings indicated that different approaches should be employed for different niche types of insurance policy, despite it is under the same concept of insurance which is a life insurance.

One more related study on life insurance ownership in U.S., Kim, DeVaney and Kim (2012) have examined two different types life insurance (i.e. Term lifetime insurance and cash value life insurance) owned by American families in different income groups (running from low to moderate). Their information is collected through self-administrated questionnaires distributed to the households with an annual household income not more than \$80,000.

Their findings on household income show that it possesses a positive and substantial relationship with term life insurance ownership. Further analysis shows that relative to the households in the lowest income group (earning less than \$20,000 annually), the likelihood for the households in other higher income groups to own term life insurance is shown to rise at varying degrees of intensity: (i) five times greater for households in the income group earning between \$40,001 and \$60,000 annually, (ii) more than four times for households in the income group earning between \$60,001 and \$80,000 annually, and (iii) approximately three times greater for households in the income group earning between \$20,001 and \$40,000 annually. In contrast, household income is found to bear no significant relationship with cash value life insurance ownership. On the other hand, their study on life insurance ownership found that in regard to the age of head of household show that there is positive correlation linked to the cash value only. Meanwhile, for the

marital condition of household head, family size and the education level of household head, they are found to possess no significant relationship with both condition and cash value life insurance ownership.

In a context of another country, a study on life insurance consumption (ownership) in the Republic of Croatia provide some insights (Ćurak, Džaja and Pepur, 2013). The sample of their written report consists of 95 respondents residing in the Republic of Croatia. Their findings on age show that souls in different age groups act differently on the leverage of life policy. The findings show that 69 percent of individuals of age between 31-43 years are life insurance customers. The percentage of ownership increases as the age increase. This has been proven by 72 percent of the individuals between the age of 44-56 years having a life insurance policy. However, the number reduced as the individuals get older. For example, only 47 percent of individuals with age between 57-69 years have a life insurance policy, and the reduction rate is greater as they get older. This is proven when only 20 percent of individual age 70 years and above are having a life insurance policy. In particular, the study related to aging can be concluded that people within working age have a greater tendency of buying life insurance, as they are having a higher disposable income. Meanwhile, their findings on factor of education show that it possesses a positive and substantial relationship with life insurance ownership, i.e. More highly educated individuals tend to have life insurance. Approximately 94% of the respondents with a university degree have purchased life insurance. Nonetheless, other demographic variables (i.e. Gender, number of dependents and marital status) have no impact to the ownership of life insurance.

In the Malaysian context, there are a few past studies that have examined the relationship between demographic factors and life insurance ownership. The studies of Tan, Wong and Law (2009), Loke and Goh (2012) and Annamalah (2013) do not differentiate between conventional life policy and family Takaful. Their pool of life insurance comprises both conventional life policy and family Takaful. The study of Gustina and Abdullah (2012) is a comparative study whilst the study of Sherif and Shaairi (2013) concentrates on family Takaful only.

Tan, Wong and Law's (2009) study examines consumers of Malaysian market associated with life insurance ownership. The study using a random distribution of structured questionnaires across Malaysia. The study found that factors such as annual family income and age, provide a positive and substantial correlation on the ownership of life insurance. Nevertheless, number of children are found to be negative and significantly linked to the ownership of life insurance. Such a finding related to the number of children does not provide support to expected utility theory that says that people with a higher bequest motive (represents by the number of dependents) would tend to receive a bigger propensity to purchase life insurance (Campbell, 1980; Zhu, 2007). This unexpected finding has been explained by Tan, Wong and Law (2009) that it could perhaps signal that Malaysians still have a strong cultural belief that their children will live up to their filial responsibilities to assume guardianship of aged parents. Therefore, many individuals with children tend to have less desire to buy life insurance. Meanwhile, no significant impact on the ownership of life insurance for other demographic variables, i.e., marital condition, gender and education.

In other Malaysian perspective, Loke and Goh's (2012) study examines life insurance ownership of individuals in Penang. Their information pulled together among shoppers in shopping malls, other commercial centres, and various offices. Using self-administrated questionnaires, the distribution was made randomly. The result demonstrated that there is a positive correlation between level of income on the ownership of life insurance. The likelihood to own life insurance increases by more than half a dozen times

for high income group (earning greater than RM6, 000 months) relative to lower-middle income group (earning between RM2, 000 and RM4, 000 monthly). People in the age group of 20-29 years old have a lower propensity to possess life insurance as compared to those in the age group of 30-39 years old. Single people are found to be less likely to possess life policy as compared to married people. The likelihood to own life policy is higher among the Chinese and Indian as compared to the Malay. Number of dependents and gender are found to be not significantly linked to life insurance ownership. Contrary to expectation, their findings indicate that those who possess tertiary education are less probable to become a life insurance customer, compared to people who do not have tertiary training. Loke and Goh (2012) have described that this unexpected finding could possibly due to Malaysian individuals with higher education (i.e. tertiary education) are more interested in different types of financial instruments as wealth creation products, such as investment products rather than normal life insurance. This finding suggests the insurance or Takaful players to create more innovative life insurance product which may integrate with investment elements, as to attract more individuals with higher education engages with life insurance or life Takaful.

In another related development, Annamalah's (2013) study examines other demographic background, i.e. marital status that could influence the ownership of life insurance. The self-administrated questionnaire survey was taken from 2012 to 2013 by distributing to household heads. The major findings of the survey demonstrated that a married couple has higher interest towards the ownership of life insurance. In particular, income and education are factors that positively and significantly linked to the ownership of life insurance. Nevertheless, other factors such as number of children, ethnicity and age have no impact on the level of ownership of life insurance. This result suggests that a married couple should be a good target market of life insurance or life Takaful as this group considered matured consumers and have high awareness to protect their family members.

Meanwhile, in other related study, Gustina and Abdullah's (2012) comparative study examines the ownership of the conventional life policy and family Takaful in Malaysia. Premium / contribution amount per policyholder / participant is used to proxy life insurance ownership. Their data for the period from 1990 to 2009 are gathered from Bank Negara Malaysia and Department of Statistics Malaysia. Their major findings show that income is the predominant factor influencing the ownership of conventional life insurance, while education level is the most important factor influencing the ownership of family Takaful. Although income is found to deliver a positive and substantial relationship with both the ownership of conventional life policy and family Takaful, education level is found to sustain a positive and substantial relationship with the ownership of family Takaful only. Their findings further show that religion (measured by the ratio of the Muslim population to full population) has a positive and substantial relationship with the ownership of family Takaful (only). This finding is relatively important and it proposes that family Takaful serves as an option to conventional life policy for a country with a substantial Muslim population.

Furthermore, in another study, Sherif and Shairi's (2013) investigate the Takaful family ownership in Malaysia. The total annual donation amount is used to proxy life insurance ownership. Their data for the period from 1986 to 2010 are obtained from Bank Negara Malaysia and Department of Statistics Malaysia. Their major findings show that income, teaching level, dependency ratio and religion (measured by total Muslim population) have a positive and substantial relationship with the ownership of family Takaful. A high dependency ratio implies there is a greater number of dependents, thus it stimulates the ownership of family Takaful. Their findings on income, education level and religion provide support to the findings of Gustina and Abdullah (2012).

Established on the findings of various past studies related to the determinants of the ownership of life insurance/ life Takaful, they can be summed up as listed in the Table 1 below;

Authors	Findings
Ćurak, Džaja and Pepur, 2013; Loke and Goh, 2012; Ćurak; Tan, Wong and Law, 2009	Gender is not a significant constituent of life insurance ownership
Gutter and Hatcher, 2008; Frees and Sun, 2010; Gustina and Abdullah, 2012; Annamalah, 2013; Ćurak, Džaja and Pepur, 2013; Sherif and Shaairi, 2013	Education to have a significant positive relationship with life insurance ownership
Baek and DeVaney, 2005; Loke and Goh, 2012	Married people are more likely to possess life insurance
Ćurak, Džaja and Pepur 2013; Kim, DeVaney and Kim, 2012; Tan, Wong and Law, 2009	Marital status is an insignificant element of life insurance ownership
Baek and DeVaney, 2005; Ćurak, Džaja and Pepur, 2013; Gutter and Hatcher, 2008; Kim, DeVaney and Kim, 2012; Loke and Goh, 2012; Annamalah, 2013	Number of dependents is not a significant determinant of life insurance ownership
Baek and DeVaney (2005) has found that ethnicity has a significant relationship with life insurance ownership in the U.S., but it is otherwise in the study of Gutter and Hatcher (2008). Meanwhile, the study of Loke and Goh (2012) has found that there is a substantial relationship between ethnicity and life insurance ownership in Malaysia. In particular, the non-Malay citizens have greater intention to own life insurance compared to the Malay citizens. This may suggest that it may have a positive correlation between the income level and the ownership of life insurance/ life Takaful, as a non-Malay is known as averagely having a higher income level than Malay.	The findings on ethnicity are mixed.
Baek and DeVaney, 2005; Gutter and Hatcher, 2008; Tan, Wong and Law, 2009; Frees and Sun, 2010; Gustina and Abdullah, 2012; Kim, DeVaney and Kim, 2012; Loke and Goh, 2012; Annamalah, 2013; Sherif and Shaairi, 2013	Income has a positive and substantial relationship with life insurance ownership. In particular, higher income individuals are likely to own life insurance/ life Takaful

Table 1: Determinants of the ownership of life insurance/ life Takaful

Established along with the inspection of past studies, the following remarks can be made:

- (i) The findings of most past studies show that the significant factors that would have a positive relationship towards life insurance/ life Takaful ownership are age, education and income.
- (ii) There are consistent results that there is no significant relationship towards the ownership of life insurance/ life Takaful for factors such as Gender and number of dependents.
- (iii) There are mixed findings on factor of marital status and ethnicity towards life insurance/ life Takaful ownership. Some past studies indicate that they hold a substantial relationship with life insurance ownership, but some other surveys indicate otherwise.

Therefore, from these findings, further investigation of consumer behaviour determinants towards the Islamic life insurance is essential. Further development should provide wider perspectives than what have been discovered by the previous researchers.

3. The Conceptual Framework

Many studies on consumer behaviour have utilized the Theory of Reasoned Action (TRA) as their framework. Based on the construct of attitude, subjective norms and intention towards a specific behaviour, the Theory of Reasoned Action (Fishbein and Ajzen 1975) is extensively used expectancy-value model. The TRA widely used as a framework to measure individual behaviour, which particularly, the relationship between attitude and underlying beliefs. An extension of the TRA is the Theory of Planned Behaviour (TPB). According to Ajzen (2001), Theory of Planned Behaviour (TPB) has been recognized as an established framework that suitable for investigation related to human behaviour. This theory is known as an extended version of TRA to cover the fundamental limitation in TRA. Literally, TRA suitable to study the individual behaviour which is not under volitional control. Hence, based on these facts, it is justified to further utilized TPB as a base framework to investigate individual behaviour towards adoption of Takaful (Islamic Insurance).

The Theory of Planned Behaviour

The Theory of Planned Behaviour (TPB) has come out as a good conceptual framework to investigate the individual behaviour, which in a field of human action (Ajzen, 2001). According to Fishbein and Ajzen, (1975), in general, TPB derived from the theory of Reasoned Action (TRA). Precisely, the Theory of Planned Behaviour (TPB) claims that individual conduct is directed by three sorts of beliefs influence. The first one is known as behavioural beliefs. It is explained by the possible consequences of action taken by the individual. Secondly, known as normative beliefs which explained by individual's normal expectation against another individual. The third is known as control beliefs. This is explained by individual's opinion in regard to the existence of genes which could restrict performance of certain individual's behaviour.

To further understand all these elements in the TPB, behavioural beliefs would be seen by individual differences between their favourable or unfavourable attitude on certain behaviour. Meanwhile, for normative beliefs, it can be translated into individual's perceived social pressure, or commonly described as subjective norm. Furthermore, control beliefs commonly explained by individual's perceived behavioural control. In particular, perceived behaviour control being described as the perceived ease (the level of difficulty in performing certain behaviour, Ajzen, 1991).

In this context, the inclusion of perceived behavioural control in TPB, is the element that distinguished it from its origin of TRA. Perceived behavioural control roles as a function of control beliefs and stands for the perceived ease to perform certain conduct. It is a pattern of beliefs about individual's possession or opportunities to execute certain behaviour. To understand this, Madden et al., (1992) provide an example, which can be seen when a person is not ready to perform certain behaviours due to the limitation of information obtained, their intention in performing the behaviour may be reduced, despite this person could have favourable attitudes (subjective norms) to engage or performing certain behaviour. In other word, sufficient information is needed and essential as a condition to influence an individual to perform certain behaviour. The positive impact of perceived behavioural control towards individual's intention has been

proven in various contexts of study, i.e. Armitage and Conner (2001), Bhattacharjee (2000), Armitage (2005), Syed and Nazura (2011), Chun and Chun (2010), Yap and Noor (2008).

In fact, the formation of a behavioural intention is derived from a combination of attitude toward the behaviour, subjective norm, and perception of behavioural control and in turn reflect the actual behaviour. To illustrate, in predicting individual intention to take part in family Takaful using TPB, there are three sorts of considerations. First, beliefs that participation into family Takaful is better and able to protect him from risk form a behavioural belief and affect the attitude of the person. Second, feelings that family and friends want him to take part in family Takaful and he wants to play like what his folk and friends want him to do form a normative belief and affect subjective norm of the mortal. Third, remembering participating in family Takaful is easy form a control belief and may facilitate the behavioural intention.

The Theory of Planned Behaviour (TPB) has been widely adapted in several research areas (Golnaz et al. 2010; Syed and Nazura, 2011). For example, TPB utilized in relation to a study in the field of financial service, when Hasnah et al., (2011) assessed understanding factors influencing behaviour of insurance brokers. Thus, adapting Theory of Planned Behaviour (TPB) to examine consumer intention to take part in family Takaful considered suitable.

In recent related study, there is evidence that factors such as exposure, knowledge and awareness have impacts on Takaful participation (Husin and Rahman, 2016). Apart from that, Echchabi and Ayedh (2015) carried a research in Yemen to investigate influencing factors towards customer intention in the context of Islamic Insurance/ Takaful products. Based on the sample size of 123, a significant positive new factor identified is compatibility. Besides that, Echchabi and Echchabi (2013) have utilized the Theory of Planned Behaviour (TPB) in a study on French Muslim behaviour. The assessment produced significantly positive willingness to adopt Islamic Insurance / Takaful compared to the existing conventional insurance. At the meantime, the study also investigated the influencing factors towards the product. Figure 1 illustrates the original standard version of the Theory of Planned Behaviour (TPB) by Ajzen (1991).

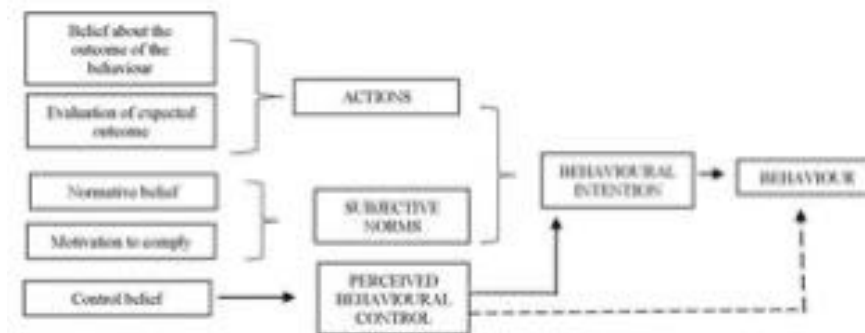


Figure 1: Theory of Planned Behaviour
Adapted from Ajzen, 1991

Since the dimensions of the original Theory of Planned Behaviour (TPB) have been utilised in many previous research, it is good to further extend this theory by adding other dimensions that would give researchers a new idea of how to best influence the potential customer of Islamic insurance/ Takaful in a today dynamic economic environment. For that reason, four new dimensions are proposed to be explored

together with other original TPB constructs. Taking into consideration of these facts, the study developed an Extended Theory of Planned Behaviour which introduces four new constructs. The constructs are Awareness, Relative advantage, Compatibility and Attitude should be combined in the TPB, this would create an Extended Theory of Planned Behaviour to study consumer behaviour in the context of Islamic Insurance/ Takaful. The proposed research model of Extended Theory of Planned Behaviour (ETPB) in this study illustrates in Figure 2.

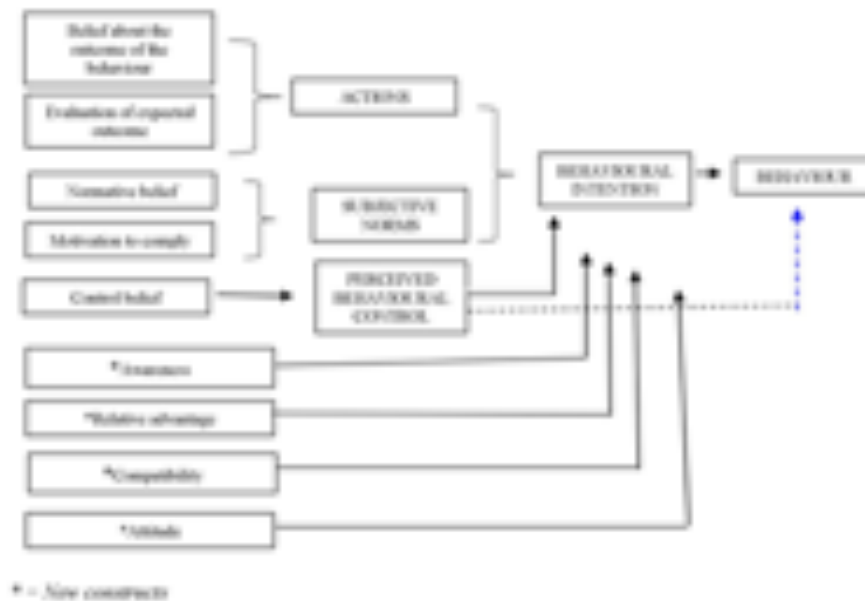


Figure 2: The research model (Extended Theory of Planned Behaviour)

The extended Theory of Planned Behaviour (ETPB) in this study contains four new constructs which include Awareness, Relative Advantage, Compatibility and Attitude. Following are discussions which focus on these new constructs and its relevant hypotheses.

Awareness

An initial stage of adoption of products or service is classified as an Awareness (Rogers 1995). Literally, motive to purchase must be supported by initial knowledge associated with the product or service. During the awareness stage, potential customer usually would have a cautious behaviour, then it would be followed by interest, evaluation, trial and adoption (Rogers 1995). Hence, in establishing the adoption process of Islamic Insurance/ Takaful products, consciousness is an essential element, which would trigger potential customer curiosity. Therefore, for this research model, awareness can be hypothesized as follows:

Hypothesis: There is a significant positive impact on consumer awareness towards behavioural intention (adoption of Islamic Insurance/ Takaful in Malaysia).

Relative advantage

Comparative advantage is determined, as the level of benefits that distinguish the product than the other substitute within the same product category. The advantages may depend on the level of uniqueness or innovation made which would contribute to various positive outcomes such as economic advantage and profit, higher social prestige or many other possible benefits which may attract potential customer to have a higher intention level towards the product or service (Rogers 2003). In relation to Islamic Insurance/ Takaful industry, higher innovativeness may incite potential customer. Hence, this element is good to be employed as a new construct in the research model with the following hypothesis;

Hypothesis: There is a significant positive impact of relative advantage towards behavioural intention (adoption of Islamic Insurance/ Takaful in Malaysia).

Compatibility

Compatibility can be described as something that suit with customer expectations. In detail, the innovations or advantages offered should be consistent with existing values, current need, and past experience, prior to be accepted by the customer. These arguments are validated by many past studies that have utilized “Compatibility” as one of the constructs in their respective research models. In particular, the innovations or advantages offered should be compatible with customers’ values and lifestyles, social system, beliefs, current standard, as well as their common norms (Obeid and Kaabachi 2016; Echchabi et al. 2014; Ayinde and Echchabi 2012; Husin et al. 2015). In the context of Islamic Insurance/ Takaful, among the roles of financial institution to ensure the product is compatible, is by customize its marketing approach on different market segments. Therefore, a hypothesis for this new construct in the Extended Theory of Planned Behaviour (ETPB) can be employed as follows;

Hypothesis: There is a significant positive impact of Perceived compatibility towards behavioural intention (adoption of Islamic Insurance/ Takaful in Malaysia).

Attitude

Individual feelings over certain action or behaviour is known as attitude. The feelings may be either positive or negative depending on the level of acceptance of an individual (Fishbein and Ajzen, 2010). Meanwhile, Suki (2010) describes, that the level of favourable or unfavourable feelings or evaluation towards certain circumstances, or behaviour translated into the magnitude of attitude towards behaviour. With respect to the individual adoption behaviour of Islamic Insurance/ Takaful, it is suggested that positive attitude towards the product may ease the process of adoption. Positive attitude can be built by having deeper product knowledge. Therefore, it can be hypothesized as follows;

Hypothesis: There is a significant impact of positive attitudes towards behavioural intention (adoption of Islamic Insurance / Takaful in Malaysia).

4. Conclusion

The development of the conceptual framework to study consumers' intention towards adoption of Islamic Insurance/ Takaful is essential. It is due to the current low intention of this Islamic financial product among potential consumers, particularly the Muslim population. The Extended Theory of Planned Behaviour developed in this study will explore the possible new dimensions of drivers to improve the Malaysian

Islamic insurance/ Takaful market. The framework may be tested for different demographic background as to identify the best focus group, thus would help the industry strategizing their effort.

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The Perceptions of Undergraduate Students on Crowdfunding Philanthropic Behaviour: A Descriptive Analysis

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1. Introduction

Giving is a voluntary action favouring someone else or a public cause at a cost for oneself without requiring a counterpart (Kasri, 2013) where it occurs when the giver's desire for giving over-compensates the (potential) cost. Although giving behaviours have been discussed long time ago, by numerous economists such as A. Smith, J.S Mill and V. Pareto, the studies upsurge only in the last third of the twentieth century (Kasri, 2013). On the other hand, Islam is a religion that has a commitment to social conditions with wakaf as one of the philanthropic tools regarding the welfare of the ummah and poverty alleviation. The illustration of wakaf as one tool is illustrated in the figure below:

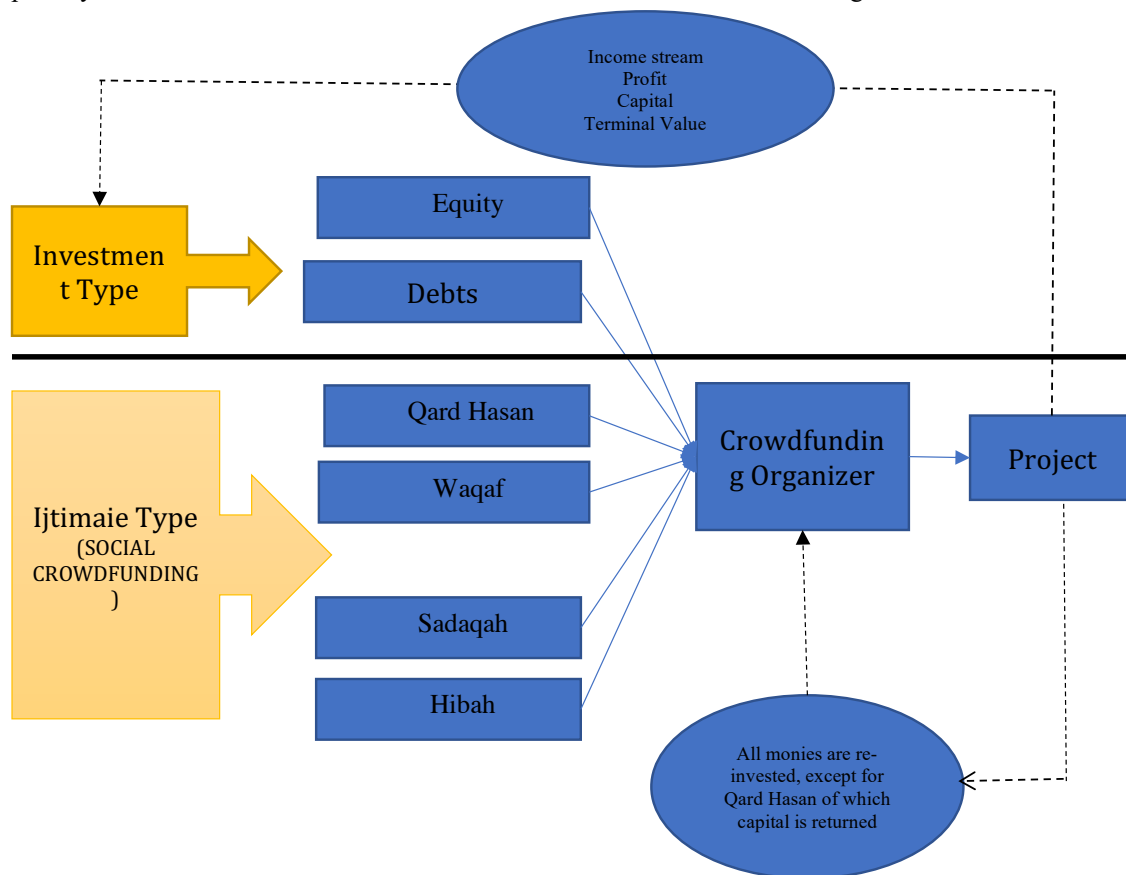


Figure 1 Ijtimaie Type of Crowdfunding

Source: Misbah et al. (2018)

In relations to explain charity giving philanthropic across religion, (Bekkers and Wiepking, 2011) has listed the eight philanthropic mechanism to better understand the charity giving motivations. The eight philanthropic mechanism are; awareness, solicitation, costs and benefits, altruism, reputation, psychological benefits, values and efficacy.

Awareness of need of giving addresses the needs of recipients. But, if potential donors and volunteers are not aware of existing needs, they will be less likely to engage in philanthropic behaviour. Also, often, actors respond to a perceived need, rather than an objective need.

Solicitation In most cases, philanthropy occurs in response to a solicitation from or on behalf of an organization. Whether actors are solicited to engage in philanthropic behaviour, and how often they receive solicitations, are important factors that increase the level of engagement in philanthropy.

Costs and benefits act of philanthropy are costly for the actor as they require a donation of his/her own resources. In some circumstances, however, the costs are lowered (e.g. through a charitable deduction), and, in many cases, acts of philanthropy also yield material benefits for the actor (e.g. exclusive access to meetings or services of the organization). Philanthropy will be enhanced when it can be done at lower costs, and when it yields more benefits.

Altruism acts of philanthropy can be inspired by a 'true' or 'pure' concern for the well-being of recipients or the creation of a public good or service. Knowing that certain needs are addressed already, donors who are motivated by altruism will reduce their giving to these needs.

Reputation The desire to obtain or maintain a positive social evaluation from others leads actors to engage in philanthropy (when such behaviour is expected to be evaluated positively).

Psychological benefits act of philanthropy typically generate a private internal benefit for the actor, even when the act of philanthropy cannot be observed by others. The psychological benefit is sometimes referred to as 'warm glow' or 'joy of giving'.

Values actors display philanthropic behaviour to create a 'better world' — in line with their own perception of a 'better world'. Acts of philanthropy thus often express a value held by the actor. These values include, among others, religious, political and more general altruistic values.

Efficacy Actors are more likely to engage in philanthropic behaviour when they perceive their contribution to be more effective. Hence, using the eight mechanism Bekkers and Wiepking (2011), this paper aims to explore the perceptions of the undergraduate students in a higher learning institution on charity giving philanthropic behaviour towards online crowdfunding.

2. Materials and Methods

A study to investigate the student's perceptions toward online crowdfunding (Misbah et al., 2017) was conducted in 2017 using a web-based survey containing items on source of exposure to crowdfunding, preference and their perceptions, plus questions about demographic information and was administered to a sample of 330 young individuals ages (18-40) using online survey. About 134 usable responses received. The sample comprised 70 percent females and 30 percent males and covered a range of ages 18 years to 40 years old.

3. Results and Discussion

It is interesting to know the perceptions of the respondents towards online crowdfunding. The two descriptive analysis conducted in this paper are twofold; firstly, to see the rank of each statements on the respondent's perceptions towards online crowdfunding and secondly the segregation of agreement or disagreement towards the statements on the perceptions.

3.1 Ranking of Perceptions on Online Crowdfunding in Descending Order

The highest mean score is on the perception that giving to charitable causes makes them feel good about themselves (4.10) meanwhile the lowest mean is 2.06 on the statement that it is important to them so that people recognizes them as a charitable person.

Table 11 Mean for Perceptions on Online Crowdfunding in Descending Order

Perceptions of online crowdfunding:	Mean
I am aware of the crowdfunding sites	3.34
I have heard of online crowdfunding before today	3.59
People have approached me about online crowdfunding before	2.84
It has been a while since I was asked to donate money	3.13
I do not get asked for donations very often	3.25
I will donate more if I get incentives as a return	2.98
I will donate more if the processing charges is low	3.47
I will donate more if I get tax rebate	3.23
More can be done to address the issue of poverty	3.70
I would go to great lengths to help alleviate suffering	3.70
I have genuine concern for the well-being of other less fortunate than myself	3.70
Helping solve social problems is important to me	3.69
I feel comfortable that the online crowdfunding is genuinely helping other in need	3.96
I would feel grateful that my donation to the poor recipient is done through online crowdfunding platform	3.90
I care what people think of my charitable giving	3.69
It is important to me that people recognize I am a charitable person	2.06
Giving money to charitable causes gives me a sense of pleasure	2.xx
Charitable giving makes me experience positive sensations	3.84
Giving to charitable causes makes me feel good about myself	4.10
I feel that my donations on crowdfunding platform would have an impact on poverty	3.73
I feel that online crowdfunding can achieve its goals in helping the needy ones	3.94
I feel that online crowdfunding can achieve its goals	3.93

3.2 Perceptions on Donating Through Online Crowdfunding

Even though mean for each of the statement shows majority of the respondents are inclined towards certain directions, it may provide some different view if analysed further. Thus, a descriptive analysis using a segmented approach is applied here.

Table 12 shows that 42 percent of the respondents agreed to the statement that they are aware of the crowdfunding sites nevertheless about 47 percent are neutral. From the first statement itself, it is suggested that nearly half of the university students are not aware of the online crowdfunding. However, for the second statement, majority (61%) of the university students have heard of online crowdfunding. When asked about being approached to donate online, 46% of the students stated their disagreement. It looks like the online crowdfunding have not reached to the 50% of the university students.

Slightly more percentage of students agreed to the statement that is has been a while since they were asked to donate money (35%) as opposed to disagreed (23%). The interesting part is 42% of the students are neutral or not sure of the statement. Meanwhile 43% agreed that they do not get asked for donations very often. Again 35% of the students are not sure of the answer. There is no clear tendency of the student's preference which can be assumed that students' perceptions are rather split between agreed, disagreed and not sure.

When asked about the students' perceptions on receiving reward upon donating, it looks like students' responses are rather divided with 34% agreed and 32% are disagreed and 32% are neutral. On contrary, if the processing charges is low, 50% agreed to donate more compared to 13% disagreed and about 40% of the respondents agreed to the statement on donating more if they get tax rebate compared to 24% disagreed.

In terms of altruism or true concern over the recipient's wellbeing, majority of the respondents agreed to the statements that they have genuine concern.

Despite majority of the respondents agreed to the statement that charity giving provides them the psychological benefits, positive values and efficacy, majority of the respondents disagreed to the statement of reputation where they do not care about what others think of them being a charitable person.

Table 12 Perceptions on donating through online crowdfunding

Perceptions in donating through online crowdfunding: Please rate your agreement for the following statements:	1	2	3	4	5
1=Strongly disagree; 2= Disagree, 3=Neutral, 4= Agree, 5=Strongly Agree					
Awareness of need to giving					
I am aware of the crowdfunding sites	0.7	10.4	47.0	35.0	5.2
I have heard of online crowdfunding before today	3.0	15.7	20.1	41.8	19.4
People have approached me about online crowdfunding before	6.7	39.9	23.9	22.4	7.5
Solicitation					
It has been a while since I was asked to donate money	3.0	20.1	42.5	29.9	4.5
I do not get asked for donations very often	3.7	17.2	35.1	38.8	5.2
Cost and benefits					
I will donate more if I get incentives as a return	8.2	28.4	29.9	24.6	9.0
I will donate more if the processing charges is low	3.0	10.4	35.8	38.1	12.7
I will donate more if I get tax rebate	3.8	21.8	33.8	29.3	11.3
Altruism					
More can be done to address the issue of poverty	1.5	3.7	32.8	47.0	14.9
I would go to great lengths to help alleviate suffering	1.5	1.5	32.8	53.7	10.4
I have genuine concern for the well-being of other less fortunate than myself	0	2.2	41.0	42.5	14.2
Helping solve social problems is important to me	0	2.2	19.4	59	19.4
Psychological benefits					
I feel comfortable that the online crowdfunding is genuinely helping other in need	0.7	5.2	23.9	44	26.1
I would feel grateful that my donation to the poor recipient is done through online crowdfunding platform	0	5.2	38.1	38.8	17.9
Reputation					
I care what people think of my charitable giving	15.7	35.1	30.6	12.7	6.0
It is important to me that people recognize I am a charitable person	34.3	35.8	20.9	7.5	1.5
Values					
Giving money to charitable causes gives me a sense of pleasure	0	4.5	27.8	46.6	21.1
Charitable giving makes me experience positive sensations	0.7	0.7	13.4	58.2	26.9
Giving to charitable causes makes me feel good about myself	3.0	9.0	30.6	43.3	14.2
Efficacy					
I feel that my donations on crowdfunding platform would have an impact on poverty	0.8	3.0	33.8	47.4	15
I feel that online crowdfunding can achieve its goals in helping the needy ones	0.8	1.5	24.1	50.4	23.3
I feel that online crowdfunding can achieve its goals	0.7	0.7	26.1	50.0	22.4

4. Conclusion

Crowdsourcing is not new in the sense that getting public to fund a project or an activity that is initiated by an individual or a group of people. However, crowdfunding differs to traditional crowdsourcing because it utilized technology and operated using an internet platform. Majority of the respondents agreed to the philanthropic behaviour except for reputation. Students disagreement with the statement that they donate because of the reputation and that it is important for others to recognize them as a charitable person mainly because it is stated in the Qur'an, 2:270-271 , meaning it is better to conceal what we give or do as sadaqah, which means and whatever you spend in charity or whatever vow you make, be sure Allah knows it all. But the wrongdoers have no helpers. If you disclose (acts of) charity, even so it is well, but if you conceal them and make them reach those (really) in need, that is best for you. It will remove

from you some of your (stains of) evil. And Allah is well acquainted with what you do. However, crowdfunding activities are perceived as creating the need of giving, soliciting, bringing good value, has some benefits, helping the needy ones and is also perceived as a place to help the needy ones.

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Helping the Helpless: The Prospects of Micro-*Takaful* in Alleviating Hardship of Low-Income Entrepreneurs in Kano State Markets

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Abstract

The concept of *Takaful* (Islamic insurance) evolved during the industrial era of the 1900's through individual common interests. Although *Takaful* was first introduced into Nigeria in 2005, 2013 was the year National Insurance Commission (NAICOM) issued the operational guidelines for *Takaful* operation. Nigeria approximately has 118 registered insurers, five reinsurers and 23 banks (including the Islamic Bank, Jaiz), but overall insurance penetration in the country is currently one of the lowest in the world. However, majority of Nigerians particularly the low-income entrepreneurs in market places are reluctant to utilize conventional insurance because of religious and environmental circumstances. As such, making it difficult and almost impossible to overcome hardship and revive businesses in the event of fire outbreak in the markets. The paper therefore seeks to explore the prospect of micro-*takaful* as an avenue through which low-income entrepreneurs can be helped, supported and compensated in accordance with the teachings of Islam. Review of literature was used to collect information. Creating awareness about micro-*takaful* and the establishment of micro-*takaful* scheme are recommended to foster economic growth and development.

1. Introduction

Market places and entrepreneurial activities are important catalysts of socio-economic growth and development in a nation. Markets play vital roles in hosting people from different origin and background, engaging in different forms of activities. The indication of trade and encouragement of engaging in entrepreneurial activities justifies the existence and development of markets in Islam. Clear evidence in the existence of market places is the *Du'a* (prayer) the prophet encouraged people to recite (prayer) before entering the market. In addition, Caliph Umar use to go around to ensure appropriate practices within the markets. As such, there is a connection between markets and entrepreneurship. In most developing countries like Nigeria, majority of economic activities either originate from the markets or terminate at the markets (Ibrahim, 2014). However, fire outbreaks in markets within Kano State have become an epidemic which affects socio-economic growth and development of the state in particular and Nigeria in general. Hence, the need for an approach of insurance supply that is suitable to the religious and economic needs of the entrepreneurs is imperative. In addition, according to Ibrahim (2014) in urban Africa, majority of the urban population engage in small scale entrepreneurial activities which makes the presence of market places a necessary avenue to achieve socio-economic growth and development. Therefore, it is important to consider and explore a way (i.e., micro-*takaful*) through which low-income entrepreneurs can help themselves in the event of fire outbreak in market places. By utilizing micro-*takaful*, low-income entrepreneurs do not necessarily need to rely on the government or donor agencies for compensation in the event of fire outbreak. Moreover, relying on the government and donor agencies' support takes a very long time to materialize. This is because committees must be set up for investigation which may take time and those really affected may end up not being compensated, which subsequently renders the low-income entrepreneurs unemployed again. This therefore, justifies the need for an approach that will alleviate the hardship faced by the

entrepreneurs as soon as a peril occurs. However, there is no existent study that explored the prospects of micro-takaful in helping low-income entrepreneurs in Kano State markets, particularly in the event of fire outbreaks. Most studies are either on problems facing entrepreneurs, environmental considerations in the market places and the performance of trades and traders in the various markets, or on operational issues such as Ado-Kurawa (2006) and Musa (2010). Additionally, according to Shittu, Idiake, and Akanmu (2015) although many studies have been conducted about flood and building collapse, there is lax of literature about fire incidences. Thus, the aim of this paper is to fill these gaps. The paper therefore consists of five sections. Section one provides the brief background of the issue while section two discusses the evolution of markets in Kano State, concept of fire and fire outbreak, fire outbreak in Kano State markets, concept of micro-takaful and indications of micro-takaful in Shari'ah (Islamic law). Section three provides prospects of micro-takaful for low-income entrepreneurs in Kano State markets, while section four concludes the paper.

2. Literature Review

Evolution of Markets in Kano State

Kano State is identified for its renowned and prominent markets which makes the state the most leading industrial center in Northern Nigeria with every space being a potential market place. The business landscape of the state is made up of production, distribution and consumption with market places as the powerful centers of control, organization and regulation of business activities (Ibrahim, 2014). According to Sulaiman (2012) the prevalence of markets within the State makes it an economic city that generates income for investors, revenue for government, provides employment opportunities for the unemployed; contributes to the growth of gross domestic product (GDP) and results in overall growth and development of the State. According to Ibrahim (2014) the evolution of markets in Kano State is traced to the early 7th century which marks the origin of the State. Ibrahim (2014) further emphasized that the evolutionary trend of the development of the markets can be categorized into three phases of development; first generation, second generation and contemporary markets. The first-generation markets evolved from early 8th century to the 18th century. Prominent among the first-generation markets is 'Yarkasuwa Market which was established in 1392. Moreover, between 14th to 18th centuries, a total number of seven markets were established. These markets are: Karafka (in 1438); Kurmi (in 1487); Mandawari (in 1567); Madabo (in 1700); Na'isa (in 1706); Aisami (in 1880); and Kul-kul (in 1887). Among the first-generation markets, only Kurmi Market retained its historic and international status; 'Yarkawusa and Karafka were phased off and their sites were converted to residential areas. Madabo and Na'isa Markets were however relocated; while Mandawari, Aisami and Kul-kul Markets were reduced to local neighborhood patronage as against their former international status (Ibrahim, 2014). The second-generation markets emerged from 1900 to some years after independence (1960s) and they consist of Sabongari Market established in 1914; Kwari Market (in 1934); Rimi Market (in 1937); 'Yan'awaki Market (around 1940); 'Yantaya (in 1942); Wapa (in 1959); Sharada (in 1960); 'Yan'itace (in 1965); Abattoir (in 1967); and Brigade (in 1969). Among these markets, 'Yan'awaki; 'Yan'itace and Sharada Markets were respectively relocated to Na'ibawa, Mariri and Sharada-Masallaci areas. Sabongari, Kwari and Wapa Markets to date retained their international status; while Rimi market has been reduced to a regional status from its former international status (Ibrahim, 2014). The third-generation markets also referred to as recent or contemporary markets were as a result of the promulgation of the Nigerian Enterprises Promotion (Indigenization) Decree of 1972; which was amended in 1976. The decree permitted Nigerians to own, control and take part in economic enterprises which facilitated economic growth and development (Mohammed, 1985). Prominent among the third-generation markets are: Akija established in 1973; Singer; Dawanau; Kofar-Wambai; Kofar-Ruwa; 'Yankaba; Ujile; 'Yankekuna; and 'Yanlemo (in 1977), and Takari (in 1985), among others (Ibrahim, 2014). Moreover, in addition to the above markets, there are the proliferation of numerous retail trading outlets and centers along

major roads and streets in Kano State which consists of shops, kiosks, workshops, dispensing outlets, offices, super-stores, and shopping malls (Ibrahim, 2014).

Concept of Fire and Fire Outbreak

Fire is the result of flammable materials being combusted and the essential ingredient for its propagation is air, which is sufficient to start ignition (Oyeyode, 2003). Although fire serves as a means of comfort historically (for example cooking, lighting and heating), fire has also been a source calamity, pain and tragedy to human race. Fire has a rapid, self-sustaining oxidation process accompanied by the evolution of heat and light in varying intensities (Shittu et al., 2015) which consumes lives, properties and consequently affects the markets and low-income entrepreneurs at varying level and magnitude. Justifying this is the assertion that fire presents a global threat to the natural environment by violating the functions of natural ecosystems and causing severe damage to the natural environment and human assets (Stojanova, Kobler, Ogrinc, Ženko, & Džeroski, 2011). Sometimes, the fire outbreak occurs under situations that are unexpected or unpredictable (Shittu et al., 2015). This has led Shittu et al., (2015) to classify the cause of fire outbreak primarily into two namely: natural fire outbreaks (mostly as a result of earthquake, volcanic eruption and lightning) and manmade fire (caused by human/machine errors). Examples of manmade fires are: industrial or chemical fire disasters, fires at social gatherings due to electrical short circuit fires, incendiary bombing, accidental fire, kitchen-fires as well as fires in market places. In addition, rural and urban residential and non-residential structural fires are also largely man-made fires.

Fire Outbreaks in Kano State Markets

Fire outbreaks in markets are a serious threat to the government generally and to low-income entrepreneurs specifically. In Kano State, a serious recurrent disaster confronting market places in and around the State is fire outbreak. The analysis of Kano State Fire Service Records, 2014 indicated a total of 88 incidences of fire outbreaks from 2000 to 2014 across different markets within the State. Rimi market alone sustained 13 incidences of fire outbreaks between the periods (Ibrahim, 2014). Moreover, the loss associated with the fire outbreaks in the state on average is on the rise as the calamity is becoming more frequent. These fire outbreaks result in loss of lives, goods and commodities, properties (i.e., business stalls), money in form of cash, unemployment and injuries among others. For example, according to Ibrahim (2014), Rimi Market Traders Association revealed that the past incidences of fire outbreak have rendered over 200 traders in the market out of businesses. Additionally, the 18th January 2014 fire outbreak in Kwari Market destroyed over 1,000 stalls and hundreds of makeshift stands in six blocks of shops, resulting in the loss of billions of naira in goods and property as well as the death of two people whom were struggling to evacuate their belongings (Ibrahim, 2014). Furthermore, on 18th February 2016, over 200 shops and 1,200 makeshift tents were destroyed as a result of an early morning fire in Singer Market (Muhammad, 2016). Additionally, on 26th March 2016 another fire outbreak engulfed the prominent Sabongari Market which resulted in a loss of about 2 trillion worth of goods and destruction of over 3,000 shops which consequently affected approximately over 18,000 traders (National Emergency Management Agency [NEMA], 2016). NEMA described the calamity as the worst market fire disaster in Nigeria (Ibrahim, 2016). The director general of the agency further asserted that an interim assessment of the situation indicated that more than 90 percent of the market had been destroyed by the fire (NEMA, 2016). Although the causes of fire outbreaks are not well known, Shittu et al. (2015) concluded that rural and urban residential and non-residential structural fires are largely man-made fires. Therefore, the frequency in the occurrence of fire outbreak in Kano State markets accompanied with the loss of life, properties and money necessitates the need for exploring micro-takaful to help the low-income entrepreneurs on time and without compromising the teachings and guidelines of Islam.

Concept of Takaful and Micro-Takaful

Takaful is derived from an Arabic word Kafala a verb which means guarantee, bail or an act of securing the needs of people. Takaful is a hybrid of a cooperative insurance and a commercial entity that operates on the principles of solidarity and reciprocity (Archer, Karim & Nienhaus, 2009). As such, bringing together the two words, micro and takaful entails guarantee, bail or an act of securing the need of low income people in accordance with the teachings of Islam. However, publications of microfinance practitioners and donor agencies refer to micro-takaful as a product of Islamic microfinance (Karim, Tarazi, & Reille, 2008; Roth, McCord, & Liber, 2007). This is so because what differentiates takaful from micro-takaful is the target participants. Furthermore, micro-takaful is an innovative risk management instrument adapted to the needs of low-income Muslims that can contribute to a more inclusive insurance market (Erlbeck, 2010). From the foregoing, an important consideration in the concept of micro-takaful is its cooperative nature of mitigating risk among low-income people according to the teachings of Islam. In addition, micro-takaful entails joint guarantee whereby a group of low income entrepreneurs agree to mutually guarantee each other when calamity befalls (such as fire outbreak). The principle of mutual cooperation is the basis of takaful which transforms the contract of insurance into a gracious contract of donation (Tabarru) (Khorshid, 2004). Therefore, the concept of micro-takaful can be applied to three different dimensions of human activities namely: faith as insurance (al-Ta'min al Imani), insurance for life in the hereafter (al-Ta'amin al Akharuwi) and material insurance for life in this world (al-Ta'amin al Duniyawi) (Khorshid, 2004).

Indications of Micro-Takaful in Shari'ah

Shari'ah refers to an ordained way. The indication to Shari'ah as an ordained way is clear where Allah (SWT) says "Then we put you, (O Muhammad), on an ordained way concerning the matter (of religion); so, follow it and do not follow the inclinations of those who do not know". (Qur'an 45:18, Saheeh International). The aim of Shari'ah is to protect people's well-being in this life and the hereafter (Kamali, 2008) which covers religious, moral and social issues in the conduct of commercial activities. The primary sources (Qur'an and Hadith/Sunnah of the Prophet [PBUH]) and secondary sources (Ijma and Qiyas) of Shari'ah have both made indication towards risk management. The Qur'an for example contains 6,235 verses between which 200 and 500 deals with legal issues while 70 verses are about commercial and financial activities or arrangements (Kamali, 2008). Bekkin (2007) confirmed that the Qur'an entails a methodology for clarifying and resolving any problem. The secondary sources of Shari'ah are derived from the primary sources either by consensus (Ijma) or individual reasoning by analogy (Qiyas) of Islamic scholars (Ulama). Although the secondary sources deal with matters that are not dealt with in the primary sources directly, their verdict must not contravene nor contradict with the primary sources. The conduct of insurance is majorly influenced by the Qur'an, Sunnah, Ijma and Qiyas even though the Qur'an and Sunnah do not directly refer to insurance and most decisions on the compliance of insurance are based on reasoning by Ulama belonging to different schools of Islamic law (Bekkin, 2007). However, in the Qur'an, the closest word associated with Takaful is Ta'amin (Qur'an 4:58, 12:64, 28:26, 3:75, Saheeh International) which relates to status of peace of mind or absence of fear in which oneself, one's family or one's wealth is protected. Al-Ta'min al Imani introduces faith as a mean to reach a status of security which means that if entrepreneurs do good deeds and avoid evil deeds, Allah (SWT) will protect them. This is evident in the Qur'an where Allah (SWT) says: Whosoever does righteousness, whether male or female, while he is a believer, We will surely cause him to live a good life, and We will give them their reward (in the Hereafter) according to the best of what they used to do. (Qur'an 16:97, Saheeh International). In case of insecurity and loss, Muslims look to Allah (SWT) first for their insurance as he promised support in need where He says "Call upon Me; I will respond to you." (Qur'an 40:60, Saheeh International). Therefore, praying to Allah guarantees protection in misery in this world and in the hereafter (Khorshid, 2004). Additionally, it is important to recall that Allah (SWT) can test whomever He wants but promised glad tidings to those who

are patient. Evidence of this is in the Qur'an where Allah (SWT) says "And We will surely test you with something of fear and hunger and a loss of wealth and lives and fruits, but give good tidings to the patient". (Qur'an 2:155, Saheeh International). Al-Ta'amin al Akharuwi is achieved through the obedience of the rules and regulations laid down in Shari'ah in this world. As such people who have compassion and are kind to each other will be successful in the hereafter. Although praying to Allah guarantees protection in misery in this world and in the hereafter (Khorshid, 2004), al-Ta'amin al Dunyawawi does not imply that the responsibility for material protection is solely with Allah (SWT). As such low-income entrepreneurs are encouraged to undertake certain precautions or strategies to mitigate and reduce risk as well as help each other in the event of calamities such as fire outbreaks. Justifying this is the Hadith of the Prophet (PBUH): The Prophet (PBUH) noticed a Bedouin leaving a camel and he asked the Bedouin, "Why don't you tie down your camel?" The Bedouin answered, "I put my trust in Allah." The prophet said, "Tie your camel first, then put your trust in Allah" (Al-Tirmizi & Ibn Majah, Book 60, Hadith Number 2517). As such, since micro-takaful entails cooperation in risk mitigation, it is important to consider some verses of the Qur'an and Hadith of the Prophet (PBUH) that encourage cooperation in doing good deeds, helping one another and brotherhood. For example, in the Qur'an Allah (SWT) says "And cooperate in righteousness and piety, but do not cooperate in sin and aggression. And fear Allah; indeed, Allah is severe in penalty". (Qur'an 5:2, Saheeh International). From this verse, micro-takaful can be regarded as Ta'awun (mutual help) whereby those low-income entrepreneurs affected by fire outbreak in Kano State markets are helped. This is because Allah (SWT) enjoins compassion, justice and the doing of good to others; and forbids indecency, and manifest evil, and wrongful transgression. He admonished you that you may take heed (Qur'an 16:91, Saheeh International). Therefore, it is essential and appropriate for the low-income entrepreneurs to corporate and organizes themselves in an effort to assist, help and to be kind to each other in the right way whenever calamity befalls. Indeed, Allah (SWT) is with those who are righteous and those who do good (Qur'an 16:129, Saheeh International) and Allah (SWT) promised that the reward of goodness is nothing but goodness (Qur'an 55:61, Saheeh International). In fact, in the beginning of every chapter of the Qur'an except one surah (Suratul Taubah) begins with "In the name of Allah, The Gracious, The Merciful." This is an indication that Allah (SWT) is gracious and merciful and surely requires humanity to be gracious and merciful to each other too in their dealings and relationships. In addition, the Prophet (PBUH) further encouraged believers to cooperate, support and help one another. Likewise, Abu Musa reported: The Messenger of Allah, peace and blessings be upon him, said, "Verily, the believers are like a structure, each one strengthening the other," and the Prophet clasped his fingers together (Sahih al-Bukhari, No. 467; Sahih Muslim, No. 2585). Furthermore, the Prophet (PBUH) encouraged people to help alleviate the hardship of others. The Prophet (PBUH) in view of this said "Whosoever removes a worldly hardship from a believer, Allah will remove from him one of the hardships of the hereafter. Whosoever alleviates the needy person, Allah will alleviate from him in this world and the next." (Sahih Muslim, Book 33, Hadith Number 6250).

3. Methodology and Data

Various sources of information and review of literature were used to collect information including online journals and research papers. Some verses of the Qur'an and Hadith also provided information related to the prospects of micro-takaful in alleviating hardship of low-income entrepreneurs in Kano State Markets.

4. Results and Discussion

In this paper, the focus is to see the prospects of micro-takaful in helping the low-income entrepreneurs who undertake their business activities across markets in Kano State. Irrespective of the cause of the fire outbreaks, it is important to develop a micro-takaful scheme through which low-income entrepreneurs affected can be helped in the right way. Previous studies suggest that the limitation in the outreach of

insurance by people is as a result of the economic situation of the population and contradictions of commercial insurance with Islamic law (Demirgüç-Kunt, Beck, & Honohan, 2008; Karim, Tarazi, & Reille, 2008). In addition, the services provided under conventional insurance, do not take into account the peculiar cultural and economic condition of developing countries majority of who are Muslims with low income (Erlbeck, 2010). Conventional insurance focuses primarily on the needs of middle and higher income categories of people which hinders the demand for insurance products and services in such poor countries like Nigeria (Erlbeck, 2010). Furthermore, conventional insurance violates the teachings of Islam because it involves dealings with interest (Riba), uncertainty (Gharar) and gambling (Maysir) (Khorshid, 2004). Micro-takaful has a cooperative advantage of alleviating poverty as a result of its closeness to cooperative insurance (Patel, 2008). As such, it helps in removing hardship through mutual cooperation as indicated by the Prophet (PBUH), “Whosoever removes a worldly hardship from a believer, Allah will remove from him one of the hardships of the hereafter. Whosoever alleviates the needy person, Allah will alleviate from him in this world and the next.” (Sahih Muslim, Book 33, Hadith Number 6250). The prospect of micro-takaful can be further enhanced by looking at the cooperative nature of informal savings by Nigerians which has been a predominant rotating and credit savings association since early 1900s such as Esusu (Yoruba), Adashi (Hausa) or Isusu (Igbo) (Olanike & Abass, 2014). In fact, because of these savings associations, the Nigerian government in 1936 promulgated the cooperative society’s ordinance (Olanike & Abass, 2014). In addition, according to National Bureau of Statistics [NBS]/World Bank (2010/2011) 17 percent of adults in Nigeria report savings in an informal savings group (adashi/esusu/ajo), and women without bank accounts use community savings groups as an alternative way to save their money. As such if low-income entrepreneurs could save collectively to meet their needs, then they can collectively contribute to help one another when calamity befalls (i.e., fire outbreak in markets). Considering the prospects of micro-takaful, low-income entrepreneurs in the markets do not necessarily have to rely on the government or donor agencies for help. The entrepreneurs can mutually help each other and ease their hardship by way of collective risk mitigation which mitigates the damaging harm that can affect the entrepreneurs if they were to bear the risk individually. This is based on the assertion that human beings as social creatures can only achieve their essential needs in groups, thus the desperate need for A’sabiyyah (i.e. one group shares same feelings, opinions, and values) which will enable the entrepreneurs to cooperate for common goals through social harmony (Chapra, 1999). Moreover, Allah (SWT) Has encouraged us to cooperate in good and righteousness (Qur’an 5:2, Saheeh International). The key intention in micro-takaful is not profit making or taking advantage of an uncertain situation but rather a sincere intention to offer protection, help and support. With micro-takaful, risk is not transferred to a single individual or organization but rather shared among members of the collective scheme (Rahman, 1979). Furthermore, micro-takaful is free from Riba, Gharar and Maysir as such, promoting justice, fairness and equality, as against conventional insurance whose modus operandi is essentially based on Riba, Gharar and Maysir. Many Nigerians are yearning for ethical non-interest services which pave a way for socially responsible investment opportunities. As such, micro-takaful will service the majority of Nigerians who are desirous of such services that are free of Riba, Gharar and Maysir (Sapovadia, 2015). Evidence of this is clear in the over subscription of Jaiz Initial Public Offer of ₦2.5 Billion by 120 percent as a result of the yearning for interest free banking in Nigeria (Gambo, 2013). Countries like Indonesia, Pakistan, Bangladesh, Nigeria and Egypt have an insurance penetration of about 2 percent or less (Central Intelligence Agency [CIA], 2010; Ho & Staib, 2008). Therefore, takaful operators would especially benefit from an involvement in micro-takaful as the market potential in these Muslim countries is promising (Ho & Staib, 2008; Ernst & Young, 2009). In fact, in 2007, above 98 percent of the poor in those countries have not been served with micro insurance (Roth et al., 2007) and at least, Indonesia, Nigeria and Egypt belong to the next growth markets (Financial Times Stock Exchange [FTSE], 2009). In addition, according to Swartz and Coetzer (2010) only eighty million of the world’s 2.5 billion poor are currently covered by some form of micro insurance. Nigeria has a strong economic potential being the eight most populous country in the world with about one-sixth of the continent’s total population. However, it is the world’s third poorest country with 70 percent of its citizens

living below the National Poverty Line (Ismail, 2015). Hence, a prospective potential market for micro-takaful. Furthermore, majority of the poor are struggling to survive by engaging in entrepreneurial activities either driven by necessity or opportunities, and are dispersed in several types of businesses across different markets within the country. However, Cohen and Sebstad (2005) indicated that poor people being aware of their exposure to risks are willing to pay to protect themselves. Yet, they are either ignored or insufficiently serviced through conventional insurance schemes because the premium is costly and hence, not affordable. In view of this, Cohen and Sebstad (2006) further suggested that providing aid through insurance is better than giving money to people in the event of calamity. Kano State is the most populous state in Nigeria exceeding Lagos State with some three million people with more than 95 percent of the populations being Muslims (Barau, 2006). The National Population Commission (2010) estimated population growth rate in Kano State at 2.5 percent with population figure put at 9.6 million people as at 2006 census (National Population Commission, 2010). However, a recent population figure of the state was estimated at 12 million with population growth rate of approximately 3.5% per annum (Kano Investment Handbook, 2013). Consequently, because majority of the population of the state are Muslims, Islam impacts on individual and group undertakings as well as choices (Barau, 2006). Kano State has an amassing of business activities drawing in millions of people from other parts of the nation (Nabegu, 2010). The state occupies a strategic location in northern Nigeria which serves as a regional trade hub servicing a market of over 300 million people across Africa (Kano Investment Handbook, 2013). Additionally, the National MSME Survey Report (2013) indicated that in 2013 Kano State had a total of 1,794,358 micro enterprises. In addition, there are approximately 6 million micro small and medium enterprises (MSMEs) operating within the state, 30% of which are controlled by women in different sectors particularly agriculture, commerce and manufacturing (Kano Investment Handbook, 2013). The proliferation of numerous distinct markets in Kano State, as well as series of incidences of fire outbreak in the markets (Ibrahim, 2014) indicates an opportunity for micro-takaful to be successful in the State. Although the incidence of formal banking is higher in the South West region of Nigeria with 56 percent of households and lowest in the North-West region with 16 percent of households with a formal bank account (National Bureau of Statistics/World Bank, 2010/2011), Kano State is the financial center of Northern Nigeria with all 22 banks having offices in the urban and rural areas of the state including the first Islamic bank (Jaiz) which originated from the State (Kano Investment Handbook, 2013). According to Sapovadia (2015) over 26,000 shareholders own the bank with percentage of shareholding types as follows: foreign: 8%, corporate: 36%, state government: 6%, local government: 3%, individual: 30%, joint: 0% and institution: 17%. Gambo (2013) concluded that more than 50 percent of the customers of Jaiz Bank were motivated by the non-interest nature of the bank, 19.2 percent patronized the bank as an alternative to conventional banks while only 17.8 were persuaded by the marketing efforts of Jaiz bank. Kano State been the pioneer of Islamic banking and considering the motivation behind patronage of the bank (i.e., non-interest motive) is an indication of the prospect of micro-takaful in Kano State. These considerations therefore pose a significant prospect for micro-takaful scheme particularly for low-income entrepreneurs in Kano State markets.

5. Conclusion

From the foregoing, the role markets play in the economic and social development of Nigeria generally and Kano State in particular is enormous. The expectation is to look into Islamic compliant ways of supporting and helping the entrepreneurs in the event of calamities (i.e., fire outbreak) and unforeseen emergencies that may occur in the course of their business operations. Micro-takaful has the prospects of reviving lost and failed businesses as well as the prospect of increasing employment rate and reducing the number of people that have depression, heart diseases and panic attacks. It is in view of this consideration that the paper indicated the prospects of micro-takaful for low-income entrepreneurs operating in Kano State markets. Therefore, for Kano State to be still regarded as a commercial center, the benefit of micro-takaful must be appreciated and considered to encourage low-income entrepreneurs. Therefore, the low-income

entrepreneurs should establish a micro-takaful pool for helping themselves when calamity befalls. Institutions such as microfinance institutions (MFIs), cooperatives, non-governmental organizations (NGOs) and community-based insurance organizations in the State should introduce micro-takaful products to meet the religious and economic needs of the low-income entrepreneurs. It is only through the utilization of Shari'ah compliant risk hedging strategies that businesses being run by low-income entrepreneurs can survive and sustain the aftermath of a calamity. It is therefore suggested that future research should empirically investigate the willingness of low-income entrepreneurs in respective markets of Kano State to use micro-takaful in the event of fire outbreaks to enhance the sustainability of markets within the State.

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Information Communication Technology (ICT) Moderates the Relationship of Management Accounting Practices (MAP) and Firm Performance

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Abstract

The lack of accounting management skills among firm owner-managers has been identified as an influencing factor to the survival and growth of the firms. Management Accounting Practices (MAP) is one of the most important practices in firm management, used for the purpose of planning, control, and decision making for performance. The aim of this study is to investigate the role of Information Communication Technology (ICT) as a moderator between MAP and firm performance. ICT is operationalised as any technology that facilitates communication to assist in capturing, processing and transmitting information electronically for performance. Examples of ICT are software, internet, fax, email, mobile phones, radio, television and printed media. Underpinned by the resource-based view, MAP is regarded as strategies employed by the owner-managers that includes costing, budgeting, evaluation, decision, strategic management analysis as a construct to explain performance. Performance is conceptualised as sales growth of the firms. The hypothetical-deductive approach is used in testing the relationship between the independent and dependent variables. The population of the study is SMEs manufacturing firms in Libya. Purposive judgmental sampling technique was used for data collection. The respondents as proxy to the firms include owners-managers and financial managers ($n = 220$). Data were analysed using the statistical package for the social sciences (SPSS) version 22, employing multivariate regression analysis. The results revealed that management accounting practices (MAP) is moderated by ICT in predicting performance. This study provides new evidence for future studies that the owner-managers, entrepreneurs, policy makers to better understand the importance of MAPs and their influences on firm performance in the presence of ICT as moderator in its financial management.

Keywords: Information Communication Technology (ICT), Management Accounting Practices (MAP), Performance, Owner-managers

1. Management Accounting Practices

The concept of Management Accounting Practices (MAPs) is related to the provisions and management which are used by managers for the purpose of making business decisions that would allow them to have competitive advantage and able to effectively control the firm's activities (France, 2010; Uyar, 2010). MAPs produce an internal report to help the work of managers within an organisation. It is primarily concerned with the process of identifying, measuring, analysing, preparing, interpreting, and communicating information that aim to assist managers in pursuing organisational objectives (Cescon, Costantini & Rossi, 2013).

MAPs are particularly more popular among large enterprises. However, lately, this popularity has been extended to SMEs. Moreover, the role of Strategic Management Accounting (SMA) cannot be underestimated (Uyar, 2010). The practices of management accounting stand as a foundation for making business decisions that would improve or positively affect the performance of enterprises and help the enterprises to have better competitive advantage over competitors (Aziz, 2012).

The need for focusing on this topic came from the fact that the Libya SMEs were failing because of lack of knowledge or because of ineffective use of the management practices. Ahmad (2012) suggests that one of the major reasons behind the failure of SMEs is the poor management practices adopted by the organisations. This article has included the work of several authors who believe in

the importance of management accounting for the success of an organisation and that inefficient accounting management is a major cause of failure for many organisations (Ahmad, 2012; AlKhajeh & Khalid, 2018).

2. Management Accounting Practices in Small and Medium Enterprises

Management accounting information has an important role in terms of planning and controlling the activities of SMEs. SMEs also need to use management accounting information and practices to improve the performance of managing the lack of resources and increase the value of the enterprises (Nandan, 2010). Nevertheless, SMEs may have some constraints in fully utilising management accounting practices due to their relatively small size and limited resources. Like larger enterprises, SMEs face the same complexities, uncertainties, and are more prone to failures. Therefore, the need for reliable and accurate strategic management accounting information that is largely provided by management accounting systems is equally significant for SMEs. In this regard, management accounting practices assume a potentially important function for SMEs (Ahmad, 2014).

The availability of financial and non-financial information provided by MAPs permits enterprises to effectively face competition in the market, coping with change, surviving, and improving performance (Mia & Clarke, 1999; Reid & Smith, 2002). Although good MAPs may not by themselves guarantee success, an absence or poorly implemented practices may significantly reduce the enterprise's competitive ability (Folk et al., 2002). Therefore, it is important to support the SMEs by advising the owners and managers to use MAPs (Ahmad, 2012). The effect of a market economy, intensified competition, globalisation, scarce resources, change and complexity in the business environment, and accelerating technological changes drive companies to realise the need to have objective information and awareness of the need for more detailed and less-cost information (Waweru et al., 2005). These factors require the practices of management accounting to provide timely and accurate information to facilitate efforts to costs of control, measure, and improve pricing decisions (Hosen et al, 2011).

However, one major issue challenging SMEs all over the world is the inadequate financial management resulting from the lack of strategic management accounting practices (Shehab, 2008). Okpara and Wynn (2007) argue that the lack of financial management contributes to SMEs' failure. They suffer from the lack of proper financial planning and decision-making. Good financial planning and decision-making are indispensable for the SMEs' performance, particularly in these current days in which competition looks to be very high among them (Shehab, 2008). To address this problem, enterprises are required to practice strategic management accounting system as suggested by Shehab (2008). A further concern is that SMEs may use management accounting practices unsystematically or do not practice management accounting at all.

3. ICT as Moderating-Influencing Factor on the Relationship between MAPs and SMEs Performance

Previous studies have identified the benefits of information and communication technology (ICT) in terms of innovation, growth, productivity, and investment in all companies, especially small and medium enterprises. ICT has contributed to the growth of these enterprises significantly, thus in industry and economic growth (Giotopoulos, Kontolaimou, Korra & Tsakanikas, 2017; Van Ark et al., 2008; Arvanitis, 2005; Inklaar et al., 2005; Black & Lynch, 2004; Brynjolfsson & Hitt, 2003; Pilat, 2003; Bresnahan et al., 2002; Colecchia & Schreyer, 2002). The ICT is significantly used in Libyan small and medium enterprises. It serves as a financial technology which is used for the survival and growth of performance in small and medium enterprises. This point was made evident by the survey respondents. The statistical analysis showed a positive relationship between the use of ICT as a moderating factor in the relationship between accounting practices and the performance of small and medium enterprises. Through the multi-hierarchical linear regression analysis, observed was the significant influence of ICT on the relationship between MAPs and the performance of small and medium enterprise ($\beta = .143$, $t = 2.482$, $p = .014$), showing that ICT

adoption has a positive impact on the growth of small and medium enterprises in Libya, similar to the findings in previous studies (i.e. Khuja & Mohamed, 2016; Taruté & Gatautis, 2014; Ashrafi & Murtaza, 2008). Therefore, the adoption of ICT is recognised as a crucial condition, enabling SMEs to consider information and communication technology as an important implement in their business to ensure competitive advantage in the global markets. ICT has the ability to improve the overall financial and operational performance of SMEs as well as for planning and controlling if it is used appropriately through the use of management accounting practices.

Table 3.1 Multiple Linear Regressions in Model 1

Model	B	S.E.	β	t	p	Collinearity Statistics	
						Tolerance	VIF
(Constant)	1.991	.432		4.609	.000		
Costing	.185	.040	.236	2.632	.000	.383	2.613
Budgeting	.096	.023	.138	1.685	.040	.870	1.149
Performance valuation	.026	.102	.029	.256	.798	.258	3.874
Decision support	.095	.038	.142	1.762	.044	.300	3.328
Strategic management accounting	.173	.048	.255	3.623	.000	.659	1.519
Age	.186	.043	.301	4.348	.000	.679	1.472
Size	.200	.038	.329	5.241	.000	.823	1.215
Education	.076	.027	.190	1.862	.014	.811	1.233
Experience	.067	.088	.047	.758	.449	.852	1.174

Note: $R^2 = .318$; adjusted $R^2 = .288$; $[F(9, 210) = 10.858, p = .000]$

4. Moderating Effect of ICT on the Relationship between MAPs and SMEs Performance

H1: Information and communication technology (ICT) has a moderating effect on the relationship between management accounting practices (MAPs) and SMEs performance.

In terms of the proposed hypothesis above, the hierarchical multiple linear regression analysis has shown evidence of the moderating effect of information and communication technology (ICT) in the relationship between management accounting practices (MAPs) and SMEs performance. As illustrated in Table 5.17, the first step of the hierarchical multiple linear regression analysis indicates that it is significant based on the values of $[F(2, 217) = 100.636, p = .000]$. Likewise, the analysis also indicates a significant effect of management accounting practices (MAPs) ($\beta = .207$, $t = 3.199$, $p = .002$) and information and communication technology (ICT) ($\beta = .493$, $t = 7.626$, $p = .000$) on SMEs performance. In the second step following the establishment of the interaction effect of ICT in the relationship between management accounting practices and SMEs performance (MAP * ICT), the result indicates that it is also statistically significant based on the values of $[F(3, 216) = 66.796, p = .000]$.

Moreover, the hierarchical multiple linear regression analysis indicates a significant moderating effect of ICT in the relationship between MAPs and SMEs performance ($\beta = .143$, $t = 2.482$, $p = .014$). Thus, H10 is accepted. The interaction effect is also reflected in the Model Summary Table which reveals a difference between $R^2 = .399$ and $\Delta R^2 = .416$ ($.399 + 0.017$). This means the strength of the relationship between management accounting practices and SMEs performance changes (increases) as a function of information and communication technology, that is, from $(\sqrt{.399}) = (r$

= .632) to $(\sqrt{.416}) = (r = .645)$. This indicates that the percentage of variance in SMEs performance increases from 39.3 to 41.6% as a result of the interaction effect of ICT on the relationship between management accounting practices and SMEs performance.

Table 4.1 Moderating Effect of ICT on the Relationship between MAPs and SMEs Performance

Models	B	S.E.	β	t	p
(Constant)	4.102	.020		206.263	.000
MAP	.231	.072	.207	3.199	.002
ICT	.349	.046	.493	7.626	.000
R² = .399; adjusted R² = .395; [F (2,217) = 100.636; p = .000]					
(Constant)	4.087	.021		198.461	.000
MAP	.227	.071	.204	3.185	.002
X10	.396	.049	.559	8.078	.000
MAP * ICT	.150	.061	.143	2.482	.014
R² = .415; adjusted R² = .410; ΔR^2 = .399; [F (3,216) = 66.796; p = .000]					

a. Dependent Variable: SMEs Performance

Note: MAP: - Management Accounting Practices; ICT: - Information Communication Technology; B: - Unstandardised Coefficients; S.E.: Standard Error; β : - Standardised Coefficients; t: - t – value; sig.: - p – value

Table 4.2 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.632 ^a	.399	.395	.27015	.399	100.636	2	217	.000
2	.645 ^b	.415	.410	.26683	.017	8.627	1	216	.014

a. Predictors: (Constant), ICT_M, MAP_M

b. Predictors: (Constant), ICT_M, MAP_M, MAP_MxICT_M

5. ICT as Moderating-Influencing Factor on the Relationship between MAPs and SMEs Performance

Previous studies have identified the benefits of information and communication technology (ICT) in terms of innovation, growth, productivity, and investment in all companies, especially small and medium enterprises. ICT has contributed to the growth of these enterprises significantly, thus in industry and economic growth (Giotopoulos, Kontolaimou, Korra & Tsakanikas, 2017; Van Ark et al., 2008; Arvanitis, 2005; Inklaar et al., 2005; Black & Lynch, 2004; Brynjolfsson & Hitt, 2003; Pilat, 2003; Bresnahan et al., 2002; Colecchia & Schreyer, 2002). The ICT is significantly used in Libyan small and medium enterprises. It serves as a financial technology which is used for the survival and growth of performance in small and medium enterprises. This point was made evident by the survey respondents. The statistical analysis showed a positive relationship between the use of ICT as a moderating factor in the relationship between accounting practices and the performance of small and medium enterprises.

Through the multi-hierarchical linear regression analysis, observed was the significant influence of ICT on the relationship between MAPs and the performance of small and medium enterprise ($\beta = .143$, $t = 2.482$, $p = .014$), showing that ICT adoption has a positive impact on the growth of small and medium enterprises in Libya, similar to the findings in previous studies (i.e. Khuja & Mohamed, 2016; Taruté & Gatautis, 2014; Ashrafi & Murtaza, 2008). Therefore, the adoption of ICT is recognised as a crucial condition, enabling SMEs to consider information and communication technology as an important implement in their business to ensure competitive advantage in the global markets. ICT has the ability to improve the overall financial and operational

performance of SMEs as well as for planning and controlling if it is used appropriately through the use of management accounting practices.

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An Investigation of the Effect of IFSA 2013 on Family Takaful Benefit Distribution

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Abstract

Family takaful scheme, an Islamic alternative to conventional life insurance is a long-term contract with a fixed maturity period. The scheme is important in the sense that it provides takaful benefit in the form of compensation to the heirs of the participant in the case of untimely death or specified mishaps in the future. Before the scheme can be enforced, the participant is required to nominate someone to receive the compensation. Prior to the IFSA 2013, the compensation will be paid to the nominee and will subsequently be distributed among the participant's legal heirs according to the fara'id law. After IFSA 2013, options were given to participants to distribute the compensation. This paper examines the practice of nomination among takaful operators in Malaysia, prior and after IFSA 2013. It also seeks the awareness among current family takaful participants regarding the nomination alternatives provided by IFSA 2013 and whether the participants exercise the options available to them.

Keywords: IFSA 2013, family takaful, nomination, hibah, Islamic finance

1. Introduction

Family takaful is an alternative to conventional life insurance scheme in accordance to shariah that provides similar coverage to its conventional counterpart. The scheme is important because it provides takaful benefit, in the form of compensation to the participant or the participant's heirs or dependents. Before the scheme can be enforced, the participant is required to nominate a person to receive the takaful money. In Malaysia, the payment of the compensation by the operator is usually in two instances, namely when the policy has reached its maturity or upon the death or disability of the participant.

Prior to the implementation of Islamic Financial Services Act 2013 (IFSA), the nominee status in family takaful is still unresolved due to the lack of details on the payment of takaful benefits in the Takaful Act 1984. Takaful Act 1984 does not expressly provide any rules regarding the recipient of the takaful benefits. According to the act, takaful benefits need to be paid to the 'proper claimant'. Proper claimant means 'a person who claims to be entitled to the sum in question as executor of the deceased or who claims to be entitled to that sum under the relevant law'. Upon the death of the takaful participant, the operator will distribute the takaful benefits to the nominee and the takaful operator is free from any liability. However, after the distribution is completely handed over to the nominee, the problem still arises regarding the status of the nominees. This is likely to happen due to the absence of rules regarding the nominated property in Malaysia (Abdullah, N. A and Abdul Aziz, N.,2010).

The standard practice of distributing takaful benefit in Malaysia is that when a participant of a takaful dies, the participant's legal heirs inherit the money paid by the takaful operator. In other words, the payment of the money by the takaful operator to the nominee appointed by the deceased participant is subsequently distributed among the participant's legal heirs in accordance to the fara'id law. This arrangement takes place even though there is no Islamic legal ruling or fatwa issued by any fatwa council in Malaysia, either at national or state level regarding the position of

the money payable as compensation by the takaful operator on the occurrences of the death of a participant (Azman, M.N et.al, 2008). However, according to Mohd Kamil and Joni Tamkin, (2017) the division is seen as contrary to the original goals of takaful, which is to create fund for the deceased's dependents. This is because, the takaful benefit received upon the untimely death of the participant sometimes may not reach the most affected dependents due to their status as non-beneficiary or not one of the deceased's legal heir.

To assess the realization of IFSA 2013, in the context of family takaful benefit distribution, this paper will examine practice of nomination among the operators in Malaysia prior to and after the implementation of IFSA 2013. It will also seek the awareness among the current takaful participants regarding the nomination alternatives provided by IFSA 2013 and whether the participants exercise the options available to them.

2. Literature Review

Financial benefits provided by family takaful are considered to ease the financial burden faced by beneficiaries of takaful participants who may be affected by the source of income as a result of the death of the participant. Under the family takaful scheme, contributions (premiums) paid by participants will be divided into two accounts, Participant's Account (PA) and Participant's Special Account (PSA). The amounts included in these two accounts are based on the ratio agreed upon by the takaful operator and participants. The PA is dedicated to savings purposes, while PSA is solely for donation purposes based on *tabarru'*. If a participant dies before the policy is mature, his / her beneficiary will receive takaful benefits based on the balance from the PA before the date of death. The beneficiaries also have the right to receive unpaid donations from the date of death to the maturity date of PSA. The provisions of the Takaful Act 1984 do not specify details of the payment of takaful benefits. Consequently, there is a difference in the aspect of payment of takaful benefits between a takaful operator and another takaful operator.

There are two methods commonly practiced by takaful operators in the distribution of family takaful benefits, namely through the appointment of 'wasi' as a trustee and to provide the takaful benefits to nominee as absolute beneficiary. A study by Abdullah, N. A and Abdul Aziz, N. (2010) found that in 2010, there were four takaful operators who did not provide a nomination option for takaful benefits as absolute beneficiary (conditional *hibah*). The four takaful operators are Hong Leong Tokio Marine Takaful, CIMB Aviva Takaful, Etiqa Takaful Berhad and Prudential BSN Takaful Berhad. In such situations, all nominees are considered as executor or trustee. Apart from that, the distribution of family takaful benefits also differs between Muslim participants and non-Muslim participants. A nominee acts only as "executor" or trustee for a Muslim policy, in which the takaful benefits distribution is based on Islamic law of inheritance (*fara'id*). Whereas for non-Muslim policyholders, nominee is an absolute beneficiary and the benefit distribution is based on the Distribution Act 1959.

Prior to the implementation of the Islamic Financial Services Act 2013 the nominee status remains an issue in the distribution of family takaful benefits due to the absence of regulations on the matter. Because of this, it usually leads to conflict between competing claims parties (Ismail, 2009). Problems may still arise after the distribution is fully submitted to the nominee. The Takaful Act 1984 only states that takaful benefits are payable to "reasonable claimants". The Bank Negara Syariah Advisory Council stipulates that the takaful nomination form provided by takaful operators must be standardized and must clearly identify the nominee's status, either as absolute beneficiary or mere trustee. Unlike takaful, the distribution of the Employees Provident Fund (EPF) is clearly and uniformly stated. For Islamic contributors, the nominee only acts as an administrator (*wasi*), which after the death of the member has an obligation to divide the property of the deceased according to *fara'id* law. For non-Muslim contributors, the nominee will have all the benefits, provided that he or she has reached 18 years of age. The nominee's status must be settled in a takaful contract as it may avoid an unfair distribution to other heirs.

Another issue in the distribution of family takaful benefits is in terms of the heritability of the takaful benefits. Scholars and Islamic practitioners agree on the inherent takaful of the Participant's Account (PA), as it is considered part of the deceased's estate. The money is considered as an estate because it is the right (ownership) of the participant during his life. However, monies paid by takaful operators taken from the Participant's Special Account (PSA) are still questionable. The portion from the PSA cannot be regarded as part of the estate of the deceased because it is not the rights of takaful participants during his life (Mohd Noor, A & Abdullah, MA, 2015). The money was handed over by the participants for donation purposes to takaful fund funds, which provided compensation money to other participants. As previously mentioned, takaful operators do not necessarily provide options for takaful participants in respect of the takaful benefits payment method before IFSA 2013.

In practice, takaful operators will hand over takaful benefits to named nominees. The nominee is deemed to be a trustee and is responsible for distributing the benefit money to eligible heirs based on Islamic inheritance law for Muslim participants. Whereas for non-Muslim participants, the distribution of takaful benefits must be based on the Distribution Act 1959. However, if a takaful participant wishes to give the benefit to a particular party in absolute terms, the participant must fill out the takaful benefits submission form and name the party who receives a conditional hibah (Mohd Faiz M. Yusof. et al, 2016). Implementation of IFSA 2013, not only standardized the practice of payment of takaful benefits among takaful operators in Malaysia, but also provides options in distributing the takaful benefits. However, only the of payments for family takaful and personal accident takaful benefits are detailed in IFSA 2013. There was no mention of the payment for general takaful contracts.

According to a study by Mohd Faiz M. Yusof. et al (2016), it is because there is no major problem in general takaful benefit claims and usually problems can be solved out of court between participants and takaful operators. In addition to this, factors such as higher compensation amount (as there are elements of protection, savings and investment) and longer maturity periods may contribute to the more attention given to the payment of family takaful benefits. Paragraph 2 schedule 10 IFSA 2013 describes the party authorized to make a nomination.

In summary, takaful participants attaining the age of 16 years and above have the power to make nominations either by appointing individuals or certain parties as trustees or as absolute beneficiary. Participants may make nominations in writing or by filling out the nomination forms to be attached together with the takaful application form. Takaful nomination forms provide three choices to participants to appoint individual either as trustee or as beneficiary or both, depending on the percentage required by the participant (MAA Takaful Berhad, 2013).

A person, who has been appointed to receive takaful benefits, whether as trustee or absolute beneficiary shall receive the payment of such takaful benefits. Absolute beneficiary shall receive the full amount of the takaful benefits. The benefits received are not part of the deceased's estate and cannot be deducted for debt repayment (IFSA, 2013). Whereas a person appointed as trustee shall distribute the money under faraid law. After IFSA 2013 was implemented, all eleven takaful operators in Malaysia have provided options to takaful participants in distributing the benefits. This situation differs from the situation before IFSA 2013 is implemented, where there were four takaful operators who do not provide the grant option. Table 1 shows the distribution practices among takaful operators in Malaysia after the implementation of IFSA 2013.

3. Research Methodology

This study employs both qualitative and quantitative approach to achieve the objectives set. Besides the content analysis of the relevant literature, this study will be using the document review method to examine the status of nomination applied in the Malaysian takaful industry. Documents from eight takaful operators were reviewed for this purpose. Two documents will be review, namely the nomination form and hibah form, which provide sufficient details of the practice of nomination and hibah practices for family takaful scheme.

This research will also employ descriptive analysis, via the use of semi structured questionnaire to determine the awareness level among current family takaful scheme participants regarding the nomination alternatives provided by IFSA 2013. Over 80 self administered questionnaires were distributed, only 50 were used, due to incomplete information. Further inquiries will be gauged with the selected respondents as to whether they exercise the option of hibah which is made available to them since IFSA2013.

The sample in this study was the participants of FTS, residing in the Klang Valley area. The questionnaires are divided into three sections, as the following :

- Section A : Respondents' demographic information
- Section B : Respondents' takaful literacy level (knowledge on the concept and operational aspects of FTS)
- Section C : Information on the FTS subscribed by the participants (including the nomination alternatives provided by IFSA013)
- Section D : Factors leading to participation of FTS

4. Results and Finding

Based on the reviews on hibah and nomination documents from the eight takaful operators, it can be concluded that after the implementation of IFSA2013, all of the operators have provided options to their participants in distributing the benefits, either through absolute beneficiary (hibah) or wasi or trustee. This paper's finding supports the result of a research conducted by Mohd Faiz M.Y, et al. (2016), which arrived at the same conclusion. Table 1 shows the distribution practices among the takaful operators in Malaysia after the implementation of IFSA2013.

Table 1: Review of Family Takaful Distribution Practices by Malaysian Operators

Takaful Operators	Nomination	Absolute Beneficiary (Hibah)
Syarikat Takaful Malaysia Berhad	√	√
Takaful Ikhlas Sdn Bhd	√	√
Hong Leong Tokio Marine Takaful	√	√
CIMB Aviva Takaful	√	√
Etika Takaful Berhad	√	√
Prudential BSN Takaful Berhad	√	√
MAA Takaful Berhad	√	√
HSBC Amanah Takaful (M'sia) Berhad	√	√

Descriptive Analysis

Socio-Demographic Information

From a total 50 respondents, 60 percent were female, while other 40 percent were male respondents. In terms of ethnicity, the respondents were mainly focused (100 percent) on Malay, perhaps because majority of takaful participants are Malay. As for marital status, 70 percent were married, 20 percent were single, and 10 percent were divorcees. Out of the total number of respondents, 30 percent had one dependent, 50 percent had two dependents, while 20 percent had no dependent. For educational level, respondents are made up of 16 percent secondary school educated, 54 percent undergraduate and college educated, and 30 percent are post graduate educated. In terms of monthly income, 40 percent of the respondents earned between RM4,000 – RM4,999, 30 percent earned between RM3,000 – RM3,999, while 20 percent earned between RM2,000 – RM2,999. Minority of the respondents, at 20 percent earning more than RM5,000. Table 2 describe the socio-demographic profile of the respondents.

Table 2: Socio-Demographic Profile of the Respondents

Factors	Categories	Frequency	Percentage
Gender	Male	20	40
	Female	30	60
	Total	50	100
Race	Malay	50	100
Marital Status	Single	35	70
	Married	10	20
	Divorced	5	10
	Total	50	100
No. of Dependents	None	10	20
	1	15	30
	2	25	50
	Total	50	100
Education	Secondary	8	16
	Undergrad/Diploma	27	54
	Postgraduate	15	30
	Total	50	100
Monthly Income	RM2,000 – RM2,999	10	20
	RM3,000 – RM3,999	15	30
	RM4,000 – RM4,999	20	40
	RM5,000 and above	5	10
	Total	50	100

Source: Research Survey

To specifically examine the participants' awareness and preference on the nomination alternatives provided by IFSA 2013, this study focused mainly on Section C of the questionnaire. A descriptive analysis was conducted to determine the awareness level among current family takaful scheme participants regarding the nomination alternatives provided by IFSA 2013. 35 or 70 percent of the respondents were aware of the option given to them in distributing the benefits. However, interestingly, only 15 respondents (from those who are aware of the option) chose to distribute their money using 'hibah' or the absolute beneficiary option. More than half or 57 percent of those who are aware still prefer to nominate wasi and distribute the takaful money based on faraid.

5. Conclusion

Family takaful benefits is one of the financial assistances that participants can provide for their dependents, in the event of death or disability. The implementation of IFSA 2013 has standardized the practice of paying takaful benefits among takaful operators in Malaysia. It also provides options for takaful participants in the distribution of takaful benefits payment through conditional hibah by nominating absolute beneficiary. Through this method beneficiary have easy access to the money because it does not need to go through the tedious process of claiming inheritance. It is also in line with the original goal of takaful, which is to create funds for beneficiaries or dependents who are most affected by the death of the takaful participant.

This paper examines the practice of nomination among takaful operators in Malaysia, prior and after IFSA 2013. Through both qualitative and quantitative approach, this study seeks the awareness among current family takaful participants regarding the nomination alternatives provided by IFSA 2013 and whether the participants exercise the options available to them. The study found that 70 percent of existing the respondents were aware of the option given to them in distributing the benefits. However, interestingly, only 15 respondents (from those who are aware of the option) chose to distribute their money using 'hibah' or the absolute beneficiary option. More than half or 57 percent of those who are aware still prefer to nominate wasi and distribute the takaful money based on faraid.

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Samurai Bond

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Abstract

Malaysia has issued yen denominated bond so called “Samurai bond” in last March 2019 worth JPY 200 billion (roughly RM7.4bil). The purpose of issuing this bond is to settle the 1MDB debts which have an outstanding amount of USD1.75bil (roughly 7.3bil). These bonds were issued in Tokyo by a non-Japanese company or entity, and subject to comply the Japanese rules and regulations. These foreign bonds are aiming to raise money from usually more stable financial market with the objective to capitalize the issuer. In other words, a bond means a borrowing agreement between two parties namely a lender and a borrower. The tenure of this bond will be in 10 year guaranteed by the Japan Bank of International Cooperation. The samurai bonds come with a very attractive indicative coupon rate of 0.65%¹⁵ whereas the 1MDB Energy Ltd dollar bonds currently have a costly 5.99% coupon rate. It seems like a balance transfer credit card, to facilitate Malaysia to pay its national debts at a lower coupon rate.¹⁶ The previous debt is in the rate of 6%, but at that rate Malaysia only gets 90% of the proceeds raised, meaning that the rate has gone up to about 7%. In this regard, there is meaningful reduction between 7% and 0.65% interest rate. However, there is a risk embedded with these foreign bonds. The most expected risk is the fluctuation of the Japanese Yen. Are the samurai bonds agreed upon at a fixed currency exchange rate, or based on fluctuations and what other disadvantages for Malaysia in issuing Samurai bond. Hence, this study attempts to search on advantages and disadvantages of issuing Samurai bond by Malaysian government in restructuring its debt.

Keywords: Malaysia, Samurai Bond, 1MDB

1. Introduction

The issuance of Samurai Bond worth JPY200 billion by the government of Malaysia on 15 March 2019 opens a new phase in fostering closer economic and cultural ties between Malaysia and Japan. It continues a 30-year absence of Japanese yen bond market. A tenor for this JPY – denominated bond is 10 years with a coupon rate of 0.65%¹⁷ and guaranteed by the Japan Bank for International Cooperation as part of government-to-government arrangement. In addition, this is the largest such guaranteed sovereign bond issuance in the market.¹⁸

The way how Samurai bond works is, the government or company may choose to enter a foreign market if they satisfy the attractive rates offered or in other way is to acquire foreign currency. When the decision has been made to tap into a foreign market, the issuing of foreign bonds takes place whereby the issuance bonds are denominated in the currency of the intended market.

¹⁵ New Straits Times, retrieved 27 September 2019, <https://www.nst.com.my/news/nation/2019/09/519535/dr-m-wants-speedy-issuance-new-samurai-bonds>.

¹⁶ *A coupon rate is another way of referring to the ‘interest rate’ that Malaysia would need to pay. The interest payments can be done either semi-annually or annually, until the tenure is completed. After that, the principal amount would need to be returned as well.*

¹⁷ Budget 2019, Ministry of Finance Malaysia, (Kuala Lumpur, Malaysia: Percetakan Nasional Malaysia Berhad, Budget 2019), 45.

¹⁸ Asianbondsonline, retrieved on 5 October 2019, <https://asianbondsonline.adb.org/newsletters/abowdh20190318.pdf>.

Similarly, there are also other types of yen-denominated bonds issued outside Japan like Euroyens which typically issued in London.

In summary, Samurai bond is a foreign bond issued in a local market by a foreign issuer in the currency of the local country. It aims to provide that corporate or sovereign issuers, the access to another capital market outside of their domestic market with the objective to raise capital.

In relation to Malaysia's bond issuance in foreign currency, it is considered as lower compared to local bond issuance using local currency. In 2017, there was only RM 5.2 billion was in yen denominated bond. In major, Malaysia's bonds issuance is in Ringgit Malaysia denominated which approximately representing 97 percent of total bond issuance.

However, the tenure of 10-year bond mature may expose to currency fluctuation which result for more payment to the existence value of debts. This may raise concern among researches on how to manage the risk relatively to this currency fluctuation risk. Hence, the ability to foresee incoming risk will prepare the government with a strategic plan to overcome and manage the risk accordingly.

2. Historical Glance of Samurai Bond

In late 60's, Japan experienced with the growing of Japanese foreign currency reserves. It then led to the opening of Samurai Bond Market in 1970 later after the authorization of supranational and highly rated foreign government entities been given to the Japanese Ministry of Finance to issue Samurai Bond within certain size and maturity restrictions. At that time, the exchange rate of the yen was fixed at 360 yen per US dollar. In 1971, the exchange rate was revalued to 308 per dollar and later in February 1973, it moved to a floating rate system.

In order to avoid foreign exchange pressure, the decision has been made by the government of Japan to open capital market allowing foreign entities to issue yen-denominated bonds. However, at the beginning of market open, the authorization of issuing bond was restricted to the governmental entities. Later, in 1978, the authorization has been given to the Blue chip corporations to issue Samurai bond.

The first Samurai bond was issued in November 1970 by Asian Development Bank worth 6 billion yen with 7-year maturity. Market acceptance for this bond was very impressive. Concurrently, the priority to the market access was associated for the first time to Asian Development Bank and other high credit supranational issuers. In the same time, controlling the stream of issuance requires specific condition. Any parties incapable to comply such condition could finance yen through yen-denominated private placement bonds. Such parties were allowed to point out a limited number of institutional investment with terms and liquidity were within a strict control.

The first non-Japanese bond was first issued in 1972 by Australia worth RM 10 billion yen. The first corporate Samurai Bond was issued in 1979 by Sears. In the meantime, more access to Samurai market opened to more issuers by easing previous conditions with the minimum credit ratings and liberalized new type of bonds. Other privilege, Samurai Bond can be issued in two different currencies. The privilege also includes the interest and principle which allowed to be paid in either of these currencies.

3. Advantages of a Samurai Bond

Samurai bonds are tied with Japanese bond regulations. It aims to attract local Japanese investors and provide funds to foreign issuer. Hence, for the issuer, they enjoy the lower rate of interest in one side while the investors enjoy a stable and guaranteed investment return from bond's issuance. Among the advantage of Samurai bond issuance by Malaysia can be stated as follows:

1. Malaysia benefits from this issuing by having access to the bigger investor base with lower interest rate. If the consideration of issuing these bonds is to pay 1MDB debts, then this is an effective effort. Some of the Malaysia's foreign denominated government guarantee (GG) bond are issued at 5.99% coupon which is much higher compared to local currency GG bond such as 10-year Prasarana GG bond below last traded at 4.39%.
2. Looking at liquidity and demand for Malaysia Samurai Bond, the Japanese government has agreed to guarantee the issuance through its Japan Bank for International Corporation. Therefore, Japan's local investor bear not much risk from holding government guarantee samurai bond other than its own sovereign risk. It is expected the issuance of Malaysia Samurai Bond will be accepted with open arms by the local Japanese investors and other foreign investors in the Japanese bond market.
3. The Japanese Samurai Bond market sales have been the highest in 2018 since 2008 as reported by Bloomberg. Foreign investor has been actively tapping into the Japanese market with emerging market remain volatile. For the Japanese investor, Samurai bond pay higher yield than its domestic bond as Bank of Japan kept its local 10-year Government Bond near zero level at 0.123% (as at 7 Nov 18).

Issuing Samurai bond is nothing new or unusual. Malaysia's planned Samurai bond issuance follows an increasing trend in Samurai bond issued by various Asean countries of late. Indonesia has been issuing Samurai bonds with increasing frequency over the last decade, most recently in May 2018, when it completed a 100 billion yen issue. Meanwhile, in August last year, the Philippines issued 154 billion yen in Samurai bonds, its first in over eight years. Indeed, the Malaysian government itself is no Samurai bond virgin — it too, used to be a regular Samurai issuer in the 1970-1980s.¹⁹

4. Disadvantages of Samurai Bond

Fact shows that Malaysia has a small debt in foreign currency every year. For instance, in 2017, there is only RM 5.2 billion of country's debt was in the form of Yen. The majority of the national debt is in the form of Ringgit. However, by June 2019, the debt in the Yen had increased to RM 13 billion.²⁰ The following are among the disadvantages of Samurai bonds in considering to Malaysia's condition:-

1. The value of yen within the tenure of bond issuance is fluctuate and not fix. If the Yen strengthened against the Ringgit, the value of the foreign exchange would widen the gap and Malaysia needs to pay more.
2. In bond issuance, there are still some very technical things such as "face value" compared to "purchased value" and other terms of publication that may not be as attractive as imagined.
3. In addition, currency exchange costs also need to be taken into account as they will be used in Malaysia. Converting JPY200 billion into Ringgit would definitely have a fee to pay.
4. The issue of bond versus loan is that loans are paid in installments and interest rates are also based on the yearly loan balance. Whereas bonds, other than paying semi-annual interest rates, the government will pay in full at the end of the bond maturity. Usually, fails to have sufficient funds during maturity will lead an issuer to issue another bond to pay the previous bonds.
5. The issuance of Samurai bonds also has the effect of increasing debt due to the depreciation of the Ringgit in the future.

¹⁹ Institute of Strategic and International Studies (ISIS) Malaysia, retrieved on 10 July 2019, <https://www.isis.org.my/2019/03/24/not-the-last-samurai/>.

²⁰ Sinar Harian, 1 October 2019, <https://www.sinarharian.com.my/article/47372/BERITA/Nasional/Negara-makin-terbeban-dengan-hutang-Bon-Samurai>.

5. Malaysia's Experience in Issuing Bond

Among the objective of government of Malaysia issuance bond are to funding economic development. In between 1970 to 1985, Malaysia's outstanding balance increased by 17% annually. In the middle of 1980s, Malaysia focuses on corporate bond market development rather than government issuance. However, to deal with the economic turmoil, government issuance bond resume after 1998. Several policies of market development were executed like regular issuance and introduction of reopening (several issuances of the same bond).²¹

Another types of bond issuance in Malaysia are; Government Investment Issues (Islamic government bonds) and Savings Bonds for individual. The GDP ratio of outstanding government bonds increased from 42.0% in 2006 to 61.6% in 2012. After that, issuance decreased and the GDP ratio became 51.5% in 2016. Government bonds are included in the benchmark index used by investors of developed countries, and that is one factor that promotes investments.²²

This is not the first time Malaysia participate in Japanese Samurai bond. In 2015, Maybank issued JPY31.3 billion Samurai Bond comprising of two series of fixed rate bond with 3-year and 5-year maturity at coupon 0.397% and 0.509% per annum. These bonds have been rated A3 by Moody's and A by Japan Credit Rating Agency, Ltd. The issuance of the Samurai bonds was approved by the Securities Commission Malaysia on April 3, 2015.

For the presense issuance recently in March 2019, there is no clear objective of the issuance of such bond. Sometime, the government stress the objective of issuance is to pay LMDB debts while in other time, these bonds may be used for funding government projects. It is obvious that the government itself has no clear objective from the issuance of this bond. If the purpose is to pay debt, a clear justification is required to specify the type and amount of such debts.

It is in ambiguity, if there is no clear objective from the issuance of this bond, it just only increases country's debt and make country's economy less competitive.

6. Conclusion

Samurai bond is expected to cover financial shortages in government expenditure. However, several factors of Samurai bond disadvantages, will remain challenges to Malaysia for bond's payment. The appreciation of Japan currency is becoming the biggest challenge for this bond. It means more money to pay for this debt. However, looking to the positive side of Samurai bond, it ties both countries with a good economic and business relationship.

The country's debt situation is under control because 97.7 percent of its debt is in the Ringgit denomination. The latest report by Bank Negara Malaysia has recorded government debt in foreign denominations of RM15.7 billion. This puts the country's financial position in a very good position as exposure to foreign exchange is very low.

However, Malaysia has another option in issuing bonds which is through Chinese yuan denominated bonds. Chinese yuan currency is less appreciation compare to Japanese Yen currency. The possibility for more gap against Ringgit is relatively low. However, yen denominated bond is more friendly than Chinese yuan currency. It is a win-win situation deals. While the Chinese yuan

²¹ S atoshi Shimizu, "Development of Asian Bond Markets and Challenges: Keys to Market Expansion, Policy

Research Institute," Public Policy Review, Vol.14, No.5, September 2018, 2.

²² *Ibid.*

bond is with in favor to the China and somehow it seems unfair to the issuer. Hence, the Japanese denominated yen bonds are still welcomed by Malaysian government.

Other options include turning non-profit assets into a source of income and selling shares in government-linked companies (GLCs) with sufficient investors.

Although local bonds may be the wiser option, converting non-profit assets as sources of income and selling GLC stocks is seems better than others. Assets such as airports and ports can be sold in the form of real estate investment trusts. Government-owned holdings in various GLCs such as finance, industrial, healthcare and education can be sold to increase private sector participation. Local bonds are a better choice than Samurai bonds because they are virtually risk-free and cost-effective, considering the cost of hedging.

In short, avoiding debt should be the primary objective for the government. However, if it is not feasible, creating a debt should be based on Malaysia's currency, unless there is a strategic reason for taking a foreign currency loan.

Revisiting *Halal* Industry its Scope, Challenges and Opportunities

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Abstract

Halal industry has emerged as a new growth sector in international economy with fast pace of spreading especially in developed countries. Asia, Middle East Europe and especially the United States which as the major fast-growing economies of the world presents the most promising *halal* market. The growth of *halal* industry could be attributed to recognition of *halal* products as an alternative benchmark for quality assurance, hygiene and safety. This has triggered an increasing acceptance of *halal* products by non-Muslim consumers. The growing number of the Muslim population and their increased awareness about the significance of consuming *halal* food products and services, is another factor that has led to the development of *halal* industry as a global market. The vast growth of the *halal* industry is indicative of its broad scope, therefore, this article attempts to delineate the concept of *halal* in the context of its primary sources; Qur'an and Sunnah. It also explores the different segments of the *halal* industry and their prevalent challenges and opportunities. Some figures and facts are presented to highlight the expansion of the *halal* industry globally. Qualitative method using Library research is used in this study. The data and information collected from primary and secondary source as well as online sources are analyzed and conclusions drawn based on the available sources. The research concludes that *halal* industry provides a lucrative business opportunity for Muslims and non-Muslims alike. In view of the broad scope of the *halal* industry and the active participation of both Muslims and non-Muslims in it, stringent measures are needed to maintain the authenticity of *halal* products and their compliance with the principles of *Shari'ah*, hence, serving Muslims consumers' interest

Keywords: Challenges, *halal* industry, Muslim consumers scope, Shariah compliance

1. Introduction

Halal foods and products have gained a worldwide recognition as an alternative standard of safety, quality assurance and hygiene. Due to this recognition *halal* industry has successfully penetrated the global markets.

It has got an overwhelming attention of the world market especially in most of the Islamic countries. Thus *halal* foods and products which are produced in accordance with the principles of *Shari'ah* are readily accepted by both Muslim and non-Muslim consumers. The underlying reason for the consumption of *halal* foods and products by the Muslim is because they are in full compliant with the requirements of *Shari'ah*, which constitute a religious obligation. On the other hand, for non-Muslim consumers *halal* foods and products represent the symbol of hygiene, quality and safety. Demand for *halal* products is on the rise in non-Muslim countries as well as they prefer to consume *halal* food due to perceiving it as a healthy choice. *Halal* industry is not limited to foods sector. There are seven key sectors in the *halal* industry which consists of food services, consumer goods, financial services, pharmaceutical goods, cosmetics products, *halal* logistics and tourism. Therefore, the seven key areas of the *halal* industry could be narrowed down to four major segments, comprising food and beverage, pharmaceutical and health products, cosmetics, and tourism and travel services. In this paper, therefore, we briefly outline the juridical concept and sources of *halal*, its guiding principles and its main segments together with opportunities and challenges to the effect.

2. Meaning and definition

Halal is an Arabic word. It literally means lawful and permitted. It connotes something which is allowed by Islamic law and there is no binding legal text pertaining to its prohibition. It is something

which is required by Islamic law. Its opposite is *haram* which means unlawful or prohibited (Nor 'Adha *et al.*, 2017; Al-Qaradhawi, 1994; Marco, 2011). The concepts of *halal* and *haram* are of universal application and are pervasive in their nature due to encompassing a broad spectrum of human activities ranging from *'ibadah*, worship to *muamalat*, transactions, and *mu'asharah* and social behaviors. According to Wahab (2004), the use of the term *halal* in relation to food in any form whatsoever in the context of business and trade or as part of a trade description implies lawful products or foods and drinks. *Halal* could also be expressed in any other expression which indicates permission by Islamic law with regard to the consumption or usage of something. However, such expression should clearly indicate that neither such a thing consists of or contain any part of a prohibited animal according to *Shari'ah*. Furthermore, if it is an animal, it should indicate that it has undergone a proper process of slaughtering required by Islamic law. In other words, *halal* is something which does not contain impure things from *Shari'ah* perspective. In the case of food stuffs, *halal* would mean the negation of the use of impure instruments and ingredients in the process of its preparation, and manufacturing.

Moreover, in the course of production and preparation and storage, it has not been in contact or close proximity with impure things. Therefore, it can be concluded that according to Islamic law all foods are *halal* with the exception of swine/pork and its by products, dead animal before undergoing a proper process of slaughtering, animal killed in name of other than God and intoxicants such as alcohol and liquid of the similar characteristics. Among the prohibited things is also predatory animals, birds of prey and land animals with no external ears, blood and its by products and foods contaminated with any of the above mentioned items. (Riaz and Chaudry, 2004). Foods with ingredients such as gelatin, emulsifier, flavors and enzymes are considered as (*mashbooh*) questionable because the origin of these ingredients or their components may be *haram*. Meat and poultry should undergo the process of slaughtering which is called *zabihah/dhabiha* which is required by *Shari'ah* in case of animals and birds. (Al-Mazeedi, *et al.* 2013; Khan & Haleem, 2016). Hence, it is clear that *halal* is a very comprehensive concept as it is not only limited to ingredients of the food but involves the whole process of preparation, manufacturing and processing.

3. Sources of Halal

From an Islamic perspective, the concept of *halal* and *haram* are not the creation of human being, no matter how pious or powerful they might be. They have their origin in divine sources namely, Qur'an and the Sunnah of the prophet (pbuh). For instance, the fact that Allah (swt) has created all that is on the earth with the objective of human survival and sustenance in life is indicative of the permissibility of things. Therefore, nothing would be considered forbidden unless its prohibition is clearly mentioned in the Qur'anic verse or in an authentic and explicit Sunnah of the prophet (pbuh). This general principle of permissibility of thing is based on the Holy Qur'an which states: "*it is He who have created all that is in the earth for you*" (Qur'an, 2:29). What can be construed from this Qur'anic verse is that the designation of something as *halal* or *haram* is the sole right of Allah (swt) and no human being is allowed to change, based on his own whim and desire- what has already been declared as *halal* or *haram* by Allah (swt). The basic reason for the prohibition of things or activities is that they are harmful or impure. However, as a Muslim we are not required to delve deep into the nature of things to ascertain the exact way of their impurity and harmfulness. (Ambali, & Bakar, 2014)

Zakaria (2008) has rightly observed the divine origin of the concept of *halal* by stating that: "*'halal* concept comes from the Holy Qur'an' where it is used to describe objects and actions. *Halal* is a comprehensive term covering anything that is free from any component the consumption of which is prohibited for Muslims. This could be categorized as 'pork free' in its physical existence. This also includes being free from food substances which are impure or harmful such as gelatin, enzymes, lecithin and glycerin and additives such as flavorings and coloring. Therefore, it becomes imperative to refer to the Qur'an and the Sunnah as the main sources, in seeking solutions to all issues and disputes pertaining to *halal* and *haram*. However, it is important to bear in mind that *halal* may have been identified by explicit evidence in the Qur'an or by reference to the general principle of permissibility.

3.1 The Qur'an as the First Source of Halal

The Qur'an as a divine guidance provides several provisions pertaining to the concept of *halal* and its significance. For example, Allah (swt) states in Holy Qur'an; "*O ye who believe! Eat of the good things wherewith we have provided you, and render thanks to Allah if it is (indeed) He whom ye worship*" (Qur'an, 2:172). In this verse, Allah (swt) has made it clear that believers should consume from the good things which He has provided for them and they should be grateful to Him. Such behavior is considered as the characteristic of true believers. It implies that the designation of something as good means *halal*. Therefore, consumption of only permissible things should be the choice of true believe in Allah.

Scrutiny of what Allah has prohibited reveals that it is for the safety of humanity, therefore it has to be appreciated. Muslims should comply wholeheartedly and unreservedly with Allah's order on prohibited and non-prohibited things. In fact, Islamic laws are universally applicable regardless of race, creed and gender. This is clear from the Qur'anic verse which states: "*O ye Messengers! Eat of good things, and do right, Lo I am aware of what ye do.*" (Qur'an, 23:51). The term *halal* encompasses cleanliness and hygiene in the process of preparation of food, due to its being part of the religion and Allah (swt) only allows hygienic, safe and *halal* food or products for Muslims' consumption. This is clearly highlighted in the following Qur'anic verse: "*He has forbidden you only carrion, and blood, and swine flesh and that which has been immolated to (the name of) any other than Allah. But he who has been driven by necessity, neither craving nor transgressing, it is not sin for him. Lo! Allah is Forgiving, Merciful*" (Qur'an, 2:173). This verse clearly mentions what kind of food Muslims should consume and what kind of food they should avoid. The commentators of Qur'anic exegeses have substantiated the reasons for the prohibitions through clarifications of the Qur'anic exegeses. For instance, the reason why carrion and dead animals are forbidden is due to their being unfit for human consumption. Because their decaying process leads to formation of harmful chemical in human body. Similarly, the blood drained from animal infested with harmful bacteria and toxins are harmful to human beings. Some of the reasons for prohibition are highlighted in the Qur'anic verse such as the verse: "*And verily, in cattle (too) will ye find an instructive sign. From what is within their bodies between excretions and blood. We produce for you drink, milk, pure and agreeable to those who drink it.*" (Qur'an, 16:66). As it is clear from this verse that Islam only allows a good and healthy food for its adherents to consume, for instance, milk is a complete food due to being rich in protein, calcium, and vitamin A and B. This advantage could only be attained from lawful animals during their life time. Such provisional advantage would not be attainable from them when they die. That is why their milk becomes *haram* due to the possibility of harmful effect it might cause to human health.

Other related Qur'anic verses commanding the consumption of only what is good and *halal* are: "*This day all things good and pure have been made lawful to you*" (Qur'an, 5: 5) and, "*O ye who believe! Forbid not the good things that Allah has made Halal for you*" (Qur'an, 5: 87). This verse requires the believers to consume only permissible foods. The Qur'an also spells out another pertinent principle in the context, stating: "*O mankind! Eat of that which is lawful and wholesome*" (Qur'an, 2: 168). Therefore, it is not the only requirement that all food products must be *halal*, but also should fulfil another requirement which is *tayyiban* (wholesomeness) (Rokshana and Ida, 2018).

From these Quranic verses, it can be concluded that the underlying objective of the *Shari'ah* in prescribing *halal*, is the protection of human beings. Thus, any dietary item or food which may harm human body and health is forbidden. The harmfulness of forbidden dietary item is scientifically proven fact which no person of sound mind would deny. Allah says, "*And make not your own hands contribute to (your) destruction*". (Qur'an, 2: 195) Furthermore, Islam provides crystal clear guidelines in respect of preparation of *halal* food and its requirement. Qur'an states: "*O ye who believe! Eat of the good things that we have provided for you*" (Qur'an, 2: 172). The phrase "good things" in this verse indicates hygienic food which is certainly good and can insure a healthy body. Therefore, Islam besides opting for healthy and nutritious food emphasizes on the cleanliness and hygiene aspects of it as well. (Halim et al., 2014).

From the above mentioned Qur'anic verses, it can be derived that Islam has provided clear guidelines on *halal* food and its sources. In general, the Qur'anic guidance dictates the permissibility of all foods except which are specifically mentioned as *haram* as is clear from the following Qur'anic verse. *“Forbidden unto you (for food) are carrion and blood and swine flesh, and that which hath been dedicated unto any other than Allah, and the strangled, and the dead through beating, and the dead through falling from a height, and that which hath been killed by (the goring of) horns, and the devoured of wild beasts saving that which ye make lawful (by the death stroke) and that which hath been immolated unto idols. And (forbidden is it) that ye swear by the divining arrows”* (Surah Al-Ma'idah: 3)

3.2 *Sunnah as the Second Source of Halal*

Sunnah comprising sayings, actions and tacit approval of the prophet (pbuh) is the second source where detailed rules pertaining to *halal* and *haram* could be found. For example, the *hadith* which is the saying of the prophet (pbuh) has addressed the concept of *halal* related to all forms of foods products and drinks for human consumption. The Prophet (pbuh) in one of his *hadith* teaches us the perfect way of slaughtering animals in order to become lawful and *halal* for consumption. One of the relevant *hadith* in this regard is the *hadith* narrated on the authority of Abu Ya'la Shahddad ibn Aus saying:

The messenger of Allah said; “Verily Allah has prescribed proficiency in all things. Thus, if you kill, kill well; and if you slaughter, slaughter well. Let each one of you sharpen his blade and let him spare suffering to the animal he slaughters” (al-Muslim, n.d.).

In this *hadith* the Prophet (pbuh) provides us a clear guidance on how the *halal* food should be prepared. Therefore, believers should follow the guidance that the Prophet (pbuh) has provided especially with regards to the slaughtering of the animal. In the process of slaughtering, it is required to make sure that minimum pain is caused to the animals and the equipment used in the process is sharp enough so as to avoid causing unnecessary pain to the animal. It is narrated by Rafi' bin Khadij, that the prophet (pbuh) said to the Muslims who were about to slaughter some animals: *“Use whatever causes blood to flow, and eat the animals if the name of Allah has been mentioned on slaughtering them...”* (al-Bukhari, 1984). The believers should therefore, exercise extra caution about modern method of slaughtering to make sure it is in line with Islamic principles. Besides observing the Islamic method of slaughtering, it is also required that the place where the slaughtering of the animal take place is clean, for example, since pork is forbidden, *halal* slaughtering must not be conducted in the vicinity of pigs slaughtering area. Some other related rules which have to be taken into consideration in the interest of animal welfare include feeding the animal as normal and giving it water before slaughtering. (Albattat, et. al., 2018). Compliance with these rules and procedures facilitate a smooth running of slaughtering process hence, reducing the pain to the animal, a recommend act as is clear from the *hadith* of the prophet (pbuh). Some of the unlawful or non-*halal* food products are also highlighted in the *hadiths* of the prophet (pbuh) for example, AZ-Zuhri narrated that: *“Allah's Messenger forbade the eating of the meat of beast having fangs.”*

From the preceding discussion of the Qur'anic verses and *hadiths* of the Prophet Muhammad, it can be concluded that the *halal* foods comprise all animals and birds not listed in *haram* food list, all vegetables which are not harmful to human health and foods and drinks which are pure, clean and nourishing and pleasing to the taste. On the other hand, the *haram* or prohibited things which believers should restrain from include the flesh of pork, meat of dead animal which has not undergone the proper Islamic method of slaughtering and the food on which other than Allah's name is invoked, blood and alcohol. In addition, the meat of birds which hunt with their claw is also included in list of *haram* food.

4. The Basic Principles of *Halal*

According to Qaradhwani (2001), the Qur'an and Sunnah as the primary sources, only provides general principles for Muslims to follow. Based on these general principles everything created by Allah are permitted for consumption, unless there is an explicit injunction to the contrary. This

general principle of permissibility of things, as mentioned earlier, is derived from Qur'anic verse which states; *"It is He who created all that is in the earth for you"* (Qur'an, 2: 29). Based on this Qur'anic injunction, it can be concluded that the first basic principle pertaining to food is that generally, nothing would be considered as *haram* without having a direct basis for its prohibition in the Qur'an and Sunnah. For instance, any food containing porcine or porcine sources would be regarded as *haram* due to the prohibited nature of its ingredients. Similarly, material taken from animals not slaughtered according to Islamic method are forbidden. The same line of argument goes to the food and beverages with poisonous and intoxicating characteristics. The Qur'an states: *"Do they have partners (with Allah) who have prescribed for them in religion that concerning which Allah has given no permission?"* (Qur'an, 42: 21) *"...and do you see what Allah has sent down to you for sustenance and yet you have made some part of it halal and some part haram?"* (Qur'an, 10:59). It is further mentioned in Qur'an: *"O You who believe! Do not make haram the good things which Allah has made Halal for you, and do not transgress; indeed, Allah does not like the transgressors. And eat of what Allah has provided for you, lawful and good, and fear Allah, in whom you are believers"* (Qur'an, 5: 87-88).

The second basic principle is that both the uncleanness and harmfulness are the basis for the prohibition of food items. Therefore, one of the reasons, or *'illah* as projected by jurists for the illegality of consuming unclean and harmful food is the concern for the preservation of the wellbeing of the Muslims. Thus, the prohibition pertaining to the consumption of porcine is due to the nature of the pig which is considered as a dirty animal. This claim has been made by some Muslim scientists.

The third principle is that Islam prohibits things which are unnecessary and provides better alternatives for them. For example, Islam prohibits intoxicating drinks and allows Muslims to enjoy other wholesome and delicious drinks that are not harmful to human body and mind. To the same effect, it prohibits the unclean food and substitutes it with wholesome food which is healthier to the body. It also prohibits interest and encourages profitable trade. Likewise, it prohibits gambling and substitutes it with other forms of useful competition such as horse or camel racing. The same line of argument dictates the prohibition of using silk garment by men. Therefore, other materials such as wool, linen, and cotton are made permissible as alternatives for men.

The fourth principle is that if something is prohibited, its preliminary elements which are conducive to it are also prohibited. To exemplify this, we may refer to the case of intoxicating drinks. According to this principle not only the one who drinks intoxicating drinks would be considered as a sinner, but all those who are involved in process of its production, serving and selling would be liable under this principle.

The fifth principle is the prohibition of false representation of unlawful things as lawful. Awareness of this principle is extremely important, for, it is most likely that *halal* foods may be contaminated as a result of the process of production or transportation. There is also the possibility of some deliberate act of misguiding consumers as to the actual contents or ingredients of food products in the market, thus, all these conducts are prohibited. (Qaradhawi, 2001; Rokshana et al. 2018).

The sixth basic principle pertaining to things and actions is that good intention does not make the unlawful action or things acceptable. The Prophet (pbuh) said, *"all deeds-of human, will be judged in according to his/her intention, and everyone will be rewarded according to what he has intended"* (Al-Bukhari, 1987). Based on this principle, it is not allowed to use *haram* means for achieving one's goals. For example, accumulation of wealth through illegal ways such as extortion, forgery, gambling, prohibited games, and then giving it as charity would not gain a person a reward and will remains sinful.

The seventh basic principle in the context of *halal* is the avoidance of doubtful things. This is because lawful and unlawful are clearly mentioned in the Qur'an and Sunnah, in between these two are certain things which are doubtful. They should be avoided out of concern for safeguarding one's religion and honor. For not avoiding them one may possibly impinge on the boundary of *haram*. Therefore, the avoidance of doubtful things is of extreme importance for safeguarding religion and honor.

The eighth basic principle in the context is the principle of necessity removes restrictions. This principle is in fact the offshoot of the legal maxim; “Necessities renders prohibited things permissible” (Azman and Habibur Rahman, 2013). The implication of this principle is that in a life-threatening situation, Muslims are permitted to consume forbidden food in order to survive. This principle is derived from the Qur’anic verse “...*Allah desires ease for you, and He does not desire hardship for you....*” (Qur’an, 2: 185). As can be observed from the above discussion, the Qur’an and Sunnah have already outlined the basic guidelines for permissibility and impermissibility of food items. They are however, basic at best, and with the passage of times and technological developments, many food products and processes may not directly come under the purview of prohibition or permission due to the novelty of their nature. Therefore, these general principles could serve as a source of reference in the light of which solutions to new issues and problems could be sought.

5. Hygiene and Safety as the Characteristic of *Halal* Food

Islam lays extreme emphasis on hygiene in the context of *halal* on the physical aspect, clothing, instrument and the working premises where foods, beverages and products are processed or manufactured. The objective is to make sure the food, regardless of its forms and types, produced is safe and hygienic and does not pose any risk to human health. According to the World Health Organization, "Hygiene refers to conditions and practices that help to maintain health and prevent the spread of diseases." Therefore, in the context of *halal*, hygienic food, drinks and products could be described as being free from any element which is *najis*, dirty, by its nature, or is free from being contaminated with harmful germs (Ambali & Bakar, 2014). It underscores the significance of hygiene as an essential element of *halal* concept in the context of food related matters. Thus, safety and cleanliness constitute the crucial characteristics of the *halal*. It is due to the characteristics of safety and hygiene, that *halal* has gained increasing acceptance among not only Muslims but also among the non-Muslims consumers. Associating *halal* with ethical consumerism as the driving force in promoting “social responsibility, stewardship of the earth, economic and social justice and animal welfare and ethical investment” is another feature of Islamic approach to *halal*. Such perception has given rise to the popularity of, and demand for *halal* certified products globally among the non-Muslim consumers.

Consequently, concern for *halal* food does not remain within the realm of religious compliance only, it goes beyond mere religious obligation and become a world-wide market phenomenon due to attracting an increasing interest from both Muslim and non-Muslim alike. (Elasrag, 2016). Thus, the food or any other products carrying the label “*halal*” will be seen as the guarantee of the permissibility of the product for the Muslim as well as the global symbol for quality assurance. This is evident from the large scale acceptance by non-Muslim countries and organizations where *halal* is fast emerging as the standard of choice. The food, drink or any other products would be considered hygienic and safe when it does not cause harm to the consumer. In order to enhance safety in respect to food, producers should comply with Good Manufacturing Practice (GMP) and Good Hygiene Practice (GHP). Good Manufacturing Practice implies the combined application of manufacturing and quality control procedures by producers in making sure that their products are manufactured in accordance with their specifications and *halal* prescriptions provided by *halal* certification agencies. In Malaysia, the Codex General Principles of Food Hygiene and the Malaysian Standard MS1514 is used in hygiene practice to ensure food hygiene. (Sumali, A., 2009). These principles have gained international recognition therefore, could be used together with other suitable codes of hygienic practice provided in *halal* certification process by JKIM. Accordingly, the consumption of *halal* as a divine ordinance should be seen from broader perspective. For, it covers all aspects of human life, hence giving a better and insightful meaning. Therefore, from the perspective of its quality, *halal* connote total goodness of the subject of consumption or the goods used daily. This means to the Muslims the food must not only be of good quality, safety and hygiene but should also be *halal*. (Hayati, et al., 2008). Because Islam permits its adherents to consume the lawful, hygienic, safe and good foods and products. Thus, observance of the *halal* concept in the context of the consumption is serving two purposes; one is the fulfillment of one’s obligation towards Allah (swt) by following His commandments pertaining the

consumption of permissible things, the other, being the avoidance of harmful material and ingredients, which are not conducive to good health. That is why Allah (swt) has permitted that only what is good for human existence. Hygiene, safety and cleanliness constitute integral parts of the *halal* concept and are extremely emphasized in Islam. It embodies every aspects of human being, personal aspect, dress code, equipment and the venue where the food is processed or prepared. Therefore, one may conclude that hygiene and health are the prime objective of the *halal* concept. The underlying purpose behind compliance with the *halal* is to ascertain that the foods and the *halal* products are absolutely clean and harmless.

In sum, Muslims are required, before consuming any food or product, to ascertain that their ingredients are *halal* and clean, and the handling process and packaging of consumable product is in line with the requirement of *Shari'ah*. (Zurina, 2004). In other words, foods, drinks and other consumable products will be considered *halal* if the raw material used in making them and the process of their manufacturing is fully *Shari'ah* compliant.

6. Scope of Halal

Halal is a multi-dimensional concept and cover a large spectrum of activities. According to al-Ghazali (2000) and al-Qaradhwai (2002) it covers all major sources of derivation of human food such as animals, plants, natural materials, chemicals and microorganisms. It also includes the elements from 'biotechnology' used in food productions and other goods of personal use, such as clothing, toiletries and cosmetics. Thus, viewed from broader perspective, *halal* can be construed to mean something which consumption and use by human being is permissible from the point of view of Islamic law (Harlida, 2014).

Permissibility or halalness alone is not sufficient with regard to food products it must also fulfil the condition of "goodness" (*tayyiban*) which connotes cleanness, safety and quality. This is because the finished food products involve a long process, ranging 'from the selection' of its ingredients, 'preparation of materials, manufacturing, production, storage, transfer and distribution, until its being served to the consumer. Thus, the whole network starting from its source to the finished product should fulfil both aspects of halalness and goodness. (Soraji, et al., 2016). Due to the rapid development of *halal* industry and its global recognition there is an urgent need for widening its scope to encompass various aspects of the consumer's goods. There are seven key sectors in the *halal* industry which consists of food services, consumer goods, financial service, pharmaceutical goods, cosmetics products, *halal* logistics and tourism. Therefore, the seven key areas of the *halal* industry could be narrowed down to four major segments, comprising food and beverage, pharmaceutical and health products, cosmetics, and tourism and travel services. The following section is dedicated to the discussion of the major segments of *halal* industry.

Food and Beverages

Food and beverages constitute the major segment of the *halal* industry. The scope of *halal* food products is not limited to meat and poultry, it also includes other food items such as confectionary, bakery products, canned and frozen food, dairy products, organic food, beverages and herbal products. The wide range of food products and their variety could be attributed to the changing lifestyle and increase in purchasing power of the Muslim consumers. This has led to the widespread demand for prepared packaged foodstuffs which are easily available at the shelves of convenience stores and which conform to Islamic dietary laws. Another growing sector of foods is represented by substitutes for food products that traditionally contain non-*halal*, *haram*, prohibited, ingredients such as pork gelatin or alcohol. Yogurt, biscuits, and chocolates are the example of this type of products which have to be modified and made *Shari'ah* compliant, hence marked as *halal*. *Halal* food seemingly may be similar to other food but what distinguishes it from non-*halal* food is that the nature of the food and its ingredients are approved by Islamic law. Also the techniques and method of its processing and the manner in which it is handled from the beginning to the end are compatible with the requirement of *Shari'ah*. (Selvarajah, et al., 2017)

Food and beverages constitute the largest segment of the *halal* industry and the demand for them are continuously on the rise globally. According to the State of the Global Islamic Economy Report 2015/16, Muslim consumer's expenditure reached to \$ 1,128 billion which is equivalent to 17% of total expenditure on food & beverages. The report estimated the overall global expenditure on food and beverages (F&B) during the same period to have reached \$6,755 billion in 2014, hence making the Muslim food market equivalent to 16.7% of the whole global food and beverages market. Comparing this figure to the previous year 2013, an increase of 4.3% could be observed. This means the total amount spent by Muslims on F&B in 2013 was \$1,081 billion. There is an expectation of further growth in consumption of food and beverages by Muslims globally. It is estimated to reach \$1,585 billion by 2020, hence accounting for 16.9% of global expenditure on F&B representing growth of 5.8 %.(Elasrag, 2016)

Based on 2014 estimation, Indonesia come at the top of the list of the Muslims countries which consumption of food and beverage is estimated at (\$158 billion). Turkey takes the second place with the estimated level of consumption at (\$110 billion), followed by Pakistan the consumption of which is estimated at (\$100.5 billion) and Iran with the estimation of (\$59 billion) on food consumption. Geographically non-OIC member countries, constitute 16% of Muslim food consumption. This shows a constant success of the '*halal* food market across different cultures and continents'. An example of the success story of the *halal* food across different culture and geographical situation is Nestle Malaysia, which 'Halal Centre of Excellence' have attained the status of the biggest producers of *halal* products globally. Similarly, Saffron Road with its *halal* and organic produce, in United States of America, has attained a good reputation hence, could present a good model of success in *halal* entrepreneurship for both Muslims and non-Muslims. Therefore, *halal* food sector represents a major source of growth in Islamic and global economy from Asia to America.

There are three major factors which has contributed to the emergence of *halal* industry as the most lucrative and influential marketplace at the global stage. One of the factors is the worldwide growing increase in the population of the Muslims. This is evident from the United Nation report which statistics recorded 6.4% annual growth of the population of Muslims worldwide, whereas, it has recorded the growth of Christianity at 1.4% which is far less than the rate of the growth of the Muslim population worldwide. (Awang, Abdul-Rahim et al., 2014) Thus, based on this statistic Muslims present a huge consumer market for *halal* products. The second factor is the increased level of the income of Muslim community due to the recent increase in the number of affluent Muslims. This has brought about change in the mindset of the Muslim consumers as well as ethical consumers hence, triggering *halal* industry to expand further into lifestyle products, as well as to *halal* travel and 'hospitality services and fashion. The third factor is the expected future increase in demand for food by more than 70% by year 2050. This indicates the persistence of a strong demand for *halal* food in the future. This is conceivable from the current trend in the world *halal* food business as over the past decade it has grown to \$667 billion, hence representing up 20% of the entire world food industry.

Food economists forecast a stronger role for *halal* food industry as a market force in the near future. This could be attributed to four prevalent trends. The first is the fast pace of the spread of Islam in the world which has boosted up the demand for *halal* products. This is crystal clear from an estimated 16% annual increase in the consumption of *halal* products. Second, the rising trend of consumption of *halal* food and products by the non-Muslims due to ethical and safety considerations. An example of this rising trend among the non-Muslim is that of United Kingdom, where the Muslim population reaches to over 2 million Muslims and yet the number of *halal* meat consumers has reached to 6 million. The same trend of increase in the number of non-Muslim Dutch consumers of the *halal* food is evident from the total of \$3 billion on an annual basis. Both of the two factors have propelled the *halal* products to greater height of popularity hence, acquiring the status of mainstream consumer goods. The third factor leading to the emergence of *halal* consumers as a market force is the increase of the Muslim population and their rising purchasing power. The forth factor is the greater level of 'awareness among Muslims' on the necessity of consuming only *halal* food. An example, of the increased level of awareness among the Muslim consumers is the

‘rapid rise in annual sales of *halal* food throughout Russia’ and 30% and 40% annual growing demand for *halal* products. (Elasrag, 2016).

However, there are some challenges that *halal* market is facing. Among some of the obvious challenges are: ‘continuing struggle for *halal* food standards and accreditation’ which require more education pertaining to such topics in OIC countries. The other challenges faced by *halal* industry include ‘the recent ban on *Halal* and Kosher slaughter in Denmark’ and the scare stories about *halal* food spread by media. Western media with its tremendous efforts in this regard influenced public attitude negatively. Ill feeling towards the Muslims and their culture were generated, hence leading to the slowing down of the growth of *halal* market (Thomson Reuters & Dinar Standard 2016; Elasrag, 2016). This poses a huge challenge to *halal* industry, hence *halal* industry players should device appropriate measures to remove the misconception and bias about the Muslims culture, hence safeguarding the growth and development of the *halal* industry.

Pharmaceutical and Health Products

Pharmaceutical products constitute another major segment of the *halal* market. The need for *halal* pharmaceutical products is stimulated by the growing awareness among the Muslims consumers about the significance of the *halal* concept, and their meticulous concern about what goes to their bodies. This has led to the growth of the *halal* pharmaceutical products the value of which reached to \$83 billion in 2016, hence, representing a six percent increase in comparison with the previous year. A further eight percent annual increase is expected which could reach to \$132 billion by 2022. (<http://mihis.com.my>). In response to the increasing demand for pharmaceutical and health products some company have taken the initiative of producing *halal* pharmaceutical products. One of the pioneering company, Pharmaniaga Bhd, which is the largest pharmaceutical company in Malaysia, has invested RM100 million to make *halal* vaccines in Puchong, Selangor. According to News Straits Times report, Pharmaniaga managing director, Datuk Farshila Emran is said to have mentioned “We are hoping to have the facility ready between two to three years from now and start to produce the vaccine,”. By spearheading innovation in *halal* pharmaceutical products and investing enormously in developing *halal* vaccine, Pharmaniaga and AJ Pharma have attained the pioneering position. It became the world’s first *halal* vaccine manufacturing center, hence producing and exporting *halal* vaccine around the world.

Based on the State of the Global Islamic Economy Report 2017/18, the United Arab Emirates (UAE) has been identified as the best country in terms of having developed Islamic economy for *Halal* pharmaceuticals and cosmetics. Whereas, Singapore and Malaysia come after United Arab Emirates. This is mainly with regard to the four criteria – trade, governance, awareness and social.

Halal pharmaceutical industry has witnessed a number of significant developments within the last two years. One of these development was the issuance of the ‘world’s first *halal* license for prescription’ of ‘medicine’ by Malaysia’s religious authority, JAKIM, to Chemical Company of Malaysia (CCM) last year. While Indonesia is also trying to make the production of *halal* products mandatory this year. UAE’s ESMA is also moving in the same direction by making it compulsory for all imported products to be certified as *halal*.

From among the *halal* pharmaceutical, *halal* nutraceuticals have been recognized as the major growth sector with the potential for further development given the support by patients and strategic investment. This goal could be achieved through the adaptation of vigorous marketing strategies and investment by financial and corporate entities alike.

Vigorous researches are essential for developing new *halal* pharmaceuticals products, hence developing a viable business model. This should be followed by an enhanced ability of marketing these products on a larger scale to ‘broader range of consumers’. Investing more capital in research and development, is also of crucial importance to expand manufacturing capabilities and hence, venturing into new markets. The multinational companies can play pivotal role in the sector by providing *halal* pharmaceutical products to the customers globally. However, developing the *halal* pharmaceutical products is not void of challenges as is the case ‘with any other innovation in any industry. According to the experts the main challenge in the sector is the limited focus on *halal* as

a proposition. No concerted efforts are taken in the direction of addressing the challenges faced by the sector, hence limiting the growth of the sector and remaining as a niche.

Consequently, due to a critical life-saving role that *halal* Pharmaceuticals can play especially with regard to the children and due to the concern by the Muslims about the ingredients of the vaccines, AJ Pharma has embarked on the efforts of making the world's first non-animal origin vaccines. The conventional sector did not address this challenge. This provides a window of opportunity for investors to tap into 'the latent potential of this sector'. It is also their social obligation to address the challenges faced by the industry, not mainly for the purpose of boosting their business but also with the aim of propelling the industry to greater height and providing *halal* pharmaceutical products.

Cosmetics products

Cosmetic products constitute another segment of the *halal* industry. Cosmetics are substances or products which are used for the purpose of enhancing or modifying the facial outlook of human being or changing the **fragrance** and surface of his/her body. They are not meant for consumption but are designed for application to body and face. (<https://en.wikipedia.org>). *Halal* cosmetics market has grown considerably due to the rising level of knowledge of the consumer as to the ingredients used and the awareness of the nature of the cosmetic products themselves. The social networking has played a major role in creating awareness among the consumer about various cosmetic product (<http://majlisglobal>; Elsaraj, 2016) Due to this awareness in recent years, the demand for the development and sale of *halal* cosmetic products has increased and 'companies worldwide have responded' positively to this. *Halal* cosmetics have gained popularity since 2013 and the values of its sale revenue is estimated to reach to more than \$60 billion within the next 5-10 years globally. *Halal* cosmetics implies that their ingredients are pure and derived from clean source. It also implies that the method of its manufacturing is fully *Shari'ah* compliant and does not involve animal testing and animal cruelty. (Sana, Mir 2018)

At present the '*halal* cosmetic market' constituting 11% of the total global *halal* industry, comes next in terms of growth and size to the lucrative *halal* food sector. Analysts consider 'the emerging *halal* cosmetic and personal care products market to be driven by professional and dynamic Muslim population who are comparatively young and have high religious consciousness. Thus, *halal* cosmetics can be defined as the beauty and personal care products which are produced from permissible substances and the entire process of its manufacturing, storing, packaging and delivery is in conformity with *Shari'ah* requirements. Interestingly, there is a growing tendency even among the non-Muslims consumers to use *halal* cosmetics not due to religious compliance but due eco-ethical consciousness. This is manifest from their willingness in paying a 'premium for organic, natural and earthy cosmetics products that suit their contemporary lifestyle'.

Consequently, rise in the demand for *halal* cosmetics in the Middle East and Asia has led to flourishing of market for *halal* cosmetics. Throughout the Middle East, *halal* cosmetics have recorded annual growth rate at 2% hence, its sale revenues reaching to \$12 billion. Similarly, interest in *halal* cosmetics Markets has grown across Asia, especially in Malaysia and Indonesia. The same tendency could be noticed in European market. The contribution of the *halal* cosmetic products in Malaysia, is estimated at 10% – 20% of the local cosmetics market. Ironically, the companies offering *halal* cosmetics products internationally, are owned by non-Muslims, hence posing serious challenges as regards to the issue of the halalness of the ingredients of cosmetic products produced by them.

As the cosmetics product market is monopolized and dominated by non-Muslim companies, many of their products, either contain alcohol or are sourced from animals which are considered impure by Islam. For example, some of the ingredients of the cosmetic products contain gelatin and collagen which are mostly derived from pork. This has led to the rise of demand for gelatin or fat or alcohol free cosmetic products by Muslim and non-Muslim consumers. Thus, *halal* cosmetics are the cosmetics the ingredients of which are derived from permissible animals which are slaughtered in accordance with Islamic method. In addition, it must be cruelty free (i.e. not have been tested on animals). (<https://www.quora.com>). *Halal* label could play a significant role in

making the *halal* cosmetics more appealing to the consumers due to their high concern about integrity and authenticity in their cosmetic and personal care products. Despite the novelty of the concept of *halal* cosmetics in the Muslim world, they are highly demanded especially by those conscientious consumers who are more selective in their choice of personal care items. They prefer spending money on cosmetics and beauty products which are compatible to their religious and cultural requirements.

Tourism and Hospitality Services

Tourism and travel is another segment of the human activities where the concept of *halal* can play a significant role. The current tourism trend has given rise to the demand for Islamic hospitality and services or *halal* tourism. Thus, *halal* tourism means the provision of hospitality services which conform to Islamic belief and practices. Among the services that has gained popularity in tourism industry is the provision of *Shari'ah* compliant hotels. The demand for *Shari'ah* compliant hospitality services is stimulated by a few factors from among which are the increasing number of the Arab and Muslim tourists and their increasing income level hence, high purchasing power which has made travelling as part and parcel of their daily life (Nur Hidayah, et al. 2015; Elasrag, 2016). *Halal* tourism involves the provision of hospitalities that are Muslim friendly or *Shari'ah* compliant. This involves the provision of *halal* food and alcohol free beverages, separate swimming pools, spa and leisure activities for ladies and gentlemen, prayer room, Qur'an, prayer mats signs indicating the direction of Ka'bah, 'even women-only beach area with Islamic attire, Muslims staffs and the negation of the impermissible entertainment such as nightclubs (Henderson, 2010; Rosenberg & Choufany 2009, Jurattanasan & Jaroenwisana, 2014 Nur Hidayah, et al. 2015; Elasrag, 2016).

The concept of *Shari'ah* compliant hotel was first introduced in the Middle Eastern countries few years ago. The nomenclature was coined by the hotel operators to cater for the need of the customers with high religious sensitivity. The main driving force behind the introduction of *Shari'ah* compliant hotels, as mentioned earlier, was the increasing number of Muslims and Arab tourists and their growing purchasing power. According to some statics by 2020 the Muslim tourist's expenditure is expected to rise to more than 13% of whole world spending on tourism industry. Therefore, *halal* tourism has a great potential of becoming the mainstream tourism industry hence, developing as part of the global *halal* market. (Dar, Azmi et al. 2013). The *halal* tourism industry account for 12% or \$126.1 billion of the whole world tourism market value. It grows at the rate of 4.8 % which is higher than the global average of 3.8%. Based on research Muslim travelers spent \$126 billion in 2011 only. This figure is expected to reach to \$419 billion by the year 2020. *Halal* tourism has flourished magnificently, due to the high demand by the Muslim travelers who are intending to enjoy full holiday services which are in line with their religious and cultural requirements. In response to this trend, some countries offered Muslim friendly facilities and accommodation that are in line with the Muslim tourist religious beliefs.

Malaysia, Turkey and Egypt being predominantly Muslim countries come at the top of the list of the countries which have attracted Muslim tourists hence, becoming Muslim tourists' favorite destinations. Recently, non-Muslim countries such as Australia, Singapore and France seeing a great deal of opportunities in hosting Muslim tourists adapted *halal* certified food outlets, thus, becoming the favorite destination for the Muslim tourists. However, Malaysia has been considered to be 'leading the way in promoting *halal* tourism' and this is clear from her ability of attracting Muslim tourists from all over the world particularly from Middle East. According to a recent survey, Malaysia occupied the first place from among the top 10 countries in respect of providing *halal* friendly tourist destination in the world. This ranking was based on the provision of *halal* food, *halal* friendly accommodation and prayer facilities.

Subsequently, Muslim tourists or travelers constituted an attractive segment of the tourism industry as it accounted for 11 percent of the global outbound travel spending in 2014 with an estimated value of \$142 billion in total. When compared to the previous year 2013, Muslim expenditure on travel which was valued at \$134 billion, increased by 6.3%. However, Muslim tourists spending on overseas destinations is expected to reach to \$233 billion by 2020.

In a nutshell, *halal* tourism offers great opportunities for hosting countries in terms of provision of business and revenues. There is an urgent need for understanding the unique need of the Muslim travelers which will ultimately benefit the different players in the industry such as hotels, travel agencies, restaurants, airline and any travel linked entity(<https://www.thestar.com.my>). Malaysia Deputy Tourism, Arts and Culture Minister, Muhammad Bakhtiar Wan Chik has rightly observed that the untapped Muslim travel market had great potential for the country and industry players, offering a wealth of business opportunities and revenue streams. He asserts the need for continuous exploration of the Islamic tourism to unleash further opportunities hence, contributing to the country's GDP and global economy.

7. Conclusion

The main ideas emerging from the above are that there is increasing consciousness among Muslims and even non-Muslims on the wholesomeness of food, beverages, cosmetics, medicine including services provided by tourism destinations. Accordingly, the Islamic concept of *halal* and *haram* underlining the significance of cleanliness, hygiene, safe for health and purity of both the raw materials and the end-products in the *halal* industry have led to the rise in demands for *halal* product and services in our time. Corporate bodies both within and outside Muslims countries have been vying for dominance, and *Shari'ah* regulatory bodies are out to ensure *Shari'ah* compliance of such things in the market. Nevertheless, as technological development in field of food, cosmetic, pharmaceuticals and beverage manufacturing continue to unfold, and marketing strategist enter into more intense competition to control. Therefore, in this context, it is imperative for Muslims to be more proactive not only to tap this market but also strive to see that *halal* industry really remains *halal* and not artificially seems to be so.

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Zakat-Linked Sukuk Index as LIBOR Replacement Contender

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Abstract

The London Interbank Offered Rate (LIBOR) is the benchmark for over USD\$300 trillions of financial instruments such as loans and derivatives. LIBOR was introduced in the 1960s and at present is quoted in different currencies and maturities. Due to perceived malpractices in 2012, LIBOR is being replaced by 2021. Most Islamic financial instruments are also linked to LIBOR. The present paper seeks to explore a Shariah compliance alternative rate to LIBOR by proposing a zakat-linked Dow Jones Sukuk Index (DJSI) for the OIC economies. The proposition is supported through graphical and descriptive analysis of selected indicators. It is expected that similar LIBOR-fixing incidents can be minimized in the future by adopting zakat rate of 2.5% in constraining DJSI movements and setting limits to arbitrage.

Keywords: sukuk, volatility, zakat rate, LIBOR, sukuk index, reference rate, 2.5 %

1. Introduction

Financial institutions use benchmarks to set their own rates, and the usefulness of each benchmark rate derives in part from how accurately it tracks debt-market risk. One of the barometers for the health of the financial market is the London Interbank Offered Rate (LIBOR) and its spread to other benchmarks. LIBOR is used both directly and indirectly in the pricing of many financial products. Simple banking products like mortgages and student loans as well as other more complex instruments like swaps and other derivatives use LIBOR for pricing. LIBOR is also used in the valuation of assets and liabilities (Mohd Kassim, 2019). LIBOR becomes the benchmark reference rate for more than \$300 trillion worth of financial contracts and considered as the world's most important number as the benchmark rate for pricing risk.

However, LIBOR will be discontinued in 2021 due to the fixing scandal in 2012 and has since lost market confidence. LIBOR is a rate set each day in 5 currencies and seven periods, ranging from overnight to one year, based on submissions from about 16 banks based on interest rates they believe they would be charged by others for borrowing money. It represents the borrowing cost of major banks in London in these currencies. Only about 20% is used to price cash products while the remainder are spent on derivatives. More than 80% of loans and bonds are in US dollars (Mohd Kassim, 2019).

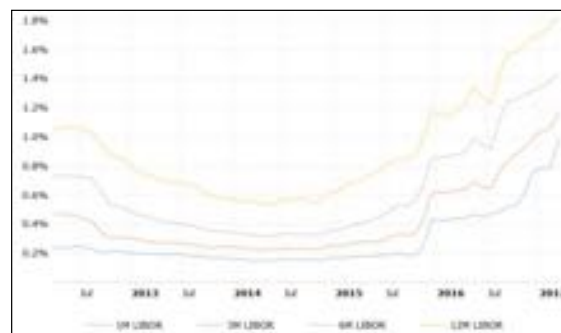
Some countries have already planned for LIBOR replacement rates. For instance, the United Kingdom will use SONIA (Sterling Overnight Index Average) and SOFR (Secured Overnight Financing Rate) is adopted in the United States. Most Islamic financial instruments are also linked to LIBOR. Therefore, this paper explores an alternative reference rate to replace LIBOR for Islamic finance taking into account that Islamic finance has two established benchmarks, namely IIBF (Islamic Interbank Benchmark Rate) and KLIRR (Kuala Lumpur Islamic Reference Rate). The study explores the existing literature on the possibility of incorporating zakat rate as the upper and lower bound limits to the fluctuations in Dow Jones Sukuk Index (DJSI) as potential Islamic reference rate.

2. The Effects of Rising interest rate on Sukuk Industry and Zakat Collection Model

In March 15, 2017, the US Federal Reserve's raised 25 basis point (1/4%) interest rate after being held down close to zero for seven years. The European Central Bank (ECB) decided a week later to keep its rates at zero due to below average growth rate. At the same time, inflation rates in the Euro areas were closed to the target rate of 2%. The rising interest rates directly affect sukuk market. The sukuk market, especially US dollar denominated sukuk, are benchmarked to LIBOR. Therefore, rising LIBOR rates mean rising sukuk rates as well as other Islamic financial instruments (Quorum Center for Strategic Studies, 2017).

LIBOR has been steadily rising since 2015 as shown in Figure 1. Many sukuk issuances have been issued prior to the drop in the price of oil, which began in June 2014. Most oil-rich countries look for creative solutions to finance their deficit and sukuk have been one of these solutions. When LIBOR began rising in 2015, many governments and corporates entities issue sukuk at fixed rates to lock in lower rates as rates rise. Hence, rising rates will be good for sukuk issuance going forward.

Conversely, rising rates also mean that governments and firms could face repayment challenges in the future. Rising rates mean rising debt payments at a time when revenues and tax receipts are flat or falling. Emerging markets such as China and Turkey are especially vulnerable to rising interest rates as they have taken on a record amount of debt over the past 8 years based on the 2017 report by the Bank for International Settlements (BIS).



Source: Quorum Center for Strategic Studies, 2017

Fig. 1: LIBOR Movements, 2013 - 2017

2.1 The Model of Umar Abdul Aziz Zakat Collection

The model of Umar Abdul Aziz zakat collection based on the 2-year reign of Caliph Umar Abdul Aziz can still be applied to the present situation. The model for zakat collection and disbursement consists of three areas namely (i) building and maintaining trust; (ii) local distribution of zakat; and (iii) the use of zakat funds for the enhancement of productive capacity (Mahomed, 2018). Each area is explained next.

i Building and maintaining trust

The governance, distribution and transparency become significant criteria in achieving and maintaining the trust of zakat payers. The misuse of zakat funds was known since the time of Caliphates until present.

ii Local distribution of zakat

Zakat distribution from payers in specific localities are meant for these areas first because the communities are well-aware of the *asnafs* within their own areas. This allows for more efficient distribution of zakat. Through *fintech* such as smart-contracts on a block-chain, the world becomes a village, and will sooner or later, make every area local (Mahomed, 2018).

iii Use of Zakat funds for the enhancement of productive capacity

There are debates on the validity of use of zakat for investment purposes and its placement in term deposits, its use in construction of hospitals and other community service-oriented institutions, its use in education, its use in infrastructure investment and its distribution to non-Muslims. There is a need to harmonise the definition of productive assets and the permissibility of using zakat fund to fund the investment.

In addition to applying the Model of Umar Abdul Aziz, a review of zakat literature have highlighted issues in collection, management and disbursement of zakat (Johari, Ab. Aziz, & Mohd Ali, 2014). In Malaysia, for example, several studies have identified challenges such as excessive usage of staff in some areas, shortage in human capital in others, low usage of technology, issues in corporate governance, insufficient number of branches and low ratios of zakat payers to total population (Mahomed, 2018). Table 1 shows that many countries either adopt voluntary system or no government system at all in managing zakat collection.

Table 1: Zakat System in Muslim Countries

Types of Zakat Collection	Countries
Mandatory	Libya, Malaysia, Pakistan, Saudi Arabia, Sudan and Yemen
Voluntary	Bahrain, Egypt, Indonesia, Iran, Jordan, Kuwait, Lebanon and U.A.E.
No Government System	Afghanistan, Algeria, Azerbaijan, Burkina Faso, Chad, Guinea, Iraq, Kazakhstan, Mali, Mauritania, Morocco, Niger, Nigeria, Oman, Qatar, Senegal, Sierra Leone, Somalia, Syria, Tajikistan, the Gambia, Tunisia, Turkey, Turkmenistan and Uzbekistan

Source: UNDP & BAZNAS, 2017

3. Zakat Collection and the IIBR Rate

As for the Islamic finance, 16 banks and Thomson Reuters created a reference rate called the Islamic Interbank Benchmark Rate (IIBR) in 2011. The IIBR uses expected profits from short-term money and a forecasted return on the assets of the bank receiving funds. Both are considered investments rather than loans, and therefore interest-free. Previously, the reference rate was Libor since 1986. IIBR was also being developed as there are questions on how LIBOR is calculated (Burne, 2011).

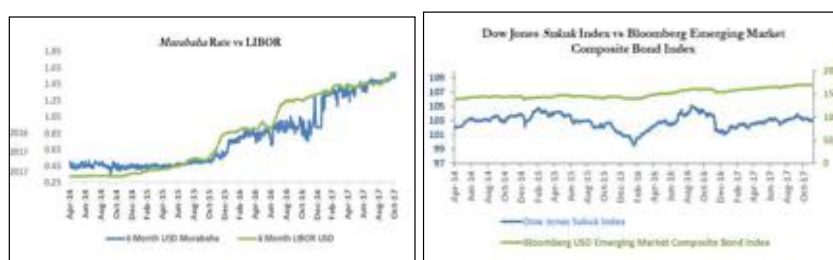
According to the International Monetary Fund (IMF, 2017), hybrid financial products emerging in Islamic banking have replicated aspects of conventional finance. There literature shows evidence that both the Islamic and conventional banking systems are vulnerable to macroeconomic and financial shocks. It means that Islamic bankig and finance, eventhough are not based on interests, are still affected by the global shocks and financial crisis. Banking crisis destroy the wealth of individuals, families and nations. The 2007 US Subprime crises destroyed \$35.3 trillion of wealth globally. Since the protection of wealth (*al-mal*) is one of the *Maqasid Shariah* objectives, through the institutions of zakat and *waqf*, property rights and the prohibition of *riba* (interests), Islamic banking and finance have to find mechanisms that will protect their investments from the demise of falling asset prices and business closures.

Figure 2 shows zakat collection in Indonesia as compared with international assistance and Gross Domestic Product (GDP). Zakat collection has risen at a faster rate than GDP, between 2004 and 2012 GDP in Indonesia more than trebled while Zakat collection increased 15-fold (Parrish, 2015). Since Indonesia has the largest Muslim population in the world, as GDP rises, the potential zakat collection will also rise. Since zakat collection is on the upward trend, the contribution is expected to increase in the future as supported by the work of

a.m. (Kuala Lumpur time) based on submissions from twelve Islamic banks in Malaysia for tenors ranging from overnight to one year. The AAOIFI Shariah Standard No. 27 states that “It is permissible to use an index like LIBOR, or a certain share/commodity price index, as a basis for determining the profit of a Murabahah pledge, provided that the contract is concluded on a specific profit that does not vary with further changes in the index” (Mohd Kassim, 2019). The IIBR also faces the same problem as that of LIBOR: subjectivity.

There are three reasons why interest rate benchmark is important in the conventional system. First, almost all financial institutions use it as a standard reference to price financial contracts. Second, it is used to value the balance sheet items. Third, it is used in derivative exchange such as futures and options. Even though it is permissible to benchmark the profit rates to LIBOR, the usage should be minimised or abolished. A suitable Islamic pricing benchmark should be tied to the real economic indicator such as Gross Domestic Product (GDP) or Consumer Price Index (CPI). The usage of interest rate benchmark in Islamic finance will make Muslim customers lost confidence in the long run because the same rate of return is utilised. In other words, what is the answer to the question of “What is the difference?” Attempts to delink Islamic finance from LIBOR has led to the introduction of Dow Jones Sukuk Index (DJSI) in 2006 for measuring relative performance instead of relying on emerging market bond indexes.

Analysts point out that attempts to delink LIBOR by using other indexes have disadvantages as well. For example, using Islamic equity benchmark or commodity indexes lead to volatility issue. The adoption of CPI has the problem of low data frequency. The housing price indexes, which are a good contender, have to deal with bubbles, transparency and illiquidity issues. Benchmarking to gold and fixed-rate sovereign sukuk issuances are also worth considering. Hence, rigorous methodology and refinement methods are required in the pricing process, because it is pointed out that the above measurements are performance-based. Some see a multipolar approach emerging with more than one global standard. This is perhaps time for Islamic finance to be the game maker and game changer in the reference rate. However, the industry must have considerable market share to influence the global financial market. Figure 4 illustrates the movements of DJSI against Bloomberg Emerging Market Bond Index and the Murabaha Rate vs. LIBOR. These two indexes could be considered as immediate temporary replacements of LIBOR.



Source: Islamic Finance Bulletin, 2017

Fig. 4: Islamic Indexes vs. Conventional Counterparts, 2014-2017

5. Conclusion

The present study examines the impact of LIBOR discontinuity in 2021 to Islamic financial market. Since LIBOR is the global benchmark for interest rates, the Islamic finance has to find an alternative reference rate. The existing Islamic benchmarks, such as the IIBR and KLIRR, could be strengthened and improved to capture the dynamic of financial system. The question is to find an alternative rate that reflects the real economic performance and at the same time neither influenced or be influenced by interest rates. As such, the study proposes using Dow Jones Sukuk Index (DJSI) with the upper and lower limit fixed within either the zakat rate or the calculation of zakat gap. The effort to include zakat in the pricing process will be the first step in establishing Shariah pricing benchmark. However, a dual

system for benchmark financing rates could throw markets into disarray since there will be an opportunity to arbitrage. However, the requirements to pay zakat would be an automatic stabilizer in setting limits to arbitrage.

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Synergising Hallyu and Halal Economy for Wealth Creation

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Abstract

The Korean government has seen international acceptance of Hallyu and has reaped huge income benefits and now eyes Halal economy, which is lucrative and growing exponentially, as a means of economic and societal well-being. Merging Hallyu concepts with Korean made Halal consumer products are alternative avenues for income generation. However, Korean industry players face considerable difficulties to obtain Halal certificates, as this country only has one Halal certification body that is recognised globally. An added disadvantage is many industry players have poor understanding about Islam. It's imperative for Muslim minority South Korea to obtain Islamic knowledge and properly implement the Halal tenets and norms if it aims to export their cosmetics and food industries to the Asian and Middle East markets and realise Muslim friendly tourism within their country. Malaysia, a multiracial Muslim majority nation is universally recognised as a Halal trendsetter and leader in Islamic Economy. By using Malaysia's experience in helming the Halal economy, South Korea's policy makers and business sectors will be able to identify the gaps in Islamic knowledge between the expected and that practised currently. Business success in the Halal market is the motivating driver to understand Islam, and only made possible via experiential learning. A literature review method will be conducted by analysing existing documents on Halal economy; Korea's economy, culture and awareness of Halal. It will also create greater tolerance and understanding about Islam amongst South Koreans, thus leading the way towards sustainable social and economic well-being.

Keywords: Hallyu, Halal Economy, wealth creation, Islamic knowledge, experiential learning

1. Introduction

Halal economy has seen an exponential growth, driven by increased demand for Halal products and services by the growing affluent middle-class young Muslim population, who believe that being faithful and leading a life dictated and governed by Al-Quran and Hadiths does not limit their desire to lead a modern lifestyle. Numerous reports indicate that Halal market has not only emerged as a new growth sector but also a competitive force in the global economy. In its 2018/2019 report, Thomson Reuters and DinarStandard estimated that global Islamic spending has breached US\$3 trillion in 2017. It highlighted that this lucrative industry is expected to grow exponentially as the population of moneyed young Muslims globally is forecasted to reach 29 percent by year 2030.

"At a time when many other larger consumer segments are reaching a saturation point, Muslims are a new outlet from which to build a base for future growth". A.T. Kerney (2007)

"The Muslim consumer market, consisting of 1.8 billion people now is the next important and largely untapped global opportunity given that two-thirds of the Muslim population are under 30 years old." Ogilvy Noor (2012)

The Hallyu culture introduced and supported by the South Korean government, has captured the international scene, especially the Asian and South East Asian nations, by storm. The popularity of Hallyu culture, reinforces and merges the cultural identity of

Asians that have acceptable universal global appeal. This acceptance by the global masses has also translated to an increase in demand for all things Korean especially Hallyu movies and drama, food and

fashion and also led to an increase in tourist arrivals to Korea. Even as other economic sectors have seen a gradual downward spiral, Hallyu culture have led an unprecedented increase in rate of growth of the entertainment industry.

Nevertheless, whether these two trends merge to be advantageous to South Korea in terms of sustainability is a question that needs to be deliberated. Many Korean companies especially the food, cosmetics and travel agencies would like to ride on the popularity of the Korean wave overseas but the lack of understanding about Islam and the differing Halal standards required by the different countries, has unfortunately resulted in confusion amongst industry players. South Korean industrialists find the Halal export standards and policies rather intricate to navigate. Unlike other religion, Islam is unique in that Muslims are governed by the holy scriptures of Al-Quran and Hadiths and also by the schools of Islamic jurisprudence. Compounded to this dilemma is that there is only one Halal certifying body in Muslim minority South Korea that is recognised globally.

This paper seeks to determine the possibility of taking advantage of the popularity of Hallyu culture in pursuit of wealth creation through Halal economy which ultimately will impart proper accurate knowledge about Islam to South Koreans, by experiential learning, and enhance greater tolerance and understanding towards Islam and thus achieve *maslahah* for Muslims across the continents.

2. Literature Review

2.1. Overview of South Korean Economy

South Korea, once a humble agrarian nation, rose to become the 3rd largest economy in Asia and the 11th largest economy in the world and is considered as one of Asia's economic marvel. The most significant factor attributed to this meteoric rise was the adoption of an export-led economic strategy in the early 1960's, to power its economy. Figure 1 below demonstrate the rising economic power of South Korea in comparison to France from 1980 – 2020 (Matt Phillips, 2015).

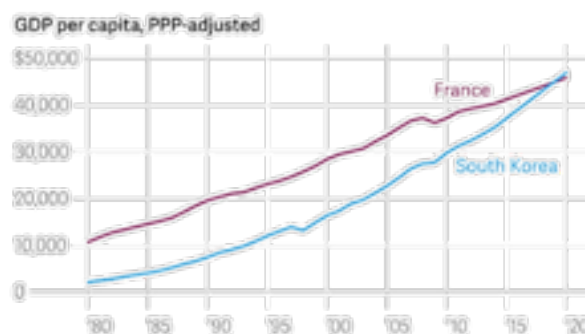


Figure 1. GDP of South Korea versus France from 1980 – 2020
(Source: Adapted from Moody's Investor Service report)

This phenomenon was said to have been driven by mega *chaebols* (family owned conglomerates) that were incentivised by the government to improve production efficiency in order to compete in the global market (wikipedia; Koh, Jae Myong (2018), Kleiner, Jürgen (2001) Chibber, Vivek (2014). Significant advantages of export led growth strategy, practised by chaebols then, guaranteed greater capacity utilization, necessitated resource allocation but enable exploitation of economies of scale, generate technological progress and increased employment in labor surplus developing countries like China, India and etc.. The overall outcome of this policy resulted in producing a highly motivated and educated population that drove South Korea's high-end technology and economic development at a tremendous rate (ICEF, 2014).

The government support towards *chaebols*, who receive special tax discounts and protectionist policy, resulted in an unnatural situation, that would not have occurred through natural market forces of supply and demand. Many economic experts feel that this symbiotic relation, may jeopardise the sustainability of the South Korean economy as doubts arise if it can continue to transform Korea in the future (Eleanor Albert, 2018).

Though the South Korean economy is driven by mega *chaebols*, as they own 77 percent of South Korea's assets, and contribute to 25 percent of the nation's GDP, it does not commensurate with employment opportunities (Figure 2); as *chaebols* operate offshore for cheaper labour and resources. Regrettably, due to cronyism and cross-ownership, the shares these giant companies trade are worth lower than their peers in the U.S., Europe or Japan. In other words, although initially export driven economy was the dynamo for economic growth and excellence it is counter productive after a certain period. Albert, E. (2018) reported that SMEs identified to launch South Korea's service-oriented economy and the real source of employment, are constructively and continuously obstructed by mega *chaebols*. To worsen the scenario, World Bank (2016) noted for the past decade, South Korea's GDP only grew at an average of 3.5 percent annually, down from 7.1 percent in the 1990s and 4.4 percent in the 2000s.

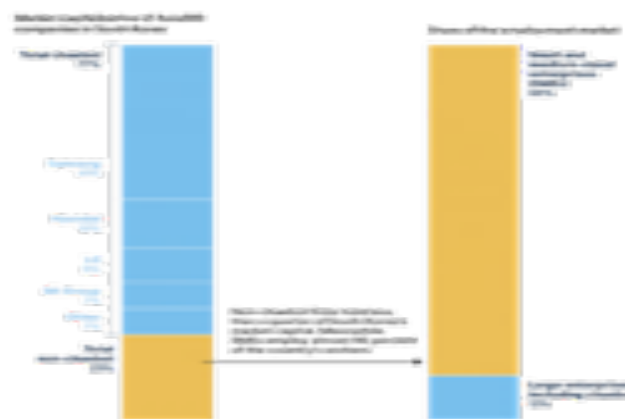


Figure 2. Share of employment market in South Korea
(Source: Nikkei Asian Review for South Korean Ministry of SMEs and Startups)

China's "Made in China 2025 policy" to be self sufficient and break away from its reliance on foreign technology (Figure 3) indicate that South Korea is one of the countries most affected (Wübbeke, J. et. al., 2016). Further forcing the Korean government to think of innovative strategies to lessen their dependence on export led economy, which had adversely affected their local SMEs businesses, and address its tepid economic growth in recent years. Realising this, the current government has made efforts to give fair and just opportunities to their SMEs to create a more healthy equitable domestic economic environment, increase employment and wage rates to achieve the sustainable development goals.



Figure 3. Countries most exposed to ‘Made in China 2025’ policy
(Source: Adapted from Marcator Institute for China Studies, MERICS)

2.1.1. Hallyu Culture




Hallyu, also known as Korean Wave, is one of the most influential pop culture phenomena of this era and has captured the international scene, especially in the Asian and South East Asian nations, by storm. In her aim to become one of the world's leading exporters of culture, the South Korean government began to fund and provide subsidies to the Korean entertainment industry to profit from the growing popularity of Hallyu culture in many parts of the world. First driven by the spread of K-dramas and Hallyu across East, South and Southeast Asia during its initial stages, the Korean Wave progressed from a regional development into a global sensation, supported by the Internet and social media and the proliferation of Hallyu music videos on YouTube (wikipedia). Jeong Mee Kim (2007) summarised in his study, that the reasons behind the huge success of Korean pop media, all over the world and especially South East Asia, was because it unites the cultural identity of Asians by highlighting oriental norms with value propositions that have acceptable universal global appeal.

Using the Internet as an advertising medium and the exploitation of idols in campaigns, Hallyu has become a profitable marketing tool to entice tourists. Unlike other media figures, Hallyu stars seem to have exceptional ability to influence a growing fan base. Hallyu companies who manufacture these talents empower and encourage their idols to use social media to foster relationships with customers so that they truly connect with fans; certain companies even localise songs and groups. Using the Industry 4.0 facilities, which provides global media advantage, fans see them as friends, rather than seeing them as celebrities.

Acceptance by the global masses has also translated to an increase in demand for all things Korean especially Hallyu movies and drama, food and fashion and also led to an increase in tourist arrivals to Korea. Even as other economic sectors have seen a gradual downward spiral, Hallyu culture have led an unprecedented increase in rate of growth of the entertainment industry.

The figures reported by the Korea Creative Content Agency was that South Korea's music industry is valued at an estimated US\$5 billion. Hallyu music entertainment is selling entertainment innovation in the form of a comprehensive package, that integrates music, fashion, dance, singing, story, and also importantly the idols themselves (ET Bureau Aug 2018). In fact, the popularity of Hallyu, has propelled the in-bound (Table 1) tourism sector in South Korea, from 13.23 million in 2015 to 15.35 million in 2018, as international fans travel to Korea to watch concerts and experience Korean culture personally (Statista Research Department).

Table 1. Top 12 nationalities of international visitors for all purposes

Rank	Country	2018	2017	2016	2015
1	 China	4,789,512	4,169,353	8,067,722	5,984,170
2	 Japan	2,948,527	2,311,447	2,297,893	1,837,782
3	 Taiwan	1,115,333	925,616	833,465	518,190
4	 United States	967,992	868,881	866,186	767,613
5	 Hong Kong	683,818	658,031	650,676	523,427
6	 Thailand	558,912	498,511	470,107	371,769
7	 Philippines	460,168	448,702	556,745	403,622
8	 Vietnam	457,818	324,740	251,402	162,765
9	 Malaysia	382,929	307,641	311,254	223,350
10	 Russia	302,542	270,427	233,973	188,106
11	 Indonesia	249,067	230,837	295,461	193,590
12	 Singapore	231,897	216,170	221,548	160,153
	Total	15,346,879	13,335,758	17,241,823	13,231,651

(Source: Tourism in South Korea; Wikipedia)

South Korea are benefiting on the popularity of the Hallyu culture in Muslim majority foreign markets such as Asia, South East Asia and Middle East, whose populations are addicted to Korean dramas, Korean pop music, fashion and the latest Korean food. Approaching and penetrating these warm markets could be done easily except for the fact that many Muslims adhere strongly to Islam and are overtly sensitive about the “Halalness” of the products and services.

2.2. Halal Economy

Hallyu culture and Halal Economy, have grown at unparalleled rates, leading to increases in wealth creation for both the entertainment and food industry players respectively. The terminology ‘Halal Economy’, first coined at the World Halal Forum held in Kuala Lumpur in 2011, include diverse business sectors; from halal food, non-food, finance, lifestyle, healthcare, hospitality, logistics and shipping and halal certifications. It integrates the production of halal products and the Islamic financial system. (www. aljazeera.com (n.a., nd.)). Though the Quran nor Hadiths does not make direct reference to Halal Economy, the terms of Halal and Toyyiban has been frequently mentioned in Surah Al ‘ An’am, verse 145 ; Al’Araf, verse 157; Al Maidah verses 1, 4, 5 and 88.

Halal means permissible in Arabic whilst *toyyiban* includes that which is safe, clean, nutritious and quality. Clearly, from these verses everything is Halal (permitted) unless there is definite proof that it is Haram (forbidden).

“O you who believe! Eat of the good things that We have provided for you and be grateful to Allah, if it is Him that you worship.” (Quran 2:172).

Halal economy has also seen an exponential growth driven by the rising middle-class young Muslim population, whose spending power is enormous, and who believe that being faithful and living a life dictated and governed by Al-Quran and Hadiths does not limit their desire to lead a modern lifestyle.

To Muslims, there is no grey area between what is Halal and what is Haram; as reiterated in the Quran in Surah Al ‘ An’am, verse 145 ; Al’Araf, verse 157; Al Maidah verses 1, 4, 5 and 88. Sayyiduna Abu Hurairah r.a. narrates that the Prophet Muhammad (SAW) said: *“Allah the Almighty is pure and accepts only that which is pure. Allah (SWT) has commanded the faithful to do that which he commanded the Messengers, and the Almighty has said: “O Messengers! Eat of the pure things and do right”*. Thus, if Muslims are doubtful of the Halal nature of a product or service they must abstain from it altogether.

UAE Minister of Economy, Sultan bin Saeed Al Mansouri, in a report by Halal Focus on 17 Sept 2017 commented, “Today, non-Muslim countries view Islamic finance, halal lifestyle, and sharia-compliant trade and industry as the pillars of their sustainable development plans”. Dubai Islamic Economy Development Centre (DIEDC) in collaboration with Thomson Reuters, published the State of the Global Islamic Economy Report 2018/2019, which reported that global Muslim consumer spending in 2016 accounted for 11.9 percent of global expenditure, which was approximately US\$2.1 trillion. In 2017, Muslims’ expenditure on Halal food and beverage was US\$1.3 trillion, followed by modest fashion at US\$270 billion, media and entertainment at US\$209 billion, tourism and hospitality at US\$177 billion, and pharmaceuticals and cosmetics at US\$87 billion and US\$61 billion respectively (Figure 4). This report also estimated that the halal food industry alone will be worth US\$ 1.6 trillion by the end of 2018 and projected to reach US\$ 2.1 trillion by 2030.



Figure 4. Global Islamic Economy

(Source from: Adapted from State of the Global State Economy Report 2017/2018, ThomsonReuters Dinar Standard)

Many Muslim and non-Muslim majority countries, in retrospect of the immense potential Halal economy has to offer, are redirecting their marketing strategies towards achieving dominance in the global halal marketplace, given that excelling in Halal economy, key driver to a new source of economic growth and sustainability, assures increased GDP growth rate, business and trade activities, greater employment opportunities (Figure 5).



Figure 5. Key Drivers of Halal Economy Growth

(Source: Adapted from Pew Research Centre; IMF and Islamic Association of China)

Halal and *toyyiban* understanding is growing amongst global industry players, and the enormity of Halal tourism has only just been realised and non-Muslim majority non-OIC nations such as Singapore, Thailand, the United Kingdom, Japan and Taiwan have taken the top 5 post as Muslim friendly destination. Promisingly, these nations have taken the initiatives to create Muslim friendly programmes such as allocating prayer rooms in major airports, encouraged their restaurants to cater Halal food and even published Halal food eateries booklets for Muslim tourists (Business Today, 2019) to satisfy the demand from 1.8 billion Muslim consumers (the malaysian reserve.comn.a., nd.).

2.2.1. *Harnessing Hallyu Culture to Capitalise on Halal Opportunities*

According to the Pew Research Centre, it is postulated that by 2030, the world population will be made up of 26.4percent Muslims which is approximately 2.28 billion Muslims (Figure 6). Thus South Korea has to urgently take the opportunity to capture the halal market.

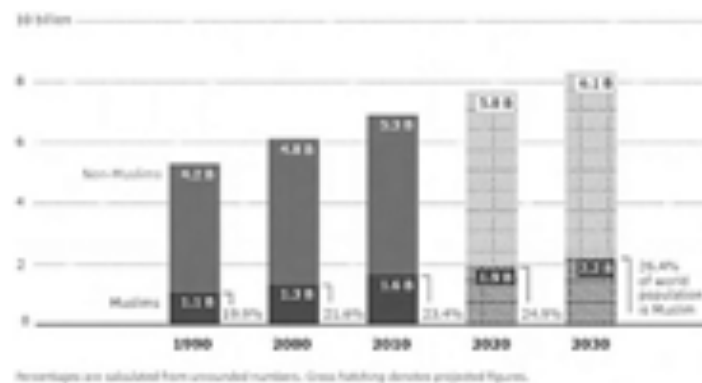


Figure 6. Muslim as a Share of World Population, 1990 – 2030
(Source from Pew Research Centre Forum on Religion & Public Life)

Domestically, the Korean Wave “*Hallyu*” has boosted the South Korean in-bound tourism market as it is among the fastest emerging popular tourist destinations among Muslims from Malaysia and Indonesia. They visit destinations made popular in the Korean dramas and movies, as well as to buy Korean cosmetics. Revenue from in-bound Muslim tourists can be further increased provided that the products and services are redesigned to meet the Muslims needs and comply with Syariah requirements. South Korea currently placed as top 10 Muslim tourism destination can capitalise this untapped demand for further wealth and job creation of its people. Article by Business Today (2019) highlights that the Halal travel market has advanced from Halal Travel 1.0, when businesses, hotels and tour operators provided services to catered to Muslim tourists’ needs such as Halal food options, water-friendly washrooms, and prayer facilities to revolutionise to Halal Travel 2.0. The latter was made possible by the advent of Industry 4.0 which leverages on artificial intelligence, augmented reality and virtual reality, to enhance Muslim travelers experience and connectivity.

Reponse towards Korean cosmetics and skincare products have also been massive in Asia, because of their economical prices and suitability to Asian skin. Unsurprisingly, in countries such as Sri Lanka, Singapore, Thailand, Malaysia and Japan, Korean cosmetics and skincare products have displaced more established European beauty products. To avoid political concerns between South Korea and China in 2016, several large Korean cosmetics companies have re-designed their products to exclusively target Muslims and darker-skinned women in Southeast Asia (Wikipedia “Korean Wave”).

2.2.2. *Overcoming Challenges from Diverse Muslims’ Needs or ‘Urf’ (Geographical inclination)*

South Korean industry leaders knowledge and understanding about Islam and the differing Halal standards required by the different countries is further compounded by the lack of understanding of about schools of Islamic jurisprudence. Unlike other religions, Islam is unique in that Muslims are not

only governed by the holy scriptures of Al-Quran and Hadiths but and also by different schools of Islamic jurisprudence which implements slightly dissimilar Halal standards.

Shari'ah, a system of morals to guide Muslims' actions and behaviour, and halal, is an important part of it. However, Halal is also part of a codified system of Shari'ah law. Halal guidelines are considered by observant Muslims to be religious obligations, but in secular non-Muslims majority countries, Halal is not part of any legal laws and regulations of that particular country.

While halal is what is permissible according to Islamic law, *toyyiban* covers very broad aspects such as safe, clean, nutritious, and quality, which is primarily contributed by food safety measures (Sani & Dahlan, 2015) and not harmful. Some products are not easy to classify as they fall into the category of *Makruh* (questionable or suspect), which are generally avoided by pious Muslims. How each Halal certification agency treats *Makruh* ingredients differ depending on the religious school of Islamic jurisprudence being followed and their local custom.

According to the European CEN document, there are eight schools of jurisprudence "*Mazhabs*" with variants of Islamic laws and regulations which dictate the geographical norms and practice of each sect namely Sunni, Shiite, Ibadi and Thahiri. Due to the differing elucidations of the quranic verses by these Mazhabs, many countries execute different laws and rules of syariah and civil laws, regulations, code of conducts, and best practices which affects the halal requirements.

It is critical that halal foods be prepared in accordance with Islamic rules and that halal integrity must be maintained throughout the supply chain. Determining if a product is Halal becomes more challenging especially if a product has a complex collection of ingredients and has to go through numerous processes which are doubtful (Al-Mazeedi, H.M., Regenstein, J.M. & Riaz, M.N. (2013). For example, a large number of ingredients may come from either animal or plant sources; and those that come from animal by-products includes animal fats and proteins, gelatin, glycerine, enzymes, hormones, emulsifiers, and some flavor compounds which can be Haram if their source is doubtful. All vegetable products are halal, but once they are contaminated with unlawful ingredients or processing aids or contain intoxicating substances they are then declared Haram (Riaz, M. N. (2010).

Hence, coupled with the differing rules governed by the schools of Islamic jurisprudence and complexity of production process and ingredients, industry players who would like to implement the Halal Assurance System find the Halal export standards and policies rather intricate to navigate.

At present, there are around 200 halal certification bodies in the world whose central objective is to maintain a reliable system of certification and information on halal. However, there is no unified global Halal standard as there are many different Muslim subgroups that subscribe to different school Islamic of jurisprudence. Of the total Muslims population in the world, approximately 90percent are Sunni, while the other 10percent are Shia (Ali Batu and Joe M. Regenstein, 2014).

Having one halal standard that is recognised by all importing countries and all Muslim communities remains challenging, however use of blockchain technology might help to clarify matters and increase harmonisation of the halal standards across time. South Korean strength in IoT may harness untapped economic advantages in this area, in the future. With the dawn of Industry 4.0, many internet platform providers have used blockchain technology to create mobile apps which provide information to assist modern Muslims lead a faith based lifestyle anywhere at anytime. If this technology is used comprehensively and universally, it will undoubtedly support stakeholders in conducting their businesses and personal affairs, thereby better utilisation of resources while imparting knowledge and understanding for Muslims and non-Muslims.

2.2.3. Cultural Misunderstanding in the Entertainment Industries

Halal is a value proposition that exists within key elements of the intersecting industry sectors. Sayyiduna Abu Hurairah r.a. narrates that the Prophet Muhammad (PBUH) *mentioned (the instance of) a man traveling on a long demanding journey, extremely upset and distraught, with disheveled hair*

pleading to Allah swt, “O Lord! O Lord!” but, his food from dubious sources, his drink from impermissible source, his clothing from prohibited source and thus he is nourished with haram. How then will his prayers be accepted”. (Sahih Muslim 1015; Book 12, Hadith 83)

The hadith reminds Muslims that halal is comprehensive as it covers a larger scope than just consumption of lawful food, drinks and use of clothes, but attention must also be directed towards the Shari’ah compliance across the Halal Value Supply Chain and Halal Ecosystem; or their prayers will not be accepted by Allah the Al-Mighty.

Many Korean companies especially the food, cosmetics and travel agencies would like to ride on the popularity of the Korean wave overseas but are faced with a set-back of lack of understanding about what Islam or Halal means due to the misinformation fed by the media; especially the imperialism of the Western media who have created a stereotyped Muslims that relate to violence, hate and against human rights. This is in stark contrast to the actual characteristics of a true Muslim, who understand that their religion and spirituality can work in harmony with the world, especially Generation M, who though devout Muslims, are affluent, educated and clear on how their values can be a force for positive change in their communities whilst leading a modern lifestyle. These inconsistent depictions has led South Koreans citizens to have conflicting or serious lack of understanding about what Islam or Halal means.

One Korean broadcasting company, MBC aired “Man Who Dies to Live” drama series, an entertainment satire comedy created an uproar amongst Muslims netizens worldwide. As a retaliation to the disrespect shown, there were attempts made by Muslims across the world to boycott Korean products. Misunderstandings such as these undermine the trust towards halal Korean products since the show did not acknowledge the cultural sensitivity of the Muslim needs and lifestyles. This scenario also negates the attempts made by companies wanting to instill halal standard culture within their own company as it conflicts with incorrect perspective of Koreans about Islam.

Unfortunately, proactive actions taken by the South Korean government to increase the number of Muslim friendly restaurants and categorising them as halal certified (those accredited by Halal Certifying body), self certified (certified as halal by Muslim restaurant owners), Muslim friendly (restaurants that sell halal food but also serve alcohol) and pork free (food prepared is free of pork-based products); have been viewed by majority of Muslims as misleading. Unfortunately attempts by Muslims citizens to retrieve information about the halal integrity of Korean products and services from the internet, are hampered by Korean websites which are mostly in the Korean language thereby a deterrent to potential adoptors of Hallyu products.

During the Halal Food Festival held in conjunction with the Halal Trade Expo 2018 in Seoul, Mr. Park Jin Ho, Deputy Director for South-East Asia and Middle East of Korea Tourism Organisation (KTO) reported that approximately 990,000 Muslim tourists visited South Korea in 2017, accounting for 6.5percent in Korean inbound tourism industry. As a result, South Korea intends to strengthen its halal food segment and promotional activities to tap the ever-growing Muslim tourism market. (The Malaysian Reserve, Oct 2018). Despite this vast economic potential opportunity and the diligent initiatives done by the Korean government to meet Muslim consumers needs, South Korea has not reached it’s target to be the top Muslim destination amongst non-Muslim countries market, due to cultural unfamiliarity about Islam.

To date, Korea Exposé reported that Mr. Jang Geon, director of Korean Institute of Halal Industry, declared that more than 400 companies and 800 products have received halal certification in South Korea. These figures may appear large but when compared to other countries nominal. There are only two Halal certifying bodies in South Korea; Korea Muslim Federation and Korea Halal Authority, and both lack global credibility compared to Malaysia’s JAKIM, Singapore’s MUIS, and the UAE’s ESMA. As stated earlier on, Muslims expenditure on tourism and hospitality, pharmaceuticals and cosmetics, had reached US\$177 billion, US\$87 billion and US\$61 billion respectively while modest fashion reached US\$270 billion and media and entertainment US\$209 billion in 2017. By the end of 2018, the

global Halal food industry alone will be worth US\$ 1.6 trillion, and projected to reach US\$ 2.1 trillion by 2030.

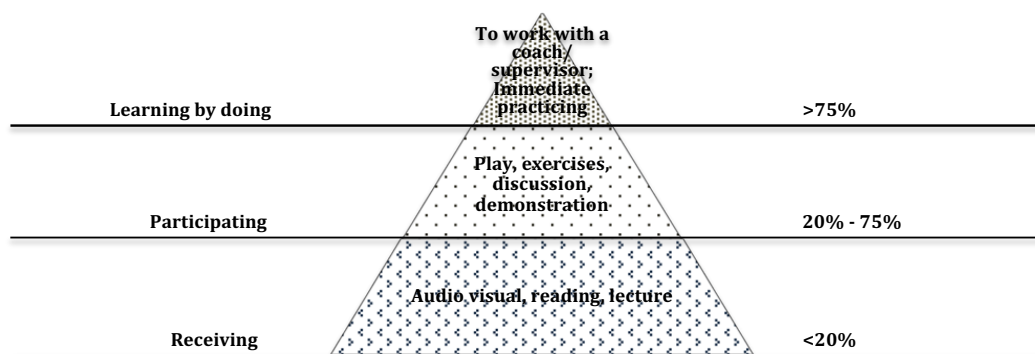
2.3. Business as the Motivating Driver for Experiential Learning

Since the time of Prophet Muhammad (SAW), Muslims have participated in international trade and exchange of cultures. The Holy Prophet was an exemplary trader and encouraged his companions and the community to engage in business for the sake of societal well-being, in trying to achieve God's favour, for now and the hereafter. This exemplification led many early Muslims traders to journey across the globe to conduct business. Even after the Prophet Muhammad's death in 633 AD, many of his followers travelled to various places of the world, such as Iraq, Iran and Jerusalem and other distant countries in the West such as Morocco and Spain; India, China and Southeast Asia in the East; Central Asia, specifically Uzbekistan and Khazakstan, in the North, and Africa in the South; to engage in trade to spread the word of Islam.

Historical documents and coins from the seventh to eleventh centuries excavated from many different parts of Russia, Finland, Sweden, Norway, British Isles and Iceland demonstrated the extensive influence of Islamic trade, even in Europe (Chapra, 1995). It is through trade and commerce too, that within a century of its founding, Islam spread swiftly from the Middle East to Africa, Europe, the Indian subcontinent, China and the Malay Peninsula. These exceptional historical examples reveal that Islam was spread, not by just preaching the word of Islam or war, but by self-reflection through experiential learning that occurred during business transactions conducted between Muslim merchants with non-Muslims merchants.

Transaction, entrepreneurship, and efficient and effective use of financial capital, talents, material and time resources, is the basis of the principle of Islamic commerce. Allah the All Mighty says: “O ye who believe! Eat not up your property among yourselves in vanities: But let there be amongst you traffic and trade by mutual good will.” (al-Nisa,4:29). “God hath permitted trade and forbidden usury.” (al-Baqarah, 2:275). The required characteristics of an Islamic merchant, as outlined in article by P. R. M. Faizal, A. A. M. Ridhwan, and A. W. Kalsom (2013), indicate that a Muslimpreneur has to observe high moral values and etiquette, thus inculcating positive behaviour of an exemplary Muslim. Specifically, a Muslimpreneur must have taqwa (faith in Allah); gain Halal income through selfless acts to accommodate meeting community's needs; avoid wastage in any form; perform timely and regular Solat (Islamic prayers); practice high moral values; be honest, trustworthy and knowledgeable; care for both the society and environment; and show concern for the welfare of all regardless of race and religion.

Two famous proponents of experiential learning, Confucius (479BC) and Sophocles (400BC) were quoted to say “I hear and I forget, I see and I remember, I do and I understand” and “One must learn by doing, for though you think you know it - you have no certainty, until you try” respectively. However for effectiveness, the participant must be motivated to learn or have intense reason to learn, and must actively participate in gaining experience while doing (Moon, J. 2004). In this case, the businessman would be motivated due to the high demand of Halal product which promises profitability and sustainability and thus whilst engaging in the implementation of Halal practices will hence gain knowledge and understanding about Halal and Islam. In 2011, Felicia Patrick defined experiential learning as “learning through reflection on doing”. Experiential learning (Figure 7) requires immersiveness, where participants gain knowledge by undergoing an actual experience that involves analysis, initiative, and involvement (Stavenga de Jong, et.al., 2006).



I Kokcharov 2015

Figure 7: Adaptation from Learning Pyramid

According to Kolb's Learning Model, (Figure 8) experiences can elevate learning potential as throughout the learning process the learner actively practice problem solving skills, makes decisions, and become responsible and accountable to his and his subordinates' actions. This in turn will cause the learner to reflect on oneself which eventually lead to analysis, critical thinking, and synthesis (Schon, 1983; Boud, Cohen, & Walker, 1993).

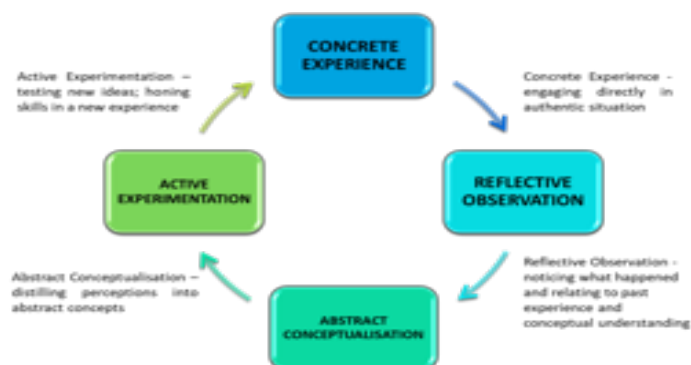


Figure 8. Adapted from Kolb's Learning Model

An article by Norman Brook (2018) outlined two different learning models, Kolb's learning model (Figure 8) based on consquential learning cycle and Race's (Figure 9) based on experiential learning whereby the latter is made up of a system of interconnecting situations that "ripples" and interact with each other. Consequently, constantly participating in Islamic business dealings and observing Islamic etiquette, could possibly create a spreading, pervasive, and usually unintentional effect or influence known as '*ripple effect*' within the society and indirectly awaken need to acquaint oneself with Islam.

As halal industry now covers more than just food production and processing industry, it also applies to diverse sectors as pharmaceuticals, healthcare products, cosmetics and hygiene products, tourism, logistics, packaging and many other areas (Rizal and Seong 2006). Halal assurance system and halal value supply chain makes it mandatory that everything related to the food preparation, handling, and packaging must be Halal thereby guaranteeing halal integrity. Thus, halal verification and certification must be mobilised to measure halal integrity at all stages of production, to ensure zero contaminated with non-halal materials or processes, involves rigorous diagnostic procedures (Nakyinsige et al. 2012).

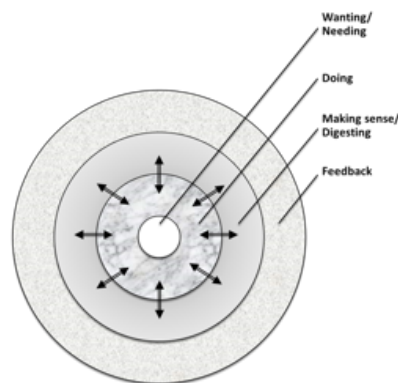


Figure 9. Adapted from Race's Ripple Model of Experiential Learning

2.4. Multi Racial Multi Religion Malaysia as Global Halal Hub

Malaysia is democratic multi-racial country consisting of Malays 50 percent, Chinese 23 percent, Indians 11 percent and other minority groups. While Islam is the nation's state religion, freedom of religion is constitutionally guaranteed, thus explaining the presence of 60 percent Muslims, 20 percent Buddhists, 10 percent Christians and 6 percent Hindus making up the 32 million population.

A pioneer in Islamic Finance and Halal economy three decades ago, Malaysia's Islamic economy accelerated at a much faster rate than wealthier Muslim countries when the Malaysian government identified Halal Economy as a business sector that is rewarding, viable and an opportunity to expand their businesses beyond their shores. It provided full support towards establishing the Halal industry as early as 1974 when the Research Centre for the Islamic Affairs Division began issuing a standardised Halal certification. The setting up of Malaysian Islamic Development Department (JAKIM) and Halal Development Corporation (HDC) proved to be successful in aiding Malaysia to be recognised as an international Halal hub that assisted their Halal players and stakeholders to make a large imprint on the global halal scenes. An equally important contributory factor that can be attributed to this achievement, is its trade-friendly policy to both Muslim and non-Muslim countries.

Global Islamic Economy Indicator (GIEI 2018/2019), reported that, for the fifth year running, Malaysia has once again emerged as overall leader in Islamic economy; possessing a enviable Halal ecosystem involving halal standards, that are comprehensive and robust; reinforced by an extensive network which not only extends to halal free zones (halal hubs), established halal products manufacturers but backed by a strong Islamic finance industry and investor ecosystem.

2.4.1. Halal Ecosystem in Malaysia

Preferably, a Halal Ecosystem must be set within a network of businesses, institutions, government agencies and non-government organisations that interact with each other continuously in a seamless and dynamic manner. The integrity of the halal supply chain and traceability is heavily dependent on the establishment of a robust benchmarking of the critical factors in the halal ecosystem, and critical in garnering public trust. In doing so, it allows for methodical and comprehensive valuation of the Halal Ecosystem.

Today, Malaysia exemplifies a country that support the growth of global halal ecosystem, which encompasses standards and regulations, infrastructure, logistics and human capital development (Figure 10). The Halal Ecosystem in Malaysia is dynamic and evolving as apart from the Halal industry and Islamic Finance sector, it also encompasses related standards and regulations, infrastructure, logistics and human capital capacity development. The main agencies involved include:

- i. Malaysian Islamic Development Department (JAKIM) deals with issues regarding Halal certification, administration and syariah;

- ii. Standards Malaysia, the agency under the Ministry of Science, Technology and Innovation develops halal standards and acts as the national accreditation body; and
- iii. Halal Industry Development Corporation (HDC) focuses on developing, promoting and internationalising of the country's halal industry.

Malaysia Halal Council (MHC) which also includes the Ministries of Health; Agriculture and Agro-based Industry; Domestic Trade, Co-operatives and Consumerism; and Education, then consolidates, reconciles, and resolve issues of JAKIM, Standards Malaysia and HDC to develop halal in a more integrated and holistic manner.

The arrival of Industry 4.0 has also been employed with the the introduction of Malaysia Halal Certification System (MyeHalal) in 2014 and Malaysia International Halal Authorities and Bodies System (MyIHAB) in 2018, the latter is a comprehensive centralised database system that integrate online registration and management system to further empower the halal industry, and e-book that seeks to harmonise Halal standards (Hashini Kavishtri Kannan, 2017).



Figure 10. Malaysia Halal Ecosystem
(Source adapted from Halal Development Corporation web page)

In terms of trade, Malaysia has undertaken important initiatives to further develop the international halal industry including initiating the establishment of a world body that unifies halal standards thereby benefiting all halal stakeholders. During the 16th Malaysian Halal International Showcase, it was announced that Malaysia had formed a strategic partnership with China in the form of “Halal Silk Route” that can potentially link 2.1 billion global Muslim population. The collaboration assures end-to-end logistics services with integrated halal value-added services, hassle-free documentation processes, and competitive transportation cost (MIHAS 2019).

Meanwhile constant efforts are made to galvanise and enhance knowledge and skills of talents of stakeholders across all sectors including International Halal Certifying Boards in order to facilitate halal application, assurance monitoring and maintenance. In the home ground, the Malaysian government has encouraged public and private universities and colleges to introduce halal programmes in their curriculum (Figure 10).

3. Findings

It is relatively clear from the literature survey conducted that there is indeed gaps in knowledge and understanding in South Korea about Islam and Halal. These include:

- i. lack of sensitivities towards feelings of Muslims in terms of their needs and desires especially with regards to food and entertainment which will effectively curtail their business expansion to Muslim countries.
- ii. introducing confusing categories of Halal or Muslim friendly eateries, even though their intention initially was to assist and attract Muslim tourists

- iii. inadequate number of Halal certifying agencies and lack of Halal certifying bodies that receive due respect from the international Muslim forum
- iv. absence of effort in providing accurate knowledge and understanding about Islam and Halal by government bodies as per initiated by other non-Muslim nations
- v. no government body that is responsible and accountable towards controlling, monitoring and communicating about various aspects on Halal to stakeholders and consumers

4. Conclusion

If South Korea is serious in curbing her declining economic growth rate, she would need to capitalise on the Hallyu culture popularity and match it with the burgeoning Halal industry, including understanding and respecting Islamic culture and Halal requirements of wealthy Muslim millennials, who believe that their identity encompasses both faith and modernity.

Rather than just taking reactionary steps to capture this sustainable and expanding market, South Korea should do more than just urge her netizens to welcome Muslim tourists to her shores by occasionally providing doubtful certified Halal food and Halal skin care products. Instead, South Korea should extend support to companies who want to upgrade their processing plants to implement Halal assurance system and enable them to obtain halal certification, similar to the backing she gave to chaebols in 1960's and the entertainment showbusiness industry 15 years ago.

This includes creating greater awareness to her citizens about Islamic culture and halal requirements, as what Japan initiated to prepare its citizens for the 2020 Olympics, and establishing more globally recognised halal certifying bodies plus offering halal training programmes conducted by certified Muslim professionals.

In this manner, South Korea will ultimately achieve its aspiration to create a population who have greater knowledge and understanding about Islam and halal through experiential learning; whilst capitalising on the popularity of Hallyu culture, may aid South Korea to expand not only their fandom to Muslim majority countries, but also gaining acceptance of their products and services, Muslims worldwide.

Emulating Malaysia's approach of cultural and diverse races and religion sensitivities and having an efficient Halal ecosystem is a strategy for justifiable wealth creation of Halal Economy and Hallyu Culture through Islamic knowledge and understanding.

It is postulated that by employing the halal standards in producing and managing halal product and services, industry players will ideally gain experiential knowledge about halal and Islam and their knowledge in turn will ripple pervasively across society. Future research can also include Viable Systems Model to be built for the halal system framework in South Korea. Thereby create greater tolerance and understanding about Islam amongst South Koreans, finally leading the way towards sustainable social and economic well-being

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Halal Certification of Korean Food in Malaysia: The Challenges and Step Ahead

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Abstract

Korean Wave or also known as 'Hallyu' in the Korean Language, symbolises the global acceptance of the Korean cultural industries. It started in the 1990s and became a recent phenomenon all over the world. Malaysian is also impacted by the Korean wave. It can be seen in the Malaysians' youth trend where it gradually influenced by the Korean culture and lifestyle of foods, cosmetics, entertainment, and technology. Growing demand for Korean food leads to growing numbers of Korean food establishments in Malaysia. Nevertheless, only a few of the establishments have halal JAKIM certificates. Getting a halal certification from JAKIM (Malaysia's Halal authority) is necessary for business, but certain food industry player wondering if the effort is worth it. Therefore, this study aims to explore challenges to get the Malaysian Halal Certification for Korean food restaurants in Malaysia. After identifying the obstacles involved, this research will also examine the challenges in obtaining Halal Certificates among Korean Food Entrepreneurs in Malaysia. The approach of this study involves data collection methods through literature review followed by field study through numerous of interview sessions with selected Korean restaurants in Kuala Lumpur and members of Malaysian Korean Fans Club. It is found that there are now more Korean food operators that are successful in getting halal certification compared to the past. The data from this study will help the industry understand that getting halal certification is not complex, with clear cut procedures, despite many challenges the industry needs to go through.

Keywords: Korean Food, challenges, halal certification

1. Introduction

Korean Wave or 'Hallyu' have created a massive impact on the world. Hallyu is from a direct translation from a Chinese dictionary which means 'Korean Wave' (Bae, Chang, Park, & Kim, 2017). This term refers to a phenomenal growth of Korean style and popular cultures, for example, music, movies, drama, online games and Korean cuisine (S. J. Lee, 2011). South Korea has an enthusiastic goal to become the world's leading exporter of popular culture. It is a way for Korea to develop its 'soft power' (Nazon, 2017). The Harvard political scientist Joseph Nye in his study published in 1990 has introduced the term 'soft power' which mean the intangible power a country wields through its image. This term used act as an inverse term of hard force used for military power or economic power. A similar strategy is used by the USA to leverage on desirable images of consumerism for promoting their products to entice the world to buy its Levi's jeans, Apple iPhones, Marlboro cigarettes, Coca-Cola soft drinks and Hollywood movies (Joseph S.Nye, 2009). By possessing or accepting Hallyu products, one may feel a certain degree of satisfaction or a sense of being trendy, through the popularity of acceptance among mainstream youth.

Figure 1: Impacts of Hallyu to the world



Source: (Elaskary, 2018; Jin, 2018; H.-Y. Lee, 2019)

Figure 1 shows the hybrid impacts of Hallyu, which started with dramas, music, cosmetics, food and recently, the Neo-Hallyu age. Neo-Hallyu has added fresh dimensions and may include Korean cars, mobile phones, fashion, food and plastic surgery. In the late '90s from a small part of East Asia, Europe, Southern East and then surprisingly spread slowly to the Middle East and now America (Jang & K.Paik, 2012). It is an interesting phenomenon that the American people, whose culture are obsessed with the ballad, country, jazz, classical and rock music genre, are now accepting the Korean Songs or known as K-Pop. K-pop is an abbreviation of Korean pop or Korean popular music. It is a musical genre consisting of electronic, hip hop, pop, rock, and R&B music originating in South Korea (Cheol-min, 2015). In addition to music, K-pop has grown into a popular subculture among teenagers and young adults throughout Asia, resulting in widespread interest in the fashion and style of Korean idol groups and singers (Chan, 2014).

In Malaysia, the Korean wave started from the Korean Dramas. For the people living in the '90s, the Korean dramas such as *'Autumn in My Heart, Winter Sonata, My Sassy Girl', Stairway to Heaven* or the blockbuster horror film *'Swiri'* became the most talked topics in town (Arifin, Rahman, Omar, Yaakop, & Mahadi, 2016). Then, around 1997 and onwards, Malaysians began to follow the development of Korean entertainments industry, and it is possible to conclude that Malaysia's acceptance of the Korean's culture has given a positive image to Malaysia (Cho, 2010). Cho also mentioned that Korean Wave has successfully taken root through TV dramas and films. The Korean Wave carries global universalism, transcending a parochial nationalism that publicises only the unique Korean ways of thinking and living. Consequently, this helps Korean market products worldwide.

Table 1: Impact of Hallyu by countries

Background	Countries	Year	Impact	Author
Multi religion and culture, open-minded	Malaysia	1997	Malaysians were exposed to accept the growth of Korean culture when some of the Korean fans established the K-Pop fans group, enjoy K-variety shows, television programs, including dramas and cosmetics	Jang & K.Paik, 2012
	Malaysia	1997	Korean Wave has successfully taken root through TV dramas, and films and Malaysian fans started to follow Korean through the Korean Dramas.	Cho, 2017

	Malaysia, Philippines, Thailand	Mid 2000's	In all three countries, such success quickly led to a craze for all things Korean, including language courses, goods, services, and foods.	(Ainslie, Lipura, & B.Y.Lim, 2017)
Multi religion and culture	Southeast Asia	1997	Started with the Korean Dramas in 2003, Korean television programs exports have increased so dramatically. China is the 1 st country in Southeast Asia that accept Korean Movies as they were cheaper than Japanese Movies at that time. The impact of Korean Drama brought high revenue in tourism and electronic products. Korean stars also had a significant impact on consumer culture, including food, fashion, make-up trends and even plastic surgery.	(Shim, 2006)
Most conservative and religious	Egypt	2000	The interest of women from the middle east countries was changed after the acceptance of Korean Wave, and they can accept foreign culture when they joined Facebook as K-Fans.	Sueen Noh, 2011
	Egypt	2012 afterwards	Korean wave used soft power and diplomacy social media which changed the Arab's thinking. Officially it started in 2013 when Egypt launched the Korean Cultural Center. In 2016 Egypt organised KCON event (K-pop concert, K-beauty, K-food) that attracted almost more than 8000 Arab participants from UAE, Egypt, Saudi Arabia, Kuwait. It proved that Korean products become a gateway to a broader interest in the Korean culture, it provided an avenue community for the Middle East to know Korean lifestyle, customs, values, and history	Mohamed El Bouchikhi, 2018
	Middle East	21th	The borderless world made people all around the world to reach their preference in entertainment, education, multi-cultural, and many more. Mohamad Elaskary mentioned that Facebook and Youtube are the main reasons for the acceptance of the "Hallyu" in the middle east.	(Elaskary, 2018)

Pervasive impacts of Hallyu in Muslim countries, including Malaysia, can be described in stages. It started with drama, movie K-Pop. The 2nd stage was musical (performed by Korean Stars), animation, cartoon, character and games. After that, the 3rd stage is the culture, arts, education (studying Korean languages) and preference of foreigners to study in Korea (Cho, 2010). At the same time, affected by the multi-cultural of Korean Wave, they have contributed needs for other industry consist of tourism, cosmetics, clothes and personal care. In the Industrial Revolution 4.0, electronics, automobiles, information technology, smartphones, services have been accepted too. Here we can see how the soft power of Hallyu had affected sociology, multi-cultural and economic performance in holistic manner by the Muslim countries.

1.1 Malaysian Halal Certificates

There has been an increased awareness halal status of oriental food. Therefore, more attention needs to be paid on halal integrity of Korean Foods. In the eyes of the world, has recognised the Malaysian Halal Certificate and logo are the most reputable and prominent trust. Most researchers have greater familiarity with the Malaysia Halal Certificate, believing that with the implementation of a stringent

halal regulatory framework, this will ensure the quality of halal food in Malaysia food products are safe for consumption by both Muslims and non-Muslim alike (Chew, Lew, & Koh, 2018). They agreed that the Malaysia Standard in Halal Food is secured and preserved the halal trust done through continuous development and amendments made annually to keep it relevant with rapid change in the food industry regionally and internationally. The demand for halal industry in Malaysia increase rapidly because of these three reasons, which are i. Halal food based on specific rules and regulations for Muslims, ii. A good reputation of halal standard and iii. Sustainable food production (Ali & Suleiman, 2016). Malaysia Halal Certificate is considered to be more meaningful and had become a global benchmark when other countries also began to adapt and adopt Malaysia Halal Standards to form their foundation for halal standards (Marmaya, Zakaria, & Desa, 2019).

(Tieman, 2015) Has mentioned that the Malaysian Halal Certificate is provided on a sheet of paper with halal logo, and it well-known all over the world. Malaysian halal certification standard is among the most rigorous and universal in the world; many Muslims from other countries will choose products with Malaysian halal certification (Kawata, Htay, & Syed, 2017). The essential component of the halal ecosystem is the halal certification process. The main stakeholders of the halal certification process are the halal applicant, halal certification officers, administrative officers and halal certification panels (Noordin, Noor, & Samicho, 2014).

For any halal application to be approved, there are a few steps that need to be complied by the manufacturers. JAKIM has set a maximum of thirty (30) days and fast lane approach on the minimal duration of three (3) days for companies with good halal track records for the process application on getting Halal certified with zero non-conformers reports (NCR) (Puan Nur Ardzlina bt Mahmud & JAKIM, 2019). A company who wants to apply Malaysia Halal certificate can visit JAKIM's website and get prepared with all the procedures. Figure 2 shows the procedure to apply the Halal JAKIM certificate.

Figure 2: Malaysia Halal Certification Process Flow Chart



Source: Manual Procedure Malaysia Halal Certification (Third Revision) 2014

1.2 Issues in Halal Certification

Earlier work on the issues of the halal certification system was presented in a study by Noordin, Noor & Samicho (2014). They developed a thematic analysis of the halal certification process in Malaysia, which involved an interview with manufactures about the issues to get halal certification process (Figure 3).

Figure 3: Summary of Thematic Analysis of the Interview with Manufacturers

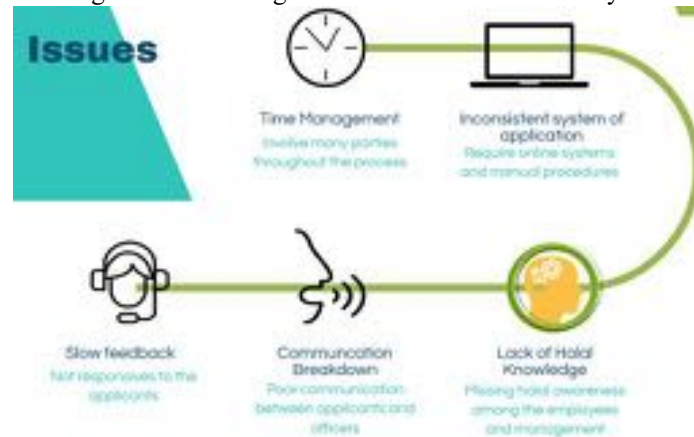
Theme	Company A	Company B	Company C	Company D	Company E	Company F
Certification Body	JAKM JAKIM	JAKM	JAKM JAKIM	JAKM	JAKM	JAKM
Communication Channel	Telephone Fax Face-to-face Letter	Telephone Fax Face-to-face Letter	Telephone Fax Face-to-face Letter	Telephone Fax Face-to-face Letter	Telephone Fax Face-to-face Letter	Telephone Fax E-mail Face-to-face Letter
Application System	Manual (JAKM) Online (JAKIM)	Manual (JAKM)	Manual (JAKM)	Manual (JAKM)	Manual (JAKM)	Manual (JAKM) Online (JAKIM)
Problem						
Processing	Application of halal certificate takes more than thirty days to be processed and approved	Manual delivery of application form	-	Halal panels meeting often being postponed	Application of halal certificate is too strict and rigid	Application of halal certificate takes more than thirty days to be processed and approved
		Delay halal certificate approval		Several officers are rigid in their decision making	Halal certification takes too long to be approved	
Information	Inconsistent information provided to the applicant	-	Lack of understanding and knowledge of the halal certification requirements and procedures	No one stop centre on halal certification guidelines	-	-
	Lack of understanding and knowledge of the halal certification requirements and procedures			Lack of understanding and knowledge of the halal certification requirements and procedures		
Feedback	More feedback/acknowledgement of application problem	More feedback/acknowledgement of application problem	More feedback/acknowledgement of application problem	-	-	-
Communication	Poor communication between applicant and certification officer	Poor communication with the halal certification officer due to lack of staff	Poor communication between applicant and certification officer	Poor communication between applicant and certification officer	-	Poor communication with the halal certification officer due to lack of staff
Technology	Difficulty in using the Online Halal application	-	-	-	-	Halal application could not be updated unless the password is reset

Source:(Noordin et al., 2014)

The main problem highlighted by this study is that the process of halal certification is slow and causes applicants to wait for a long time. Thus the manufacturers suggested to the Malaysia authority bodies to provide halal courses and training and enhance the skill of communications among the halal officers and staff.

Generally, the issues that have been faced by manufacturers can be highlighted by the writer as follows:

Figure 4: Issues to get the halal certificate in Malaysia



Roslan et al. 2016 suggested that the findings from Figure 4 may apply for the cases of halal certification in logistics (Roslan, Rahman, Ahmad, & Ngadiman, 2016). The duration required to fulfil the requirement is the core problems in getting the halal certificate as compared to other challenges. The reason is that it was mandatory to prepare many documents and involve many parties throughout the process. The tedious procedures of application which may require both online and manual systems made the manufacturers hesitate to go through the Halal Certificate process. Manual Procedure Malaysia Halal Certification (Third Revision) 2014 stated that a company should have at least one employee with Halal knowledge including technical knowledge in operations, customer service, sales and negotiation skills in order to get competent staffs and excellent human resources (Hashim & Shariffa, 2016). A recent investigation found out that lacking in communication between the applicant and the certification officer also should be highlighted. At the same time, front desk officer from the Halal Certification body needs to gain more knowledge on how to deal with customers in order to avoid the same problem (Noordin et al., 2014).

1.2 Korean Food

Korean Food is based on customary cooking traditions (Steinberg, 2012). It originated from the ancient agricultural and nomadic traditions in Korea. A staple food in South Korea is rice, vegetables, and meats. It can be grouped into three categories, which are main dishes, side dishes and desserts. The main dishes are made from grains such as *bap* (a bowl of rice), *tteok* (rice cake), *juk* (porridge) and *guksu* (noodles). Much Korean food relies on fermentation for flavour and preservation, resulting in a tangy, salty, and spicy taste. Korean food cannot be separated with side dishes such as soups, kimchi, noodles, '*banchan*', '*anju*'²³, and sweets (O. Chung & Monroe).

Table 2: Categories of Korean Food

Category	Dishes	Cuisines	Food Preparation	Method of Cooking	References
Main dish	Grains	<i>Bibimbap</i>	Mixed rice with meat	cook in an iron pot called a ' <i>sot</i> ' or ' <i>Museo sot</i> .'	(K. R. Chung, Yang, Jang, & Kwon, 2015)
		<i>Boribap</i>	Rice with barley		
		<i>Kongbap</i>	Rice with beans		

²³ Anju is side dishes consumed with alcohol.

	<i>Guksu</i> (Noodles)	<i>Japchae</i>	Mix vegetables	Stir Fry	(H. Y. Kim & Mo, 2014)
		<i>Bulgogi</i>	Marinated beef	Grill or pan-fried	(Jo, Kim, Kang, & Byun, 2003)
Side Dish	Soups	<i>Malgeunguk</i>	Soup with long boiled or seafood or vegetables and seasoned with ‘ <i>ganjang</i> ’ (soy sauce)’	Boil	(Pettid, 2008)
		<i>Tojangguk</i>	Soup with seafood such as clams, dried anchovies, and shrimp and seasoned with ‘ <i>doenjang</i> ’ (soybean paste)’		
		<i>Gomguk/Gomtang</i>	Made from boiling beef or cartilage.		
	Kimchi	Fermented Vegetables	Napa cabbage, Korean Radish or cucumber mixed with spices including red and black pepper, cinnamon, garlic, ginger, onion, and mustard.	prepared once in a year, stored in large clay pots and consumed throughout the year	Patra et al., 2016, (Chambers, Lee, Chun, & Miller, 2012; Y. C. Lee, 1991), (Choi & Henneberry, 2000; J.-Y. Lee & Kunz, 2005)
	Grilled Dishes	Known as Korean Barbeque	Grilling meat, beef or chicken	prepared with gas or charcoal grills built into the dining table itself	(Devina, 2018)
	Steamed Dishes	Steam food	Meat, Chicken, Beef, Vegetable	Steamed in a steamer	(Hong, Baik, & Kim, 1999)
	Raw Dishes	Seafood	Serve live and still moving of octopus or squid, parboiled fish, scallions	Cook in a pan	Wikipedia
	<i>Banchan</i>	Various kind of kimchi	Side dishes		(S. H. Kim et al., 2016)
Dessert	Snacks	<i>Kimbap</i> (seaweed rice) <i>Buchimgae</i> (Korean pancake)	Cooked rice with sesame oil, salt and cooked rice.	Pan Fry	(Jung, Yang, Park, Shin, & Kim, 2012)

1.4 Issue of fermentation in Korean Food

Korean Food commonly used fermented paste in their cuisines. They believed that traditional preparation is a metabolic process that helps food to ‘mature’ so that it has improved taste and can be stored for an extended period. Fermentation helps them to supply good bacteria or known as ‘Probiotic’ which helps to improve digestion, boost immunity and help to maintain a healthy weight (Patra, Das, Paramithiotis, & Shin, 2016). Korean fermentation paste is called ‘*Jang*’ which mean sauces. It includes *doenjang* (soybean paste), *ganjang* (soy sauce), *Gochujang* (chilli paste) and *jeotgal* (salted seafood). *Jang* fermentation can take anywhere from several months to several years. Besides *Jang*, Kimchi, which is a well-known spicy *napa* cabbage dish, is traditionally buried in the earth during its fermentation time (Oum, 2019). Instead of *napa* cabbage, they also use various types of vegetables

mixed with red and black pepper, cinnamon, garlic, ginger, onion, and mustard are the example of spices.

1.5 Korean Food in Malaysia

The popularity of Korean cuisine has undoubtedly increased in Malaysia. People commonly use to access various types of Korean restaurants by walking distances in the centre of Kuala Lumpur. They offer an extensive range to suit customers of their income status. Many seem to like the taste of spicy and sour dishes prepared with various kinds of ingredients ("Korean Restaurants in Malaysia," 2016). There is no need to travel a thousand miles to reach Seoul and Busan to get the authentic flavour of kimchi, bulgogi, bibimbap and many more. Along with the impulse in the popularity of K-Pop culture, Korean cuisine also has been emerging as one of the top cuisines, especially in Asia. The numerous of Korean Food franchises and independent restaurants are being launched since the development of Korean Wave in Malaysia such as Seoul Garden, Mr Dakgalbi, K-Fry, Nene Chicken, Dubuyo, and many more. However, only a few of all Korean Food Restaurants were Halal JAKIM certified. In 2018, Seoul Garden, Dubuyo and Sweetree just received their Halal by JAKIM. On the other hand, one of fast-growing Korean Franchise of the famous Korean Fried Chicken restaurant, which recently launches their 16th restaurants in Kuala Lumpur is in the process of getting Malaysia halal certificates.

2. Methodology

2.1 Instrument

In order to explore the K-wave influence in Malaysia, interviews with K-fans were conducted randomly. Selected Korean Restaurants Managers were identified and managed to get some information that can help to identify the issues of Malaysia Halal Certification. A critical component of the research is data collection and analysis. The technique selected for this study is an in-depth interview qualitative technique. In-depth interviews are performed to create a knowledge of the interpretive structure of the two-person interaction system (Marshall, 1996). The interview session was recorded throughout the whole session with permission from twenty-three (23) key-informers. Appendix I presents the collection of questions asked during the interview sessions. After collecting all data needed, a critical analysis of all recordings was carried out.

2.2 Sample Size

Twenty-three (23) key-informers is identified to gather the data. Gathering data by conducting multiple interviews with Korean Fans from K-pop official fan sites and selected Korean Food Restaurants are the most suitable method for collecting data. This target group were selected due to their continuous support and knowledge of K-movements in Malaysia.

2.3 Data Analysis

The purpose of this study is to examine the level of Malaysians' acceptance of the Korean wave. In Malaysia, several of K-Pop Fan clubs have an established K-Fans groups registered with the Companies Commissions of Malaysia (SSM). One of them was Malaysian Kpop Fans (MKF) which have almost 100,000 followers in their Facebook Page. The age range is in between 21-30 years old. However, some of the informers have different perspective and perceptions of the Korean Wave.

"...More to get information on K's creativity and innovation in the motor industry and sports".

Key informers 11

".... Korean wave is not a Malay culture".

Key informers 18

Some of the informers are aware that a few of K-pop songs contains or includes sensitive issues in their lyrics. Some of the informers recognised the meanings of K-Songs that might include the elements of faith and will be affected by Muslim's beliefs. Therefore, they are seldom looking for the lyrics provided in the K-pop website or social media. Nevertheless, there are a few who could not care less about the issue because it is just plain entertainment. Inversely, a few informers believe that Muslim should avoid from following any K-pop groups and being obsessed with K-Songs.

"...better to check the meanings of the lyrics before sing and love the songs."

Key informers 5

"...Confessed there are God others than Allah."

Key informers 10

"...if it involves religion; it's must to abandon"

Key informers 13

“...there are several of K-Pop groups songs that have a devil’s name and took from Jewish’s books. Muslim have to be careful to choose and obsessed with K-Songs that affect their faith and believes.”

Key informers 19

In general, the soft power of *hallyu* is gradually infected Muslim teenagers and slowly lead to an unhealthy lifestyle. Their mind, heart and soul will affect their relationship with Allah and create a distance.

Another key issue that arose during the interview process was K-Food — noted that 60% of informers have been visited Korean’s restaurants and recognise the main dishes of Korean Food such as *bulgogi*, *bibimbap*, *topokki* and many more. They were also aware that most of the Korean Restaurants were not Halal JAKIM certified and believed that Korean Food Managers interested to apply Halal JAKIM certificate soon. Therefore, the question whether they will enter the Korean restaurant without the 'HALAL' but declare and display the 'NO PORK, NO LARD' sign, twelve of them disagreed and did not enter the restaurants.

“...Even though they are not using pork, hygiene and sources of materials used have to be taken into account as well, as oil and sauce used”.

Key informers 3

“...They may not use pork meat, but what about cooking oil?”

Key informers 7

“...not necessarily halal because alcohol is also widely used in their cooking.

Key informers 10

“...There are doubts about the ingredients used.

Key informers 13

“...prevention is better before convicted with haram matters.

Key informers 18

The preliminary results demonstrate clear statements that Muslim should enter only Halal Certified Korean Restaurants. To get a reciprocal response on behalf of the manufacturers, we also get some information and our in-depth interview from some of the Korean Restaurants Managers. The results express that they do acknowledge the importance of halal to Muslim. However, the long duration, complicated and rigid process of getting Malaysia Halal Certificate are the main excuses given by them.

“... We recently reapplied due to a suspicious ingredient which is fermented kimchi. The application was submitted three years ago, and we are still in the process of getting the halal certificate. Our fermented kimchi was used as an authentic and traditional recipe without mixing with any alcohol”.

Male, CEO, age 43, Australia

“... We are still struggling to submit our second report after got a non-confirmative report (NCR) due to questionable ingredients in the sauces.”

Female, Halal Assistant, age 23, Kuala Lumpur

“... The use of kimchi in our fried rice are the only one obstacle for us to get the halal certificate. Our kimchi is marinated based on natural ingredients compared to other kimchi that used alcohol, and they passed the procedure.”

Female, Operations Support & Marketing Executive, age 26, Kuala Lumpur

The challenges to get Malaysia Halal Certificate can be summarized in Figure 5. It shows the obstacles of Korean Food Managers need to be faced to get Halal Certification. Competitors refuse to apply the Halal certificate because they believed it does not affect their customers' acceptance of their restaurant. They alternatively put signage of 'no pork no lard', 'Muslim friendly' or 'we are in the process to get halal' that can confuse the potential customers. However, it is shocking to see when many Muslims have no doubt full twist, and still visited these restaurants. The trend has built a concern about the acceptance of Muslims, especially in Malaysia towards this group of Korean Food restaurants.

Figure 5: Challenges in applying Halal Certificate by the entrepreneurs



Five critical challenges mentioned in Figure 5 need to be tackled and solved in order to minimize and simplify the process of getting the Halal certificate. Therefore, five critical aspects are suggested here to facilitate Korean Food Restaurant managers before applying the Halal Certificate from Jakim. Figure 6 shows the steps needed to follow until getting the certificates. Firstly, the manager needs to recognize all primary ingredients in their food. For instance, the use of fats and oil, protein and amino acid, enzymes and others need to be identified. Next, they need to make sure that implementation of Halal Assurance Management System (HAS) has been adapted in their company by appointed Internal Halal Committee (IHC). The staffs will be responsible for developing and controlling the HAS and ensure the effectiveness of Halal implementation in their restaurant (JAKIM, 2012). The next step is that they need to make sure that they do not serve wine and alcohol as Islam is strictly forbidden of these beverages and any ingredient with alcohol content, as clearly stated in Al-Quran. The equipment, tools, machines and processing aids should be clean from impurities and unclean items (*najis*). If they have come into direct or indirect contact with any unclean (*najis*) items that can be categorised as heavy form of pollutants (*najis mughalazzah*) such as pork or dog, the process of ritual cleansing (*sertu*) need to take into consideration. Next stage was that they need to ensure that the proper space layout and clean ventilation system are designed to prevent contamination in their workplace. Lastly, they should appoint dedicated staff to monitor the implementation of halal in their company to make sure the process of halal food was served based on Syariah compliance.

Figure 6: Six critical points to inspect before applying Halal Certificate



4. Conclusion

Korean has become a Malaysian youth iconic trend to be followed not only because of the K-Pop sensation, but the trend has also extended to consumer products such as food, cosmetics, pharmaceutical and technology. Nevertheless, this paper will only focus on recent Malaysian craze of K-food. Malaysia is an Islamic country where every Muslim is strongly recommended to visit restaurants which provide halal foods; however, from the observation there is only ten per cent of Korean Food Restaurants, which provided halal food. Therefore, multiple interviews session with twenty-three from Malaysia k-fans as well as Korean Food Restaurants Managers was conducted to identify critical issues. From the interviews, the mindset and attitude among Korean Restaurants Managers should be one hundred (100) per-cent commitment to do all six (6) steps appropriately. In halal, there is no such thing as half halal, or eighty (80) per-cent halal. It is either Halal, versus haram or any food or drink which lies within the grey area and does not fall clearly under the Halal or non-Halal category (*syubhah*). If Korean Restaurants want to gain Muslims acceptance through halal, they must comply with the requirement of JAKIM which protect the Syariah requirement.

If done through half-hearted commitments that do not fully conform to Islamic consumers needs, the risks are Korean Restaurants will be judged as being in a 'don't care for halal attitude', being in the same categories of other non-Muslim eateries like non-halal Chinese, Vietnamese, Thailand, Japanese restaurants which are not regularly patronized by Muslims Malaysians on a regular basis. This may result in short term increased profit, but long term non-acceptance of truly halal Korean Food. There may be risk of rejection among Korean culture and Hallyu too, if sustained efforts to comply with halal certification, Islamic life and style are not made.

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Appendix I

- a) Are you K-Pop Fans?
- b) If yes, which categories did you prefer with? K-drama, K-Pop, K-Food, K-variety Show, K-Fashions, K-Cosmetics? If not, please mentioned reasons.
- c) K-Pop
 - i. Do you memorise any song lyrics from K-pop songs?
 - ii. Did you review and research your favourite song lyrics first?
 - iii. Name your favourite K-Pop group
 - iv. Do you know BTS?
 - v. Have you heard of BTS song 'Dionysus' in their latest album 'Map of the Soul Persona'?
 - vi. As a Muslim, is it possible/impossible to hear the song of 'Dionysus'? In reality, the term 'Dionysus' means God of foreign origin in Greek
- d) K-Food
 - i. Are you a Korean Food lover?
 - ii. Name the premise of Korean food you have visited
 - iii. Do you know the terms Korean food like (*samgyupsal, wagyu, bibimbap, bulgogi, Kimchi*)?
 - iv. Are you aware that these foods are made up of halal and haram ingredients?
 - v. Before visiting the food premises? Do you first check their halal status? If yes, which medium did you use to check the status?
 - vi. Do you agree that it is mandatory to obtain JAKIM Halal certification for all Korean restaurants in Malaysia?
 - vii. Will you enter the Korean restaurant without the 'HALAL' but declare and display the 'NO PORK, NO LARD' sign? If yes, why. If no, why?
- e) K-Drama and K-variety Show
 - i. Do you follow the K-drama or the K-variety Show?
 - ii. Name the K-drama/K-variety show you have been following
 - iii. The length of time that you use to follow Korean dramas and variety shows per day
 - iv. Did you follow the TV drama series?
- f) K-Fashion and K-Beauty
 - i. Are you a fan of local/imported K-cosmetics?
 - ii. Please name the cosmetics brand you are currently using
 - iii. Please state the factors that favour the cosmetic product.

Adoption of *Shariah*-Based and Muslim Friendly Practices: A Case Study of Selected Medical Tourism Hospitals in Malaysia

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Abstract

Malaysia has been acknowledged as the top leading medical tourism destination by the International Medical Travel Journal (IMTJ) Awards since 2015. In attracting new medical tourists while providing quality healthcare to the patients, many medical tourism hospitals adopt either the *shariah*-based or Muslim friendly practices in their institutions. A *shariah*-based medical tourism hospital should follow the MS1900:2014 Quality Management System Certification standard in ensuring that the organization is operating based on the objective of *shariah* (*maqasid shariah*). Meanwhile, a Muslim friendly hospital should always committed on maintaining the well-being of the patients through the adoption and appreciation of worship during and after treatment. Thus, the objective of this paper is to discuss the preference and degree of practice of selected *Shariah*-based and Muslim friendly medical tourism hospitals in Malaysia. This study adopts the case study methodology where four hospitals were identified for a semi-structured interview. The findings shed light on the understanding of the current practices with some unique differences not only between the private and the public hospitals but also amongst them. Some guidelines and suggestions on the *Shariah* compliance being practiced are made to improve on the services provided which perhaps can result in the increase of the number of tourists looking for such services. In the long run this particular niche can be further developed and strengthened, expanding the tourism sector as well as perhaps making a significant contribution to the nation's economy.

Keywords: Medical tourism, shariah compliant, maqasid shariah, Muslim friendly hospitals, healthcare

1. Introduction

Over the last 10 years, the popularity and demand for Medical Tourism have been rising immensely, especially in developing countries. In the Asian continent, there is a trend of rapidly expanding medical tourism, in which countries are competing intensely through unique and authentic services and marketing strategies that go viral all around the globe. Among the factors causing this trend to grow in Asia is that the cost of treatment provided is low and the services rendered are of great quality as in developed countries (Connell, 2011). Nevertheless, the worldwide phenomenon of medical tourism is extremely attentive in nations like the United Kingdom, the United States, India, and Malaysia (World Tourism Organization, 2016).

Malaysia is keen to diversify the types of medical tourism services offered while providing the best quality for the tourism industry to stimulate the demand of both international and domestic markets. According to Tourism Malaysia (2011), there are five different types of tourism in Malaysia, namely Cultural Tourism, Adventure Tourism, Beach Tourism, Agricultural Tourism and Medical Tourism. Starting from 1997, medical tourism has been described as one of the new economic growth, especially in terms of economics of tourism. This is because the foreign exchange rates for the affected countries

have increased and continue to contribute to current accounts, especially in Malaysia. (Yee, Sai & Nancy, 2005; Chee, 2007). That is why hospitals in Malaysia are ready to receive tourists from outside the country to get treatment and medical facilities.

For Muslim tourists, Malaysia has become a destination for medical tourism due to the Islamic practice and procedures employed in medical industry (Sedigheh Moghavvemi et al., 2015). For this reason, many hospitals in Malaysia provide treatment and healthcare services based on the *Shariah* (Islamic Law) or at least a Muslim friendly environment to the patients. As compared to a Muslim friendly hospital that provide a friendlier Islamic environment to the patients, a *Shariah* compliant hospital will guarantee that the use of medicine and treatment, the services and facilities provided as well as the management of the hospital will be according to the *Shariah*. However, the extent of *Shariah* compliant or Muslim friendly practices among the hospitals have not yet being studied.

To explore the extent of Islamic practices among the medical tourism hospitals, this study will focus on three areas that is related to operational activities, namely; a) the treatment given, b) the services and facilities provided and, c) the management of human resources. Using a qualitative approach, four medical tourism hospitals were selected in Malaysia.

2. Medical Tourism in Malaysia

Medical tourism is defined as a process of traveling outside the country of residence for the purpose of getting medical care treatments (Medical Tourism Association, 2017). Medical tourism, according to Neil Lunt (2011) is divided into four sections:

a) **Travelers are temporarily away from abroad:** travellers or individuals traveling outside of the country experience a sudden accident or contraction of a disease that causes medical treatment.

b) **Long-term residents:** Residents who can receive health services sponsored by such sources from home-country governments, private insurance and private donations. This is not considered a medical tourist patient.

c) **Patients are on the common border:** Neighbouring countries that share the border and have worked together to provide national medical care for healthcare services from their own country suppliers (Rosenmöller et al., 2006).

d) **Individuals referred to as outpatients:** The health agency has chosen patients to be sent overseas due to the lack of specialized equipment for treatment and the patient has to wait longer because many should receive treatment. This treatment is done in both private and public agencies as it is urgently needed by the patient (Lowson et al., 2002, Burge et al., 2004, Glinos et al., 2006, Muscat et al., 2006). This individual is named as a collective medical tourism patient.

Malaysia is a leading nation in the world for medical tourism and has been making a huge progress in the industry for over a decade (MHTC, 2017). The history of medical tourism in Malaysia started after the decolonization of the British in the year 1957 (Ormond et al., 2014). As a result of 60 years of efforts in medical tourism, Malaysia among others Singapore and Thailand has set one of the best records in Asia (Dahlu & Aziz, 2012). However, studies have shown that Malaysia started to promote medical tourism aggressively after the debt crisis that hit South East Asia countries in the year 1997 which caused the performance of medical tourism to plummet. Since then, the Malaysia government has started to promote medical tourism started in 1998 to branch out both of its healthcare and tourism sectors (Moghavvemi et al., 2016).

Medical tourism in Malaysia is a new emerging service industry and it is defined as an activity in which individuals have the intention to get medical treatment, whether by traveling within the native country or abroad (Nur Alia Azmi, Suseela Devi S. Chandran & Fadilah Puteh, 2018). A rapidly growing phenomena is the health sector or medical tourism when patients receive treatment outside of their home country despite the same treatment in their home country. Treatment or service involves elective and complex procedures and can identify specialists such as dental care, cardiac and cosmetic (Mohana, 2010).

In view of this, the government has identified this industry as very important as it contributes to the country's revenue and is a great way to boost the tourism industry as a regional medical tourism

center. Therefore, the National Committee was set up for the Promotion of Medical Tourism in Malaysia involving other members of the committee, such as the Malaysian Industrial Development Board, Tourism Association, Malaysian Travel Agency, Malaysian Aviation System, Change of Doctor of Primary Medicine Malaysia and other tertiary hospitals.

The number of foreign medical tourists has increased over the years. Table 1 indicates the number of medical tourists travel to Malaysia for healthcare treatment. It shows an increase from 2011 to 2016, which revealed that the industry has been experiencing a consistent growth, which offered an opportunity for active participation by entrepreneurs in this field.

Table 1: Medical tourist arrivals to Malaysia

Year	Total Healthcare Travelers	Revenue (RM)
2011	643,000	537 million
2012	728,000	603 million
2013	881,000	727 million
2014	882,000	777 million
2015	859,000	914 million
2016	More than 1,000,000	More than 1 billion

Source: Pillay (2017)

Advantages like reducing medical costs are one of the attractions that can attract foreign tourists to seek medical attention. Hence, in line with Malaysia towards high-income status by the year 2020, the Malaysian government has been paying attention to this medical tourism industry as one of the new areas of growth in the services sector as identified in the 10th Malaysia Plan. Although, the industry is considered to be relatively new compared to other countries such as Thailand and Singapore, it is potentially a source of income for the country which is a dynamic foreign currency exchange. Malaysia has also made a mark as an optional destination for both types of foreign and non-Muslim tourists who come to Malaysia to receive medical treatment (Chee, 2007).

Looking at the infrastructure prerequisites for the healthcare industry segments, capabilities and the environment, it is no surprise that the industry has the advantage of bringing more foreign exchange earnings into the country. In this regard, Malaysia is actively promoting healthcare services to potential Muslim medical visitors, especially from neighbouring countries such as Myanmar, Vietnam, Indonesia, Singapore, Brunei and China, and from the Middle East (United Arab Emirates, Bahrain and Saudi Arabia).

Referring to MS1900:2014, a *Shariah* compliant organisation or business should not involve in prohibited activities in Islam, either non-halal product or non-permissible to *Shariah*. According to Shariff & Abdul Rahman (2016), *Shariah* compliant hospital should cover both *fiqh ibadah* and *fiqh muamalah*. If a hospital is certified with MS1900:2014, it can be recognized as a factor that can attract tourists from Malaysia or even outside Malaysia to get treatment from the hospital. Muslim countries. Figure 1 shows the MS1900:2014 *Shariah* Based Quality Management System.



Source: Shaharom & Abdul Rashid (2016)

Fig. 1: SIRIM: MS 1900: 2014 *Shariah* Based Quality Management System

One of the key agencies that extensively promote Malaysia's medical tourism is the Malaysia Health Travel (MHTC). It is an agency established under the Ministry of Health in 2009 specifically to raise Malaysia's profile as the preferred healthcare service destination in the world. The council also serves as a one-stop centre to facilitate the overall development of medical tourism by coordinating industry collaborations and 21 enhancing public-private partnerships. Among the notable strategies initiated by MHTC are:

- i. Setting up a call centre and website to cater inquiries from potential medical tourists regarding hospital services, treatment packages, hotel and prior travelling to Malaysia.
- ii. Establishing a government-to-government agreements with Oman, Libya, and Kazakhstan which allows these countries to pay for their citizen's healthcare services in Malaysia (Maierbrugger, 2015).
- iii. Establishing overseas representative offices in Indonesia, Myanmar, Vietnam, China, and India with the aim to gain faster access to the target markets by handling inquiries and rendering healthcare travel assistance to potential medical tourists.

As part of the effort to diversify the sources of medical tourists, MHTC has collaborated with Gulf Cooperation Council (GCC) countries to provide "halal health treatments" by emphasizing hospitals in Malaysia as Muslim friendly (halal food, prayer rooms, halal medical treatments such as using insulin made from bovine products rather than porcine based) (Leong, 2014).

The second government agency is the Ministry of Tourism and Culture Malaysia (MOTAC). The introduction of My Second Home (MM2H) program, spearheaded by MOTAC allows foreigners who fulfil specific criteria to stay in Malaysia for ten years on a multiple-entry social visit pass. Naturally, MM2H participants are eligible to enjoy the local medical treatment while staying in Malaysia, thus, indirectly contributed to the medical tourism industry growth. In addition, MOTAC is able to leverage on its industry presence to further develop the country's tourism industry, as observed in its partnerships with other countries through the Golden Phoenix Award; a platform for women from across the globe to meet, gather information, share expertise, seek opportunities, and explore new markets in all fields of endeavour including medical tourism (Ministry of Tourism and Culture Malaysia, 2015).

Another government agency is the Tourism Malaysia and Malaysia External Trade Development Association (MATRADE). MATRADE is a government agency, established under the Ministry of International Trade & Industry (MITI) to promote Malaysia's services and products abroad. Before the establishment of MHTC, the medical tourism marketing promotion abroad was organized and carried out by Tourism Malaysia and MATRADE. Tourism Malaysia is a marketing agency established under the Ministry of Tourism and Culture or MOTAC to promote Malaysia as a top-of-the-mind destination, in line with its popular tagline "Malaysia, Truly Asia." These two agencies are

able to work hand-in-hand in establishing a well-coordinated mechanism in promoting the medical tourism, which can accommodate different marketing platforms including international tourism fair, medical conference, trade mission, and medical talks, etc.

According to Safurah (2013), Malaysia inherited a health system from the British upon independence in 1957 but with services mainly based in urban areas. Health care services were expanded as a post-independence priority, particularly for the 16 economically disadvantaged and the rural population. A three-tier primary health care model, developed for the public sector from the late 1950s consisted of a health centre, four sub-centres and four midwife clinics for each sub-centre. Figure 2 shows the schematic overview of the health system in Malaysia.

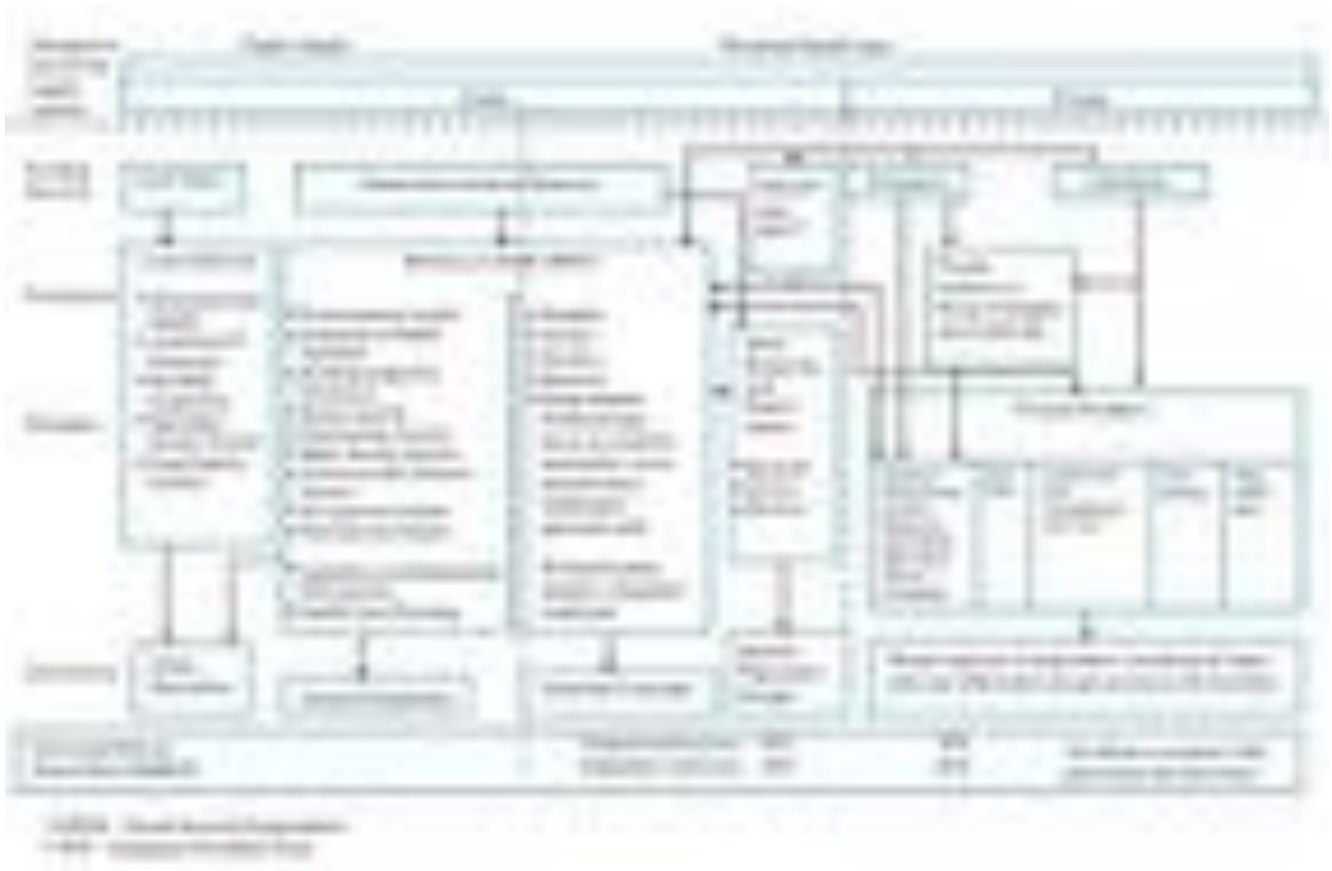


Fig. 2: Health System in Malaysia

Source: Hussein, RH, (2012) Asia Pacific Region Country Health Financing Profiles: Malaysia, Institute for Health Systems Research

The private sector has played an equally significant role in developing the medical tourism industry. Many private hospitals in Malaysia progressively implement several strategies to attract more foreign patients by improving existing infrastructure and equipment, pursuing international accreditation, improving their website for multi-lingual information dissemination, transparently offering cost package as well as enhancing patients' experience through an end-to-end service delivery (MHTC, 2017). The facilities provided by private medical operators currently offer a wide range of medical services which are highly sought after by medical tourists including cardiology, orthopaedics, oncology, neurology, dental treatment, infertility treatment, cosmetic surgery and rehabilitation services (Pillay, 2017). Accordingly, the private sector has welcomed the government's initiative, and the number of

private healthcare facilities registered for the promotion of medical tourism has significantly increased from 35 hospitals in 2010 to 76 hospitals in 2017 (MHTC, 2017).

The Ministry of Health Malaysia in 2010 has introduced “Hospital Mesra Ibadah” for several government hospitals; specifically HUSM Kubang Kerian, Kelantan, Hospital Pulau Pinang, Hospital Pakar Sultanah Fatimah Muar Johor, Hospital Selayang Selangor, Hospital Langkawi. A few private hospitals also introduced the same concept of “Hospital Mesra Ibadah” such as Hospital Pakar Perubatan Al-Islam Kampung Baru, Kuala Lumpur. Hospital Mesra Ibadah (HMI) is a concept used in hospital management to achieve the qualities of excellence and pride to employees for the well-being of its customers through the adoption and appreciation of worship during and after treatments. Hospital Mesra Ibadah aims to create awareness through education on patients and families to always get closer to Allah (Al-Islam Specialist Hospital, 2013).

The management is highly committed in creating awareness and actions to facilitate the worship of Allah (pray) by the patients. As a hospital upholds Islamic values, management provides religious officials to assist and provide guidance to patients. They will visit the patients on a daily basis to assist them pray and providing training and guidance to Muslims. In addition, the basic facilities to perform the ritual are made available such as Qiblah, proper attires, prayer mats, water spray and *Tayamum* dust. The patients will be assisted and guided by Ustaz (for male patients) and Ustazah (for female patients) to perform prayer when in difficulties consistent with the principle of Hospital Mesra Ibadah (Al-Islam Specialist Hospital, 2013).

The above facts explain the reasons Malaysia should create and offer its own *Shariah* compliance medical tourism products and services to compliment a huge Islam-friendly market. At the same time, Islamic principles are recommended to be applied strictly at all management levels as a manifestation of seriousness of offering a *Shariah* compliant medical tourism.

3. Literature Review

Tourism is a dynamic and competitive industry that requires the ability to adapt constantly to customers' changing needs and desires, as the customer's satisfaction, safety and enjoyment are particularly the focus of tourism businesses. More precisely, tourism may be defined as the processes, activities, and outcomes arising from the relationships and the interactions among tourists, tourism suppliers, host governments, host communities, and surrounding environments that involve in attracting and hosting of visitors (WTO, 2005). The definition has been supported by Nikoletta (2006) whom gave a more comprehensive definition that tourism was a service industry comprising of a number of tangible and intangible components. The tangible elements include transport systems - air, rail, road, water and now, space; hospitality services - accommodation, foods and beverages, tours, souvenirs; and related services such as banking, insurance and safety and security. The intangible elements include: rest and relaxation, culture, escape, adventure, new and different experiences.

According to the World Tourism Organization (UNWTO) (2013), tourism has impacted on the economy, natural and built environment, local population at the destination and tourists themselves. Due to these multiple impacts, there is a wide range and variety of production factors required in producing these goods and services to be enjoyed and experienced by visitors and the wide spectrum of stakeholders involved or affected. There is a need for a holistic approach to the development of this industry, covering the whole list of activities along the supply chain. This approach is strongly recommended in order to formulate and implement the relevant policies at the local, national and international levels. Stefan & Wiston Juan (2011) stated that the general increase in disposable income increased demand for tourism services. This attracted more investors to invest in the tourism related activities that contributed towards economic growth.

Some common terms for medical tourism are, 'travel for medicine' or 'tourism for health'. Henderson (2004) says that this tour is a journey that involves health screening, surgical operation and hospital operation. Unlike cosmetic surgeries that do not require therapy for pampering and alternatives. Researchers say that medical tourism is a tourist who receives medical attention. The medical tourism concept becomes more apparent when Neil Lunt (2011) says that medical tourism can be defined as when a person chooses to travel across international borders by having the intent to seek medical treatment such as cosmetic excretion, dental care, fertility exposures and elective exposures. This definition involves medical travellers to travel to other countries to receive treatment for personal health care purposes.

4. Methodology

This study was conducted using the qualitative approach, thus, it will be inductive in nature. A theoretical framework will firstly need to be developed through the inductive approach of the proposed study. Philipp (2000) claimed that qualitative content analysis could be such an inductive approach and it offered a range of rule-based procedures for a systematic analysis of data material. In addition, the data could be gathered from a case study methodology as well. Hence, qualitative content analysis was considered appropriate for the analysis and interpretation which was according to the case study. As a matter of fact, its quantitative counterpart classical content analysis is repeatedly mentioned as a method of analyzing data in the context of conducting case study research (Yin, 2003). Therefore, it can be argued that qualitative content analysis could be proven a useful tool for analyzing data material, derived from a case study research (Philipp, 2000). Case studies are widely used in organizational studies and across the social sciences, and there has been a suggested that the case study method is increasingly being employed with a growing confidence as it is a rigorous research strategy in its own right (Hartley, 2004).

The data on this study will be collected by using interview session with the top management of the medical tourism operators. The samples in this study were Hospital USM at Kubang Kerian, Kelantan, Hospital Pakar Sultanah Fatimah, Muar, Johor, Al-Islam Specialist Hospital, Kampung Baru, Kuala Lumpur and PUSRAWI, Kuala Lumpur. The purpose of the interviews among management staff of the four hospitals was to examine on the implementation of *Shariah* compliance in the hospital management.

5. Results and Discussion

Table 2 summarises basic demographic characteristics of the four medical institutions that apply *Shariah* friendly practises in their hospitals. In-depth narratives about these four hospitals were discussed later.

Table 2: Basic Characteristics of the Selected Medical Institutions

No	Hospital	Total Staff	Year Founded	Year Implemented <i>Shariah</i> Friendly Practices	Number of Beds
1	HPSF	300	1900	2010	857
2	HUSM	450	1979	2009	956
3	PUSRAWI	200	1984	2001	550
4	Al-Islam	280	1996	2000	456

Source: <http://hpsf.moh.gov.my>, <https://www.al-islamhospital.com.my>, <http://www.pusrawi.com.my>, <http://h.usm.my>

The data collected from the interviews were based on the same set of questions. Nevertheless, these data were important to be discussed in pursuance of a thorough understanding of the implementation of *Shariah* friendly practice. To get the information from each hospital, interviews were conducted with the Head of Islamic Affairs Unit or the Chief Executive Officer (CEO) of the hospitals. All interviewees are male except for HUSM, and their ages are between 34 – 60 years old. All of the interviewees are married and they are bachelor degree holders except the CEO of Al-Islam Specialist Hospital who is a PhD graduate. The details of the interviewees were provided in Table 3.

Table 3: Demographic Characteristics of the Interviewees

No	Respondent Code	Gender	Age	Marital Status	Academic Background	Position in the Company
1	HPSF	Male	39	Married	Bachelor Degree	Head of Islamic Affairs Unit
2	HUSM	Female	34	Married	Bachelor Degree	Head of Islamic Affairs Unit
3	PUSRAWI	Male	48	Married	Bachelor Degree	Head of Islamic Affairs Unit
4	Al-Islam	Male	60	Married	PhD	CEO

Source: Norshazalwana Mohd Zain, Personal Interview, September 14, (2014); Yusni Bin Ali, Personal Interview, September 9, (2014); Salehuddeen Abdul Aziz, September 2, (2014); Ishak Bin Mas'ud, Personal Interview, September 20, (2014)

5.1 Government Medical Tourism Hospitals

In understanding the application of *Shariah* friendly practices among the government medical tourism hospitals, this study had selected two hospitals which were the Hospital Pakar Sultanah Fatimah, Muar, Johor (HPSF), and HUSM Kubang Kerian, Kelantan. The following section discussed the background of the medical tourism hospitals, the practices, strategies and how the implementation of *Shariah* friendly hospitals affected the performance of the hospitals.

5.1.1 Case Study of HPSF

Part I: Background of Hospital Pakar Sultanah Fatimah

Hospital Pakar Sultanah Fatimah (HPSF) was established in year 1900 at Jalan Petri, Muar and was known as the 'Government Dispensary'. The whole health service has moved to Salleh Road in year 1918 when the redevelopment of Muar town was completed. In the beginning of 1920s, this hospital, once known as the Muar District Hospital, had been experiencing a number of rapid developments. The conversion and declaration of the name from Hospital Muar to HPSF was completed by His Excellency Sultanah Johor on 13 October 2003. The hospital is ranked as the third most important hospital in the state of Johor after Sultanah Aminah Hospital and Sultan Ismail Hospital. It is also a reference hospital for the northern zone of Johor for Batu Pahat, Tangkak and Segamat districts. In addition, HPSF also plays a role as a 'Teaching Hospital'. The Hospital Rebuilding Project Master Plan has started since 1990 and is still awaiting for the Ambulatory Care Center building which will complement the hospital with a range of state-of-the-art medical facilities to cater for the expert services provided. HPSF's organizational chart is divided into four divisions. They are; a) Medical Directory, b) Surgical Directory, c) Directory of Women and Children Services, and d) Directory of Diagnostic and Support Services.

"*Hospital Mesra Ibadah*" in HPSF was launched on 21 August 2010 at the JKNJ level at the Allied Health Sciences College, Johor. The project is under the Islamic Affairs Unit with the aims to provide *Ibadah* equipment, to facilitate *Ibadah* in every ward. The hospitality is exhibited through making facilities available like: i) *Qibla* direction, ii) Bottle spray for ablution, iii) *tayammum dust*, iv) Islamic reading material, v) HPSF prayer room. The objectives of Islamic Unit Affair are; i) to apply the concept of *Ibadah* methods during illness, ii) to explain the issues related to patient *Ibadah*, iii) to improve skills to staff members of hospital while engaging with the patient's affairs problems, iv) to increase the understanding in Islamic *Fiqh* medical problems, v) to create a hospitality HPSF atmosphere for patients.

The hospital also trains the nurses through Training of Trainers (TOT) courses with knowledge related to *wudhu* and patient's *tayammum* in order to help the patients to perform the prayers. The activities that have been and are being conducted are: i) Morning Prayer daily at the Customer Service Office, ii) Announcement of the entrance of *fardu* prayers, iii) Providing Prayer Kit in each ward at the hospital; the prayer kit includes: Bottle spray, *tayam* dust and Islamic reading books, iv) Providing Training of Trainers courses to hospital members in stages, and v) Setting up a prayer room near the Medical & Surgical Block to facilitate patients who are able to move to perform the prayers.

Part II: Muslim Friendly Practices in Hospital Pakar Sultanah Fatimah

a) The treatment

When treating patients, the hospitals usually provide male or female doctors responding to patient's request but subject to availability of male/female doctors. The Head of Religion Unit mentioned; *"Sometimes, the patients' request cannot be fulfilled as many patients queue up and we do not have enough doctors"*.

When members in the pharmacy board conduct any research experiments, they would always avoid the use of illicit drugs. The Head of Religion Unit mentioned; *"The pharmacy board always ensures that all medicine is under control from illicit drugs and any non halal medicine"*

Before the patient receives any treatment procedure, the management of Religion Unit provides counselling session with them. The Head of Religion Unit mentioned; *"We provide the session of counselling for the patient to make sure they are ready to have the operation and be positive. Sometimes they do not know what they have to do before the operation"*.

b) The facilities and services

Based on the question whether the existing facilities are able to help and enhance the implementation of the *Shariah* compliance in the hospitals, the Head of Religion Unit answered; *"We started following the concept of "Hospital Mesra Ibadah" (HMI) (prayer friendly atmosphere) and provide facilities such as prayer kit for patients, "surau" (room for worship), "qiblat" (direction of Mecca), and "Azan" (announce the prayer time). We also provide counselling services and session to patients who require advice and are assigned to the board of Religion Unit of the hospital"*.

c) The management

The management of HPSF chooses to implement *Shariah* friendly practices in their management of the institution for the Pharmacy Board; *"This board is to ensure all Shariah friendly activities are done. By doing this, the patient will be secured as all the medicine is halal certified"*.

The reactions of the top management committee and its governance;
"Top management also gives full support to apply Shariah friendly practices in the hospital".

Part III: Strategies for Certification of Muslim Friendly Hospital

HPSF manages the Muslim Friendly Hospital Programme as mentioned by the Head of the Religion Unit;

The Muslim Friendly Hospital was launched on 21 August 2010 at the JKNJ level at the Allied Health Sciences College, Johor. The programme is under the Islamic Affairs Unit of the "Rumah Mesra Bersama Hospital". It will help the patient to use the facilities such as praying mat in every ward, direction of qibla, bottle spray for wudhu, tayammum dust and Islamic reading material. Besides that, HPSF "surau", located next to the Medical and Surgical Ward was recently opened in July 2011.

The strategies used to be certified as Shariah friendly hospital is the implementation of Maqasid-Shariah which is following the five key principles in Qawaid-e-Shariah (Islamic Legal Maxims) which are; a) Intention, b) Conviction, c) Harm, d) Hardship and e) Custom.

Follow by the five key principles, it can be concluded that everything should be done for the sake of Allah alone as the person will be judged according to his intentions. When compelled from doing something contrary to the *Shariah*, there should be a limit to it or it should not be prolonged. These five principles can help the medical personnel fulfilling the *Maqasid Shariah* in strategies used to be certified as *Shariah* friendly practices.

Part IV: Muslim Friendly Practices and Hospital Performance

The effectiveness of performance evaluation system is the key to success. As mentioned by The Head of Religion Unit;

"It is critical that the management does its best to make the system successful. It is recommended that while conducting performance appraisal, the management should also give a certain value to performance involvement of employee in different character building programmes. For this, Key Performance Indicators (KPI) should be developed and implemented".

“The activities of the Training & Development unit must be closely linked to the overall Islamic development, the hospital wants to see in its personnel”.

The implementation of Muslim friendly practices programme in the management is hopefully applicable to the employees at the hospital when they start to realize the importance of the programme that contribute to character building among the employees and to ensure they will be successful employees.

5.1.2 Case Study of HUSM

Part I: Background of Hospital Universiti Sains Malaysia

The intention of setting up the Medical Centre at Universiti Sains Malaysia was initiated as early as April 1974 but it was delayed until officially announced in early 1979 by then YAB Deputy Prime Minister under the Medical Complex Project. Universiti Sains Malaysia Hospital (HUSM) aims to explore new areas of patient care services and become an excellent medical centre with quality and advanced technology usage. As an excellent corporate organization, Universiti Sains Malaysia Hospital provides patient care services that operate based on: i) Administrative and management efficiency, ii) Quality service products, iii) Interested in teaching and research activities, iv) Optimal financial generation, v) Construction of pure human resources values, and vi) Preserving social responsibility to society.

Part II: Muslim Friendly Practices in HUSM Kubang Kerian

a) The treatment

According to the Head Religion Unit, the hospital had planned to participate in medical tourism industry because many patients from Thailand and Indonesia come to get treatments in the hospital. When treating patients, the staff will start with the *kalimah* “*Bismillahirrahmanirrahim*” and before the patient gets any procedures for operation, the management of Religion Unit provides counselling session.

b) The facility and services

The hospital had provided the prayer kit for patients, “surau” (room for worship) at each level in the wards, “*qiblat*” (direction of Mecca), and “*Azan*” (announce the prayer time). The additional things were done and added to satisfy the *Shariah* compliance needs; a centralized “*surau*” at ground floor for family of the patient and staff pray in congregation during prayer time.

c) The management

The management chooses to implement *Shariah* friendly practices in their management of the institution for staff attire.

“The staff must follow the guidelines of uniform/attire which must cover the “aurah” and make sure all the staffs follow the guidelines”.

The management also chooses to implement *Shariah* friendly practices in their management of the institution for the pharmacy board.

“They have a board to ensure all Shariah friendly activities are done especially the medicine to give to the patients”.

The benefits when the pharmacy board implements the *Shariah* compliance;

“All the medicines have halal certification and the patient will be guaranteed”.

The reactions of the top management committee and its governance;

“Top management also gives full support to apply Shariah friendly practices in the hospital”.

Part III: The strategies used to be certified as Muslim friendly practices

As mentioned by the Head of Religion Unit;

“The success of every institution depends on the quality and commitment of its human resources. In order to ensure continued efficiency and effectiveness of members of staff, each organization has to carry out employee performance appraisal from time to time so as to keep them in check and replace, motivate, retrain or take any other appropriate action”.

One of the strategies they used to implement the *Shariah* friendly practices was by using the Standard Operation Procedure (SOP) to ensure all the staff were following the standard that has been

set such as making sure all the facilities for the patients in the “*surau*” are in a good condition and the prayer guide book and information board to the patients are always updated.

Part IV: Muslim Friendly Practices and Hospital Performance

Performance management consists of all organizational processes which determine how well employees, teams and ultimately, the organization performs. As mentioned by the Head of Religion Unit; “*The process of performance management includes: i) Human resource planning, ii) Employee recruitment and selection and iii) Training and Development.*”

To ensure the best performance from the implementation of Muslim friendly practices in an organization, staff’s performance must be the major concern by providing training and development courses. The training will involve all staff to ensure high quality work performance.

5.2 Private Medical Tourism Hospital

In understanding the application of *Shariah* friendly practices among the government medical tourism hospitals, this study had selected two hospitals which namely the PUSRAWI Hospital, Kuala Lumpur and Al-Islam Specialist Hospital, Kampung Baru, Kuala Lumpur. The following section discussed the background of the medical tourism hospitals, the practices, strategies and how the implementation of *Shariah* friendly hospitals affected the performance of the hospitals.

5.2.1 Case Study of PUSRAWI Hospital

Part I: Background of the Hospital

PUSRAWI MAIWP Hospital was established in 1984 and started its outpatient services at Wisma Baitulmal, Jalan Ipoh, Kuala Lumpur. Along with the development, the PUSRAWI Hospital commenced operations in a new building in Jalan Tun Razak, Kuala Lumpur on 16 January 2006. The building was officiated by His Majesty the Yang di-Pertuan Agong Al-Watiqu Billah Tuanku Mizan Zainal Abidin Ibni Almarhum Sultan Mahmud Al-Muktafi Billah Shah. The hospital is a wholly-owned subsidiary of the Federal Territory Islamic Religious Council (MAIWP) and has a capacity of 164 beds and Haemodialysis Centre. Health, comfort and customer safety. In order to ensure excellent services, PUSRAWI MAIWP Hospital has been certified by ISO9001: 2008 certification and offers a wide range of expertise from various disciplines to all groups irrespective of races and religions.

PUSRAWI Hospital’s vision is to be an excellent hospital to become references to all people, ability to sponsor the treatment and visited to all races, religion and country. Whilst its mission is to be a private hospital that meets the demands of *fardu kifayah* through excellent services and professional and up-to-date technology, and dedicated workforces to meet customers' needs. To maintain its quality standard, PUSRAWI Hospital and its employees provides health care services to achieve the customers' satisfaction in a timely manner and adheres to the code of ethics of the profession and practice standards. The objectives of PUSRAWI Hospital are to a) Provide professional healthcare with ongoing training, b) Provide comfortable and customer-friendly environment, c) Foster an excellent work culture based on Islamic values, d) Contribute to shareholders of companies, employees and the community, e) Put employees and customers as an important asset of the company.

Part II: *Shariah* Friendly Practices in PUSRAWI Hospital

a) The treatment

Some of the treatments in the hospital must use stool bags, as mentioned by the Head of Religion Unit; “*For patients who get treatment using stool bags (colostomy), they must clean the body and make sure that the stool bags are used properly. Then the patients can take ablution or “tayammum” for prayer.*” In addition, looking at the situation especially for the maternity package, the hospital provides an opportunity for the patients to choose a doctor either male or female doctor. The packages also provide the optional procedures such as epidural, circumcision baby boy and girl by surgeon, phototherapy and newborn hearing test”.

For the deceased patient, the employees assist to manage the last office (LO) to the deceased, reciting the holy *Al-Quran*, inform religious officials about the death, besides giving privacy to the family.

b) The facility and services

The existing facilities able to help and enhance the implementation of the *Shariah* compliance in the hospitals. As mentioned by the Head of Religion Unit;

"We provide facilities such as; i) The guide book for patient prayer, ii) Preparation of religious facilities such as direction of "qibla" direction, spray bottle, "tayammum" dust, Al-Quran, prayer kit and prayer information."

For maternity patients, the hospital provides guidance on antenatal care and during the birth process as well as matters related to women's problems. The spiritual support and guidance is also given to patients and families in the ward, dying patients and help to facilitate the funeral processes.

c) The management

On the implementation of *Shariah*-compliant practices, the management of the hospital emphasizes the following; i) Applying a hospitality-friendly hospital concept as a guideline, ii) Implementing appropriate etiquette and covering *aurat* for Muslim workers, and iii) Showing a good personality. To cultivate the value of Islam in providing the best services to the patients and customers who visit the hospital, the staff are encouraged to smile and give "*salam*" and deliver the best services to the patients. As mentioned by the Head of Religion Unit; *"The hospital provides Shariah panel and Special Affairs Unit administered by the appointed Religious Officer as a reference"*.

Part III: The strategies used to be certified as *Shariah* friendly practices

The strategies that PUSRAWI uses in implementing the *Shariah* friendly practices are; i) Appointing full-time doctors who understand the mission and vision of the hospital, ii) Holding knowledge sharing programs frequently such as the Continuing Medical Education (CME) (twice a month) not only focus on clinical cases but also issues related to medical ethics from the Islamic perspective. Other than that, the hospital provides programme on Islamic religion knowledge for the staffs and monthly invites speakers to accomplish the programme.

Part IV: Contributions of *Shariah* friendly practices to the firm performance

PUSRAWI Hospital has organised and coordinated various skills development programmes to enhance the performance of the employees. Among the programmes that have been carried out are the Introductory Induction Programme on Hospital Friendly and Patient Prayer Workshop.

Attendance to the Learning Programme is also taken into consideration as Key Performance Indicator (KPI) points and rewards in the form of additional allowances provided by the management for individuals who achieve the targeted KPI score.

5.2.2 Case Study of Al-Islam Specialist Hospital

Part I: Background of Al-Islam Specialist Hospital

An interview had been conducted with the Director of Al-Islam Specialist Hospital at Al-Islam Specialist Hospital, Kampung Baru, Kuala Lumpur; Dr. Ishak Mas'ud on September 20, 2014. He is also the Director of Islamic Consortium Hospital Malaysia. The feedbacks from the interview with Dr. Ishak Mas'ud were categorized into three aspects: human resource management, treatments, facilities and services.

For an introduction of the hospital, Dr. Ishak Mas'ud said that;

"Al-Islam Specialist Hospital and formerly known as the Kampung Baru Medical Centre (KBMC) was developed as a one-point programme; "Bil-Hal Angkatan Belia Islam Malaysia" (ABIM) through the Bureau of Health ABIM. Planning started from the beginning of 1992 recognizing that there was a need for a medical hospital that took into account aspects of comprehensive treatment, including physical, psychological, mental and spiritual."

"The establishment of Al-Islam Specialist Hospital has promoting the concept of "Hospital Mesra Ibadah" (HMI). In line with the mission of Al-Islam Specialist Hospital, it helps Muslim patients in daily Ibadah, provides the best professional service and excellent and constantly improves our services to patients."

Based on the introduction, Al-Islam Specialist Hospital had an implementation of HMI and it is a huge challenge because it requires understanding, conviction and subsequent commitment from all

levels. HMI aims to create awareness through education of the patient and family to always be closer to the Almighty God.

Part II: Shariah Friendly Practices in Al-Islam Specialist Hospital

a) The treatment

The main treatment of Al-Islam Specialist Hospital is medical consulting services such as gastroenterology (expert intestine), rheumatology (arthritis specialists), dermatology (skin specialist), O & G (gynaecologists) including infertility, general surgery (laparoscopy/plastic/urology), orthopaedics (bone), ENT (ear, nose & throat specialist), ophthalmologist (eye specialist) and paediatrics (paediatrician).

“In this hospital, the patients can request for male or female doctors before taking the treatment. But if we do not have any doctors to do the treatment, they must accept whoever available to treat them. The doctors, especially a Muslim will inform the patients about the treatment and give advices according to the Shariah.”

“Many patients from other countries such as Turkey, Somalia, Brunei, and Indonesia have undergone our treatments. Some of them said that the treatments in this hospital are good and they are really satisfied. Some of them come to Malaysia just because they want to get the treatment and go to interesting places after the treatment. Most of them are Muslim. They choose this hospital because the management and the treatment are following the Shariah.”

b) The facility and services

Following the concept of HMI, in term of facilities and service, Al-Islam Specialist Hospital provides “Solat Kit” in every ward that consists of *tayammum* dusk, spray bottle, and a handbook on how to pray on the bed. The direction of the *qiblat* is also provided. The patients can easily use the kit and can pray even though they are bedridden. The staff will help the patient to perform *solat*. Besides, each patient may know the time of *solat* as *Azan* will be performed in the ward. The hospital also provides “*solat* reminder” to all the patients.

*“The patients can get information about the concept of HMI by reading the brochure and can meet the staff under Religious Affairs Unit to get the information. Al-Islam Specialist Hospital also has “surau”, provided for all staff and patients. Every level of the ward has a “surau” so it is easier for the patients/relatives to perform *solat*.”*

c) The management

*“As a hospital that upholds the values of Islam, the management provides religious officials to guide and provide guidance to patients. They will visit the patient on a daily basis to help patients perform *Ibadah* and provide training and guidance to staff Al-Islam to help the patients.”*

“In this hospital, we have the guidelines for Muslim healthcare givers (the staff) following the objectives of Shariah (Maqasid Al-Shariah), and the staff especially doctors will make decisions based on Islamic Principle.”

“We also have 7 best daily practices which are; i) Intention to work because of Allah; ii) Begin every work with Bismillahirrahmanirrahim; iii) Frequently recite Subanallah; iv) Thank Allah with Alhamdulillah; v) Frequently recites La ila ha illahallah; vi) Always try to perform congregational prayer; and vii) Always pray to Allah when accepting all work. This practice will be performed by the staff when working at the hospital.”

“Besides, we have to train new staff for more details about HMI. The attire of the staff must also follow the Shariah. We have activities such as “usrah” by department and a specialist doctor for being a “naqib”. Every Saturday, we have “Tazkirah” to all the staff. It will be covering the knowledge “Fardhu Ain” and “Farhdu Kifayah”, followed by periodic timetable, and we also have some extra classes such Fiqh Class, Arabic Class and Tadarus Al-Quran Class.”

Part III: The strategies implemented to be certified as *Shariah* friendly

The strategic planning for the medical tourism in HUSM Kubang Kerian is as stated below:

“For implementing the concept of HMI, we have planned to send our staff to United States of America to get some knowledge about spiritual care services for patients Muslim at Stanford Hospital, USA. Besides that, we also like to involve medical tourism industry for promoting our concept of HMI and have planned to collaborate with JAKIM, Ministry of Health (KKM) and involve with Malaysia Health Tourism Care (MHTC). This collaboration is important to achieve the objectives of HMI besides to develop economy, especially in medical tourism industry.”

Part IV: *Shariah* Friendly Practices and Hospital Performance

The effectiveness of performance evaluation system is the key to success. Therefore, it is critical that the management does its best to make the system successful. It is recommended that while conducting performance appraisal, the management should also give a certain value to performance of prayers. If the employee performs prayers, he should get a positive rating, thereby improving his salary increment. Similarly, involvement of employee in different character building programs should have a certain weightage in the overall performance evaluation program. For this, KPI should be developed and implemented.

Discussions

From the four case studies on the implications of *Shariah* friendly practices; the treatment, facilities & service, strategy and the performance of management after practising *Shariah* friendly services, these conclusions were developed:

Part I: Background of the hospital

Establishment of government hospital is to create community involvement and participation in health to stimulate and facilitate the people to improve the health of Malaysians through efficient policy formulas and monitor the services provided by various health agencies. It works to help individuals achieve a good health standard to enable them to carry out productive economic and social life. The hospital provides effective prevention, treatment and rehabilitation services by focusing on the less fortunate citizens. Besides that, the hospital also develops health research and development sectors of health.

For private hospitals, it is important to comfort patients. Patients are given the best service to when receiving the treatment. This caught overseas patients' attention to receive treatment at a private hospital. Facilities provided in this hospital are also very conducive and are of great importance to patients and their families.

Part II: *Shariah* Friendly Practices in Government and Private Hospital

The potential implications of *shariah* friendly practice at government hospitals are according to a campaign (hospitality friendly) conducted by the religious unit. For example, religious units in government hospitals are responsible for ensuring that this (hospitality-friendly) campaign will be able to help patients receiving appropriate facilities through providing prayer kit for patients, “*surau*” (room for worship), “*qiblat*” (direction of Mecca), and “*Azan*” (announce the prayer time).

For private hospitals, *shariah* friendly practice is easy to practice because the hospital is able to set its own *syariah* rules and standard operation procedures. For example, they maintain the principles of *Shariah maqasid* in management and in the treatment of patients. This will further attract patients to receive treatment at private hospitals.

Part III: The strategies used to be certified as *Shariah* friendly practices in Government and Private Hospital

In government hospitals, the strategies implemented to ensure that *Shariah* friendly practice is more than providing “*surau*”, prayer kit, information about time prayer and the ongoing sessions to the patient conducted by the religious unit. In addition, the uniform attire rules must be compliant with *Shariah*. The doctor's choice for female patients cannot be fully implemented because of the lack of doctors and the availability of physician's expertise.

For private hospitals, the strategies used are very comprehensive and practicable. Private hospital management sets out that all hospital employees must follow weekly religious talks to study religious knowledge and this indirectly affects the attitude of an employee. Additionally, the hospital also attempts to meet the needs of patients seeking treatment from a physician according to gender for example, when getting maternity and gynaecological treatment. This has caused *Shariah* friendly practice strategy to be easily implemented.

Part IV: Contribution of certification of *Shariah* friendly practices on the hospital performance

In the government hospitals, the implementation of this *Shariah* friendly practices programme is applicable to the performance. The performance can be viewed in terms of facilities in the hospital such as reminder about prayer to the patients and the information about prayer practice. The performance also can be viewed in the pharmacy board for the certified the “halal” of medicine. In government hospitals, the management considers patients as those who seek the best treatment and *Shariah* friendly practice at the same time. This is because the number of patients is high and the management is concerned with their welfare.

For private hospitals, the management's performance enhancement is strongly emphasized after *Shariah* friendly practice has been implemented in management. For example, management has held various religious programs so that employees can improve their behaviour and work culture according to *Shariah*. In addition, the management ensures that all employees regardless of religions to follow the religious programme so that they can understand the concept of *Shariah* friendly practice in hospital. This figure describe about the conclusion of the chapter.

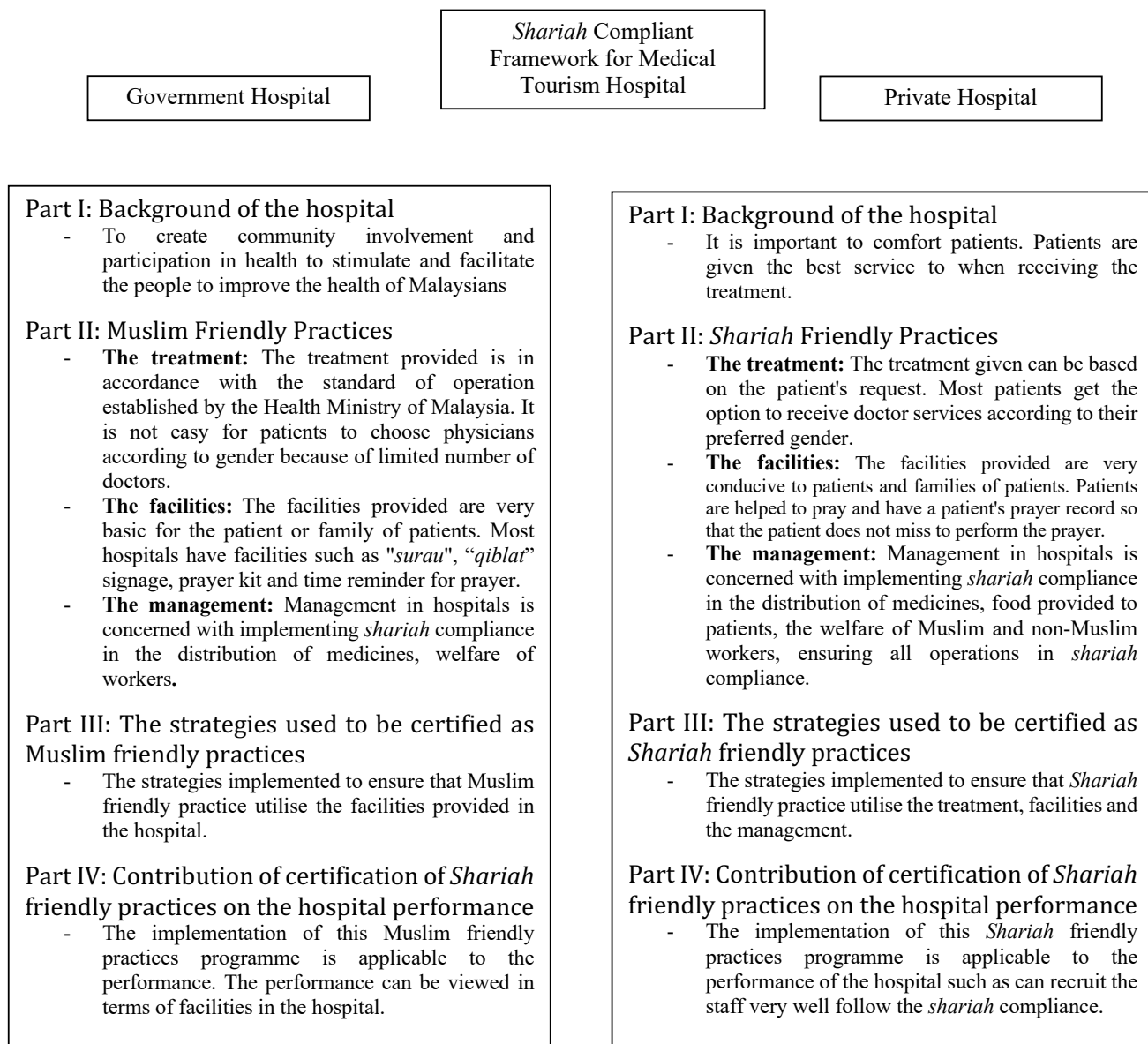


Fig. 3: *Shariah* Compliant Framework for Medical Tourism Hospital

6. Conclusions

This research aimed to explore what were the strategies used by the hospital medical tourism providers throughout the process of implementing *Shariah* friendly practice. From both private and government hospital's cases, the results showed that different strategies had been used by both groups for the similar process. Therefore, for the purpose of answering the second research question, this research explored the strategies used by the two types of the hospitals and found that they had used several strategies in order to apply *Shariah* friendly practices. These are namely: (a) seeking approval from top management, (b) providing awareness of *Shariah* friendly practice and getting staff to be fully commitment, (c) providing the *Shariah* friendly facilities and treatment for the patients, (d) involving staff in training and development and (e) inculcating Islamic values in the hospitals.

For the government hospitals, in the case study, they declared that the implementation of this *Shariah* friendly practices were mostly on the facilities provided for the patients. They provided all easy

to be used facilities for the patients. Examples of facilities provided were the space for prayer, bottle spray for *wuduk*, *tayammum* dust and call for prayer (*azan*). In terms of management, the government hospital, provide training and development such as Team Building Programme to the staff. These programmes are applicable to the staff at the hospitals to ensure that they are well informed and feel comfortable working in the hospitals.

For the private hospitals, they inculcated Islamic values in to their working culture. Apparently, one of *Shariah* friendly practice's objectives to inculcate, enhance and practice *Shariah* requirements into the hospital's quality management system emphasising on the values to be achieved. As a result, private hospitals inculcated Islamic values like teamwork, righteousness, trustworthy so that the *Shariah* friendly practices can be easily applied in hospitals. In terms of management, the staff must cover the *aurah* according to guidelines for attire, and must attend religious programs conducted by the management on a regular basis. In addition, the hospital also implemented good integrity such as practicing "*sunnah*" during working hours.

In contrast to government hospitals, they are more applying the work culture in an integrated manner and are more favourable to the patient. Since many patients receive treatment, hospital workers need full attention to the patients. The degree of understanding of the culture of work between the two groups of hospitals is different but has the same goal of ensuring that patients receive the best treatment.

Although both private and government hospitals used different actions and strategies, this study identified two common obstacles faced by both groups hospitals of revealed that they of were having difficulties in getting their staff's to give full their internal commitment. Fortunately, this problem had occurred only at the phase of the implementing process. Among the solutions to overcome this issue was by providing seminars and briefings focusing on *Shariah* topics like management in Islam, Islamic work ethics and many more.

The challenges mostly came from inside the hospitals, rather than outside. This clearly indicates that *Shariah* practices are totally depended on the hospitals. Therefore, it was fair to say that in order for independent applicants to apply *Shariah* friendly practices, they (as a whole) must be physically and mentally ready.

Shariah friendly practice also helps business to grow. For example, after applying the *Shariah* friendly practice in the private hospital, they have been receiving many patients from overseas (especially the Middle Eastern countries).

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The Moderating Role of Shariah Committee Quality on the Relationship between Audit Committee Characteristics and Malaysian Takaful Performance

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Abstract

The moderating effect of Shariah Committee Quality (SCQ) on the relationship between Audit Committee (AC) characteristics and Malaysian takaful performance remains a challenge that is yet to be resolved. Malaysia plays a leader role in Muslim countries in Islamic Finance especially in takaful industry and shariah committee roles and duties. AC characteristics have a significant effect on corporate financial performance. The fundamental AC role is to supervise the corporate's financial reporting practice, review of financial reports, auditing practice, internal accounting controls, and risk management practices. AC characteristics plays a crucial role in the overall Malaysian takaful companies which is supposed to enhance financial performance. Hence, SCQ as part of the internal governance structure and control body of the institution, thereby, ensure Shariah compliance in all transactions and activities, and enhancing the credibility of institutions in the eyes of its shareholders and customers. SCQ can potentially moderate the relationship between AC and Malaysian takaful performance. As an important mechanism of Corporate Governance (CG), In addition, agency theory and stewardship theory were used to develop the hypotheses. Several results of the previous literature were found fraternized, and inconsistent regarding the SCQ effect on firm performance or its effect on AC characteristics in general context, while the literature on Malaysia context remain scarce. It is expected that this SCQ moderation may considerably improve corporate performance by determining the strength or weakness of the relationship between AC characteristics and firm performance. Therefore, this paper conceptualized that 'SCQ' moderates the relationship between AC Chairman Specialization, Shariah Background, AC Independence and Meeting frequency, and Malaysian takaful performance.

Keywords: Audit Committee, SCQ, Malaysian Takaful performance, Moderating

1. Introduction

In Malaysia, the CG reforms were enacted in 2001. The reforms were introduced by the Securities Commission to regulate the Malaysian capital market for one decade (Orazalin & Mahmood, 2018). Following the scandals, crises, and their impact on South East Asia, the financial reform in this region including Malaysia are quite related to CG reform in western countries such as UK, USA, because the scandals and crises transverse through all corporate sectors due to lack of adequate measure in place to absorb the shocks which lead to great failure in the both developed economies and South East Asia include Malaysia such as Renong Berhad in 2000, United Engineers (Malaysia) Berhad in 2001 and Transmile Group Berhad in 2007 (Akhter et al., 2017). All these companies failed in Malaysia because poor CG practices. Notwithstanding, further reason for CG failures is more of internal matters because local banks were not having adequate liquidity to finance the continuing operations of the corporate sector. However, rely on external sources to finance these continuing operations. After the Financial Crisis of 2008-2009, a new wave of reports and reviews followed. All these reviews have contributed to the most updated UK Combined Code of 2012. This led to CG reforms in order to globalize local savings and international portfolio investment (Younas et al., 2011).

The Governor of Bank Negara Malaysia, who is the Director-General of Takaful, stated the aim of developing the Takaful industry in Malaysia to be as follows: The aim is to create progressive world-class Takaful operators that are able to successfully position themselves as leaders in the area of Takaful and thereby positioning the development of Malaysia as the international Islamic financial center (BNM, 2005).

The AC is the key advisory committee of the corporate body because of its role in safeguarding stakeholders' interests in conjunction with financial management and control (Alqadi, 2017). Further, it plays a fundamental role in CG as a value creator through guaranteeing financial reporting transparency by structuring and maintaining the confidence of shareholders and the general public as well (Abbadi et al., 2016; Velte, 2017).

Audit committees have been in forefront of public attention for decades now since they are the primary decision-making teams with responsibility to supervise the internal control and financial reporting of firms (Al Daoud et al., 2015; Al-Dalahmeh et al., 2017).

The quality of AC services may be affected by auditors' capability to carry out required audit processes and the approaches helping in identifying failures in the corporate's accounting and thus, reporting freely on these closures or bankruptcies (Al-Dalahmeh et al., 2017). The AC independence (i.e. unhindered function), the size, number of meeting, accounting expertise are important in this case (Toumeh & Yahya, 2017; Suprianto et al., 2017). Therefore, the current study encompasses the relationship between corporate performance and AC characteristics as moderated by SCQ in the context of Malaysia. Thus, this study aims to investigate the moderating effect of SCQ on the relationship between AC characteristic and corporate performance in Jordan.

Literature Review

The implication of the efficiency of ACs has increased in the awakening of the global financial scandals that resulted within past two decades, which saw the legislation of regulations in developed countries that encompasses CG problems, including ACs (Carson, 2003). The development towards regulating CG has seen an increase in developing and developed countries, in an effort to moderate the likelihoods of financial scandals and corporate failures, particularly the negative impacts of such incidences have on the general economies of developing countries (Giroux, 2008; Aldamen et al., 2012).

Furthermore, studies have exhibited that internal AC size and meeting frequency have their influence on performance, while the AC independence, qualification, and experience have significant effect on firm performance (Zain et al., 2006; Salameh et al., 2011; Yin et al., 2012; Alzeban & Sawan, 2015; Almagdoub, 2016). It was debated that AC size and independence plays an important role in enhancing the corporate performance. Some researchers report that small AC is more effective in supervising the financial reporting practice and cutting internal risks while others claimed that larger size and independence of the ACs have more impact (Chow, 1982; Palmrose, 1986; Al-Najjar, 2011; Anderson et al., 2012; PVVS & Palaniappan, 2016; Velte & Stiglbauer, 2018). However, other studies reported a negative or no significant effect of AC characteristics on firm performance.

Numerous tests have been carried out in order to resolve the relationship between variables, including AC size, the frequency of AC meeting, AC independence, and accounting expertise in the AC (Yin et al., 2012; Alzeban & Sawan, 2015; Almagdoub, 2016; PVVS & Palaniappan, 2016; Velte & Stiglbauer, 2018). The findings revealed that the relationship between AC characteristics and firm performance is positive in term of CG context. Conversely, there was a negative relationship between these variables, excluding AC frequency of meetings and AC independence which exhibited a positive relationship with firm performance (Salameh et al., 2011; Yin et al., 2012; Alzeban & Sawan, 2015). General negative relationship noted in this literature may be as a result of the fact that AC characteristics have no impact on financial information disclosure through risks.

Moreover, several studies used various AC characteristics to moderate different variables effect on firm performance. Such as Suprianto et al. (2017) investigated the AC accounting expert and earnings management with “status” AC as a moderating variable, found a positive influence on firm performance. The prerequisite to investigate the effect of AC characteristics on financial performance is becoming a major emphasis amongst scholars, stakeholders, accountants, and financial institutions. The importance of this study is to investigate the moderating effect of SCQ on the relationship between AC characteristic and Malaysian takaful performance. The role of AC characteristics is of high interest to both managers and the public in CG especially on the issues on what moderates it for an effective corporate performance. This distinguishes this investigation from previously studies for introducing and focusing on the moderating effect of SCQ and Malaysia.

Development of Hypotheses Audit Committee Characteristic

Audit committee characteristics have a significant effect on corporate financial and risk decision-making practices (Kikhia, 2014; Siam et al., 2014; Alqatamin, 2018). The AC is the sole crucial board sub-committee attributing its precise role of safeguarding the interest of stakeholders with respect to financial oversight and control (Hamdan et al., 2013). The fundamental AC role is to supervise the corporate’s financial reporting practice, review of financial reports, auditing practice, internal accounting controls, and more currently its risk management processes (Abdullah & Shukor, 2017; Cohen et al., 2017). Therefore, AC characteristics including AC Chairman Specialization, Shariah Background of AC, AC Independence, and the frequency of AC meeting are explained under the following subheadings.

3.1. Audit Committee Chairman Specialization and Malaysian Takaful Performance

The Chairman of the AC may be considered independent from the Administration because he will have a different mentality and arguments relating to specific financial reporting and auditing issues in the Company and not controlled by a single individual. It can be said that with various qualifications and experience in the industry between the Chairman of AC, the Executive Director and the Chief Financial Officer (Ng, 2013). The chairman of the AC in listed company is required to be an independent director and also a member of the Malaysian Institute of Accountants (KLSE, 2000).

MCCG (2017) pointed out “The Chairman of the AC is not the Chairman of the board”. Also, mentioned that, the Chairman of the AC is responsible for ensuring the overall effectiveness and independence of the Committee. Having the positions of Chairman of the board and Chairman of the AC assumed by the same person may impair objectivity of the board’s review of the AC’s findings and recommendations. In another issue MCCG focus in the qualification, collectively, the AC should have a wide range of skills to perform its duties. All AC members should be financially knowledgeable and be able to understand what is within the competence of the AC, containing the financial reporting procedure (Securities Commission Malaysia, 2017).

Rashidah and Fairuzana (2006), In Malaysia who argued that it is crucial for an AC to include directors who are competent and experienced in financial aspects. The reason for this is because an AC is first and foremost formed with the intent of monitoring a firm's financial reporting process. DeZoort and Salterio (2001) argue that the AC’s financial expertise increases the likelihood of detected material misstatements, which is reflected in better financial performance. Further, DeZoort et al. (2003) found that more experienced AC members, and those AC members who were CPAs, are more supportive of the external auditor

To date, no study examined the chairman of AC specialization. He has accounting degree or other specialization. While the MCCG not mention to this issue, so, this study try to examine the impact of chairman specialization on financial performance in Malaysian takaful companies. In an attempt to investigate the moderating role between chairman specialization and the firm performance, the related hypotheses are drawn as follows:

H1: The effect of Audit Committee Chairman Specialization on Malaysian takaful Performance is moderated by Shariah Committee Quality.

3.2. Shariah Background of Audit Committee and Malaysian Takaful Performance

Several studies agree that the experience and knowledge of members of the AC have a significant impact in increasing the effectiveness of the Committee (McDaniel et al. 2002; Bedard et al. 2010). For instance, Jun Lin et al. (2008) argue that the main task of AC is to supervise firms financial reporting and auditing procedures, therefore, members of AC should have the ability to understand the problems being discussed or examined. DeFond et al. (2005) and Aldamen et al. (2012) showed that an AC include members with previous financial knowledge or executive experience is positively associated with firm performance. Experience in the field of industry is very important for the members of the AC, so, they can judge the technical transactions and contracts. This is consistent with the resources dependency theory in order to benefit from all the resource and expertise available in the company (Alqatamin, 2018).

In order to accomplish their responsibilities for monitoring financial reporting and internal control, members of AC should have the necessary expertise. (Bedard et al. 2004) study three aspects of AC expertise: governance, financial, and firm-specific expertise. More focus on critical issues of quality financial reporting, and additional structured discussion of the quality of reports (McDaniels et al. 2002) Hence, when their experience increases, they become more effective at supervision the firm's financial reporting procedure. For instance, the effectiveness of the AC depends on the composition of the Board and the Directors' background (Peasnell et al., 2000; Vicknair et al., 1993).

Shariah Backgrounds is important issue on Shariah audit challenged by Islamic finance institution to have human capital with sufficient Shariah and audit knowledge. Abdul Rahman (2010) indicate one of the challenges in implementing the Shariah audit would be the production of independent and competent Shariah auditors. This happens because audit and Shariah knowledges are necessary to implement Shariah auditing practices. Currently, there is a lot of discussion about the level of efficiency of the Shariah auditor. Due to the insufficient number of practitioners who have audit and Shariah knowledge in the Islamic finance industry, the discussion focuses on deterring whether the audit specialist or the legitimate person is the most qualified person to conduct the forensic audit. Therefore, there is a special gap on talent to carry out Shariah auditing practices (Iqmal, et al., 2017).

The effectiveness of internal audit depends mainly on quality, training and staff experience. Employees must have sufficient experience in accounting, auditing and Shariah background. Therefore, IFI must provide them with training and professional experience in Shariah education. For instance, the employees are able to make decision in the Shariah transactions. This is also required by the members of the AC because they must participate in financial and Shariah decisions (Iqmal et al., 2017).

The MCCG has pointed to the importance of acquiring all AC members a sufficient level of knowledge, skills, experience and commitment, also stressed that it is very important so, that the AC can perform its duties and responsibilities effectively. He explained that a strong understanding of the financial and technical processes is in line with the need to understand all the financial dimensions in the company and this gives greater confidence in the financial reports as well as recommendations of the AC (Securities Commission Malaysia, 2017).

Hamid et al., (2014) suggested that there is a positive and significant impact on company performance when the AC has directors with accounting and financial backgrounds. To examine the moderating role of SCQ between the shariah background of AC and corporate performance, the following hypotheses are formulated:

H2: The effect of shariah background of Audit Committee on Malaysian takaful Performance is moderated by Shariah Committee Quality.

3.3. Audit Committee Independence and Malaysian Takaful Performance

Independence can be considered as one of the bases of AC effectiveness (Inaam & Khamoussi, 2016; Amoush, 2017) and firm performance (Alqatamin, 2018) since such independence permits AC members more self-sufficient and free from consigned interests (Al-Najjar, 2011) in reviewing firms' performance.

Al-Najjar (2011) studied the determinants of AC independence and activity: evidence from the UK. The author found a positive relationship between AC independence and activity. In the same way, Bala et al (2015) reported a positively and significantly relationship between AC independence to earnings quality. However, Velte & Stiglbauer (2018) found independent AC who are not managers in other corporates is negatively linked to both the positive and absolute levels of accounting quality.

Abbott et al. (2000) contended that higher AC independence is associated with higher-quality auditors and more effectiveness. The investigators exhibited that AC independence and audit fees are associated not only with the proficiency factor but also with an effective firm structure and CG. Independent auditors have more incentive than internal auditors for supervising as they give attention on corporate's reputational capital (Buallay, 2018). The firm having more independent auditors moderates agency cost which can result in a better reporting quality and create smaller gap with internal auditors (Zain et al., 2006). Therefore, the contribution of AC independence to the corporate performance cannot be over emphasized. However, the moderating effect of SCQ has not been examined for corporate performance. In an attempt to investigate the moderating role between Audit committee independence and the firm performance, the related hypotheses are drawn as follows:

H3: The effect of Audit committee independence on Malaysian takaful Performance is moderated by Shariah Committee Quality.

3.4. Frequency of Audit Committee Meeting and Malaysian Takaful Performance

Audit committee meeting is crucial to carry out a successful oversight tasks in supervising the performance of managers and firms (Stewart & Munro, 2007). The existence of AC does not give assurance that the committee will be efficient, thus focus has been redirected on the composition and activities of ACs. Many of the suggestions made have concentrated on the independence and the frequency of AC meetings (Méndez & García, 2007; Alzeban & Sawan, 2015). Conversely, studies indicate that there is a significant difference in the recommended structure and function of ACs across different controls (Greco, 2011).

Beasley et al. (2000) revealed that AC meetings should at least be held once periodical to review the short-term report. This is because, high frequency of AC meeting tend to reduce the financial problem (Bédard & Gendron, 2010). Likewise, based on agency theory viewpoint, the findings of earlier reports have displayed that frequency of AC meeting can increase firm performance (Sharma et al., 2009). Moreover, AC meetings have constantly been found to be linked with superior quality of financial reporting (Al-Daoud et al., 2015). Australian report indicates a positive relationship between AC and the frequency of AC meetings (Shahanif, 2017).

The AC commitment has been operationalized as the number of AC meetings took placed during the financial period (Alaswad & Stanišić, 2016), with the anticipation that the more frequently AC meets, the more probably it carry out its responsibilities. However, researches have established that the number of AC meetings is negatively linked with financial management and performance (Baxter & Cotter, 2009; Aldamen et al., 2012). These results show that an active and dedicated AC plays a vital role in enhancing the quality of financial reporting and performance. However, both AC and firm size were discovered to be positively linked with the number of meetings as well as negatively relationship between the fraction of independent directors and the number of AC meetings held (Yin et al., 2011).

Stewart & Munro (2007) demonstrated that the number of AC meetings with the presence of auditors at meetings is significantly connected with a decrease in the perceived level of audit risks. Directors, managers, and other corporate

workers hours are likely to boost when an AC is in place, specifically when meetings are more recurrently, the auditor is mandated to appear in all meetings (Stewart & Munro, 2007; Sharma et al., 2009; Greco, 2011). It is worth noting that none of these studies reported the relationship between the AC characteristics and firm performance as moderated by SCQ. So as to explore the moderating role of SCQ between audit committee meeting frequencies on Malaysian takaful performance the following hypotheses are formulated:

H4: The effect of Audit Committee meeting frequencies on Malaysian takaful Performance is moderated by Shariah Committee Quality.

Moderating Variable

A variable can be term moderator when it impacts the strength of a relationship between independent and dependent variables in a test (Matthew & Ann, 2017). The moderating variable is introduced to determine the strength or weakness of a relationship that can be qualitatively and quantitatively measure (Baron and Kenny, 1986; Fairchild et al., 2009). In this present investigation, the SCQ is used as a moderating variable between the AC characteristics (i.e. AC Chairman Specialization, Shariah Background of AC, AC Independence, and the frequency of AC meeting) and corporate performance.

4.1. Justification for a moderator

SCQ as moderator to date no previous study has investigated nor chosen the role of the SCQ as a moderating variable on the relationship between the CG and firm performance in Takaful companies. The current study has two main justifications for a new area of examination. The first is related to the reason why the current study has chosen a moderating variable, while the second justification shows why the SCQ is suitable to be a moderating variable on the relationship between CG and firm performance in Takaful companies. The first reason for selecting a moderating variable is that, as argued by Baron and Kenny (1986), Holmbeck (1997) and Frazier Tix, and Barron (2004), when the relationship between an independent variable and a dependent variable is poor or inconsistent, a moderating variable can be established in such a case to strengthen or weaken such a relationship and to explain when or for whom an independent variable affects a dependent one. Secondly, the rationale for determining the SCQ as being suitable to be a moderating variable is that the SCQ is one of the most important governance mechanisms of IFIs to ensure there is compliance with the principles of Shariah. Therefore, the role of the SCQ as a moderator on the relationship between CG and firm performance in Takaful companies could be used to enhance and strengthen the role of the SC towards increase firm performance. Furthermore, the choice of the SCQ as a moderating variable for the current study is justified as the SCQ has a positive impact as assured by several studies in the literature. For example, Ajili and Bouri (2018) all demonstrated that a SCQ is an important variable that has its significant effect on CG and firm performance. In summary, this study selected a SCQ as a moderator for two reasons: firstly, based on the literature, it can be considered that the SCQ has a high influence on firm performance, and secondly, there is a lack of studies about the relationship between SCQ and firm performance. Thus, the current study chooses the SCQ as a moderating variable on the relationship between the CG and firm performance in Takaful companies.

Firm Performance

Firm performance has been investigated in the accounting/management literature based on agency theory as a major dependent variable that would be achieved and enhanced as an important goal (Bauer et al., 2008; Haniffa & Hudaib, 2006; Klapper & Love, 2004). The main purpose of firm performance that stems from its concept is to consolidate the efficiency and effectiveness of the company and achieve its objectives being the main concern for the firm in the long run to survive (Al-Hawary, 2011; Zehir et al., 2011).

To measure firm performance there are two types of measurements are used, which are based on the accounting bases and the other measure is market bases. The main objective of measuring firm performance stems from the idea of efficiency

and effectiveness of the company and the achievement of the company's long-term goals as well as the continuity and survival of the company (Al-Hawary, 2011; Zehir et al., 2011). (Alabdullah et al., 2014).

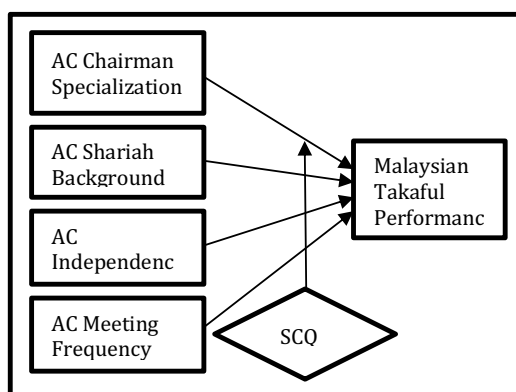
The use of different performance measures to assess firm performance and relationship with CG achieves many objectives. The accounting bases such as ROA and ROE measures the performance of the company in the short term. This reflects the impact of the balance sheet on CG from an accounting point of view. On the other hand, Market-based-performance takes into account stock prices highlighting the firm data's economic value. Tobin's Q is the most commonly utilized to measure market-based performance (Singh et al., 2018). Tobin's Q explain the long-term firm's value and market indicators on CG in the future, the market measure for the firm performance is more reliable, while accounting bases it can easily influence and manipulate (Cochran and Wood, 1984 and Rhoades et al., 2000). Therefore, many of the literature that analyze the performance of companies are largely focused on measuring the market value of the company. However, there is a debate about the relationship between measuring corporate performance and governance. Gompers et al. (2003) show that investors difficult to understand the impact of CG on the market value of the company. Therefore, Core et al. (2006) state that measurement on an accounting basis such as ROA and ROE is a better measure to study the relationship between CG and performance.

There is positive relationships between performance and AC size, independence, committees' structure, number of AC meetings, accounting expertise, and Muslim directors in the AC as earlier explained under appropriate sections in this present study. Though negative relationship also reported.

Previous studies have used the accounting based or the market based or a combination of the two types of measurements. Hamid (2008), pointed out that from 1968 to 1978, the studies used the accounting based in the measurement of performance. Hamid (2008) also noted that from 1978 to 1990, the researchers used both accounting and market based to assessing the performance of companies in there study.

Conceptual Framework

The present study is proposing a research framework (Figure 1) using key SCQ success factors (i.e. AC Chairman Specialization, Shariah Background of AC, AC Independence, and the frequency of AC meeting) as a moderator in the framework to further improve firm performance. Based on the review of literature above, and the inconsistencies found as well as the justifications for SCQ introduction as a moderator, the following propositions are hence proposed;



The findings of this investigation are expected to add enormously to the existing body of the literature. The findings demonstrated that the SCQ as a moderating variable plays a significant role on the relationship between the AC characteristics and Malaysian Takaful Performance. The study also found that the combination of AC existence and activities, adequate Audit Committee Chairman Specialization, Shariah Background of Audit Committee and Audit

Committee independence, as well as Audit Committee Meeting Frequency, considerably reduce the fraudulence reporting, crises, misstatement, and financial disclosure in Malaysia.

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The Relationship between Board of Directors Characteristics and Malaysian Takaful Performance: The Moderating Role of Shariah Committee Quality

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Abstract

Corporate governance (CG) issue remain a continuous process that required an efficient and long-term solution. Board of Directors (BOD) plays a crucial role in the overall Malaysian takaful companies as the most important mechanism of CG which supposed to enhance financial performance. Using Shariah Committee Quality (SCQ) as a moderating variable on the relationship between BOD characteristics and Malaysian takaful performance remain an area unexploited in CG research. This relationship can effectively be measured by the extent of SCQ interactions between board of director and Malaysian takaful performance. Despite various studies on CG mechanisms, firm performance, SCQ implementation level, and BOD characteristics, the empirical results appeared inconclusive and the findings are inconsistent. None of the studies have addressed the role played by SCQ as a moderator between board size, board independence, CEO duality, number of meeting during the year, and total number of women on the board, and firm performance. It is demonstrated that the SCQ has the potential to moderate between the different BOD characteristics and Malaysian takaful performance, and this moderation has never been reported in the literature. It is expected that SCQ moderation may considerably improve corporate performance by determining the strength or weakness of the relationship between BOD characteristics and firm performance. Thus, this paper conceptualized that 'SCQ' can moderate the relationship between Board Size, Board Independence, CEO duality, Meeting frequency total number of women on the board, and Malaysian takaful performance.

Keywords: Board of Director, Financial Performance, SCQ, Moderating, Malaysian Takaful.

1. Introduction

Corporate scandals and the collapse of world top American and European companies, such as Parmalat, Enron, HealthSouth, WorldCom and Xerox, Adelphia, Tyco, AIG and Qwest. Have prompted researchers and experts to reconsider the connection between corporate governance mechanism and the organizational performances (Giroux, 2008). The main reasons for these scandals were the issues the failure of corporate governance (CG) systems (Alareeni, 2017). Firms are expected to recurrently review and develop novel approaches that will enhance their working efficacies in order to remain a competitive environment (Du, 2018). Intrinsically, the failure of firms to be positive in risk evaluation, moderation, and control had led to poor firm performance (Dabari & Saidin, 2016a).

CG structures are vital for the efficient functioning of firms and enhance the performance (Nyatichi, 2016; Savitri, 2016). The board of directors as part of CG structure are anticipated to perform functions that include monitoring of management to moderate agency risks, costs, employing, and discharging of management officers, as well as providing tactical path for the firm to improve its performance (Zemzem & Ftouhi, 2013; Affes & Sardouk, 2016; Armeanu et al., 2017). Boards also

have a duty to induct managerial change and expedite practices that support the corporate mission (Affes & Sardouk, 2016). Moreover, the boards seek to safeguard the stakeholder's interest in a progressively competitive environment while sustaining managerial effectiveness and responsibility in the quest for good firm performance (Dabari & Saidin, 2016a). Various relationships between different CG mechanisms have been investigated in link with corporate performance. Where some examine the moderating effect of leverage on the relationship between board size, board meetings, and firm performance, positive results reported (Zemzem & Ftouhi, 2013; Bashir & Asad, 2018). The relationship between SCQ implementation and financial performance, with both positive and negative correlations (Ahmed & Manab, 2016a, 2016b; Soliman et al., 2018). Very limited or no study has determined the relationship between the BOD characteristics, and firm performance. Therefore, this paper proposes a conceptual framework to explore the moderating effect of SCQ on the relationship between BOD characteristics and financial performance.

2. Literature Review

Agency theory explains the separation of company's stockholders and management in which the management is an agent of the stockholders interests (Jensen & Meckling, 1976). Furthermore, the BOD is the top level of the pyramidal management and includes several missions like organizing and overseeing senior management that can approve the financial reports quality, and constrain the accounting information manipulation (Almasarwah, 2015; Boivie et al., 2016; Brandes et al., 2016; Daily et al., 2003; Hillman & Dalziel, 2003; Koufopoulos, 2018). The board fundamentally exists for the issue of monitoring, fire, compensating management as well as voting on strategic and important decisions in an effectiveness to increase the stockholders wealth (Baldenius, et al., 2014).

This process can only be achieved when the unforeseen threats are adequately managed by the board of directors to maximize the firm performance (Affes & Sardouk, 2016; Armeanu et al., 2017). Though, the boards can be significantly affected by their size, independence, CEO Duality, Meeting frequency and Gender Diversity (Bashir & Asad, 2018; Tulung & Ramdani, 2018). The board of directors is the highest decision-making entity of a corporate and are responsible for monitoring the firm's management, and morally and legally responsible for the stakeholders (Jizi & Nehme, 2018). Also, the board of directors is liable to constitute audit committees to collaborate with external auditors (Bradbury et al., 2006; PVVS & Palaniappan, 2016).

Furthermore, apart from board size, board independence, and CEO duality that are considered highly significant on firm performance, the gender is presently the most debated component of board structure issues (Bøhren & Staubo, 2016). The presence of women directors on board is getting increasing consideration (Setó-Pamies, 2015). Based on agency theory standpoint, gender cannot impact the efficacy of a board (Bosse & Phillips, 2016). However, bearing in mind that gender can explicate differences in behavior and abilities, most literature reports mixed findings. Some findings showed that women directors affect board decisions positively (Setó-Pamies, 2015; Rao & Tilt, 2016). On the contrary, some findings indicated the indirect capability of women to contribute more value to the board (Abdullah et al., 2016). Evidence concerning total women on the board as it influence performance is very limited. Nonetheless, it is expected board structure and its diversity to exert pressure on directors to engage in higher risk disclosure, thereby affect the firm performance.

3. Development of Hypotheses Board of Directors Characteristics

BOD characteristics represents all compositions and elements of the board and how this affects the decision making process (Jackling & Johl, 2009; Blake, 2016). The board of directors' characteristics (Isik & Ince, 2016; Nguyen et al., 2016) are extended to include size, independence, CEO Duality, Meeting frequency and Gender Diversity. Other characteristics that are commonly considered in different studies include age, experience, expertise, education, religious, and nationality (Feldman & Montgomery, 2015; Rao & Tilt, 2016; Aribi et al., 2018; Green & Homroy, 2018; Hassan & Marimuthu, 2018). The different BOD components as related to the current study are explained under the following headings.

2.1 Board Size and Malaysian Takaful Performance

One of the most important factors that impact the management ability to monitor managers is the size of the BOD (Tulung & Ramdani, 2018). A positive connection is reported between board size (BS) and firm performance (Naseem et al., 2017). Similarly, Coles et al. (2008) revealed that a larger BS has a positive influence on the corporate performance. The larger boards provide higher monitoring in order to enhance firm performance. Isik & Ince (2016) found a significantly positive influence between BS and firm performance. The BS has a significant relationship between BS and different CG mechanisms on corporate performance (Dang et al., 2018). All these studies indicate that as BS increases the corporate performance increases, the cause maybe that BS increases the responsibility of the boards to better manage the firm performance through proper SCQ implementation. Small BS may be less successfully in monitoring the persuasive managers.

The size of a board is noted as an essential feature that influences its efficiency. Isik & Ince (2016) indicates that a large board may result in less effective management and decision making, whereas agency theory claims that large boards are helpful to better the monitoring of the firm. Hence, firms with large boards are more liable to freely divulge more information thereby endanger the firm and its performance. This squabble is supported by Guest (2009) and Jackling & Johl (2009) who discovered that boards will be likely less efficient to manage firm when they expand beyond seven or eight executives. Shakir (2012) stated that a BS of 12 or 13 executives can result in more effectual management. Despite that researches have linked large BS with higher risk disclosure (Boone et al., 2007; Dang et al., 2018), empirical results seem to be inconclusive. There is no reported information on the moderating effect of SCQ on BS and how this is related with firm performance. Hence, based on the aforementioned discussion, this study has drawn the following hypothesis:

H1: The effect of Board Size on financial performance is moderated by Shariah committee quality.

2.2 Board Independence and Malaysian Takaful Performance

Firm directors are classified into dependent and independent (Chen, 2011; Knyazeva et al., 2014). The independent directors monitoring the incentives in a particular board are sturdier when the value of human capital basically derives from their prestige. The influence of board independence on corporate performance may be reliant on the BS (Tulung & Ramdani, 2018). The positive impact of board independence as the predicted by agency theory can be bigger when the BS is bigger (Bøhren & Staubo, 2016). A theory of board control and size also supported this view (Harris & Raviv, 2006). High managerial skills require an in-depth understanding of the firm, its consumers, dealers, competitors, and business (Blake, 2016). Dependent directors have such expertise due to their familiarity with the firm, whereas independent directors commonly lack these qualities as a result of their far distance from the firm (Clune et al., 2014). The dependent directors can lose status by supervising (control) and form reputation by counselling (support) due to lower motivations to monitor, stronger motivations to advice compared to independent directors (Hillman & Dalziel, 2003). Both independent and female directors have been shown to influence firm performance (Terjesen, 2016). However, studies on effect of board independence on firm performance still remain incomplete.

Knyazeva et al. (2013) and Chen et al. (2011) suggested that the percentage of independent officers positively impacts the firm's performance. On the contrary, Savitri (2016) and Abdullah (2016) revealed that the proportion of independent officers does not impact the firm's performance. However, the results mentioning SCQ moderating impact on board independence and firm performance are very scarce. Based on agency theory the hypotheses will be suggested as below:

H2: The effect of Board Independence on financial Performance is moderated by Shariah committee quality.

2.3 Chief Executive Officer (CEO) Duality and Malaysian Takaful Performance

CEO duality represents a situation in which the CEO (or an executive director) of a firm is also the chairman of the BOD. CEO duality may lead to a conflict of interest between the beneficiaries because the CEO controls information to be disclosed to other Board members. The CEO may also hide some problems in the company's business and this increases potential conflicts of interest in the future (Detthamrong et al., 2017). The agency theory assumes that CEO duality leads to the member becoming individual and tends to self-actions and self-interest (Donaldson & Davis, 1991). The promoters of the agency's theory support that the duties of the executive director and the board chairman should be separated because the duplication of this role will make one person control the board, also the BOD will be not active in monitoring executive management oversight in decisions and activities, as well as the dual executive director and Chairman BOD reduces the independence of the board (Lam & Lee, 2008). While the stewardship theory argues that duality enables management to take independent executive action (Mallin, 2007; Davis et al., 1997). The supporters of stewardship theory argues that there is no conflict interests between managers and owners, but managers align with owners. They believe CEO duality will support unified and strategic decision. Because the CEO has experience and knowledge take right and good decision, unity these two roles will help in making optimal and timely decisions (Lam & Lee, 2008).

The literature on BOD' and CEO duality and firm performance are conclusive result. For instance, Bansal and Sharma (2016) examine the role CG in improving firm performance in India using a sample of 235 non-financial public limited companies listed in NSE 500. The time period considered was ten years (2004 to 2013) they found positive association of CEO duality and firm performance. Tornyeva and Wereko (2012) examine the relationship between CEO duality and the firm performance of insurance companies in Ghana, they found there is a positive relationship between CEO duality and firm performance.

On the other hand, Abdul Rahman and Haniffa (2005) in Malaysia indicate that companies with CEO duality has negative impact on accounting performance measurements, ROE and ROA. Grove et al. (2011) based on sample of 236 public US commercial banks during 2006 - 2008 shows that CEO duality is negatively associated with bank performance and loan quality. Negative findings are also confirmed by Ujunwa (2013) Using panel data from 122 quoted firms in Nigeria between 1991 and 2008, it was found that CEO duality were negatively linked with firm performance.

In contrast, Alabdullah et al. (2014) based on sample of the most active Jordanian companies in the market for the year 2011 in order to predict the impact of governance on the performance of companies, the result showed that CEO duality has no impact on firm financial performance. Aebi et al. (2012) do not find that CEO duality affects buy-and-hold returns in their sample of US banks. Hence, with the purpose of study to examine the moderating role of SCQ between Chief Executive Officer (CEO) duality and the firm performance, the following hypotheses are formulated:

H3: The effect of Chief Executive Officer (CEO) on financial Performance is moderated by Shariah committee quality.

2.4 Meeting Frequency and Malaysian Takaful Performance

The BOD should meet regularly to discuss company issues, discuss problems or propose new ideas for business development, which is a requirement for good governance practices (Makhlouf et al., 2014). As mentioned earlier, frequent periodic meetings of the BOD are an important indicator of the possibility of members of the BOD to control executive management as well as protect shareholders' rights (Ntim et al., 2017). Regular meetings of the BOD enhance the effectiveness of the control of the company's business, which contributes to take good decisions that help to improve the performance (Ntim et al., 2017, Mangena and Taurigana, 2008 and Vafeas 2003). Moreover, it also enhances loyalty among board members, shareholders and employees, which contributes positively to performance (Vafeas 2003). MCGG recommended that the BOD should meet regularly and the total of meetings during a year should be disclosed. Though there is no condition on determine the number of meetings, the suggested recommendation is aimed to give a positive viewpoint for the companies' controlling which presently has less than four yearly meetings (Alnasser, 2012).

Lipton and Lorsch (1992) and Schwartz-Ziv and Weisbach (2013) believes that the Board's frequent meetings have a positive effect on the financial performance, because it gives the BOD an opportunity to discuss the company's performance. The company's monitor is considered one of the most important responsibilities of the BOD (Soobaroyen and Mahadeo, 2012; Siddiqui et al., 2013). However, Some studies argue that frequent meetings of the BOD may negatively affect the firm performance because it is dominated by protocols and routines, especially if there are a number of independent members who spend a lot of time to understand the details of the issues, This wastes time to discuss issues of interest and important of the company (Vafeas, 1999). A recent study by Christensen et al. (2014) also finds a negative impact of the frequency of board meetings on Q-ratio in large Australian firms. So as to explore the moderating role of SCQ between the Gender Diversity and the firm performance, the following hypotheses are formulated:

H4: Meeting Frequency on financial Performance is moderated by Shariah committee quality.

2.5 Gender Diversity and Malaysian Takaful Performance

The lack of adequate women representation on boards of directors in a firm is a global phenomenon. The problem of gender diversity specifically at top of management level is catching the attention of firms cogitating the need for consequences of increasing the women participation in management positions (Aribi et al., 2018).

Encouraging gender diversity on boards of directors can enhance the decision-making process, as this entails contributing different standpoints, ideas, and evaluating different results (Green & Homroy, 2018). By the way, the supporters of diversity or women participation on the boards showed that the heterogeneous decision-making and problem-solving approaches produce better decisions as a result of a broader range of viewpoints (Nyatichi, 2016; Sahar et al., 2018). Also, the presence of women on the boards can enhance communication, and a more comprehensive critical scrutiny of problems (Abdullah et al., 2016). Mixed-boards can also aid to thwart too risky projects as women are largely more financially risk-averse than men (Rao & Tilt, 2016) and less overoptimistic (Terjesen et al., 2016). Thus, the total number of women on the board can be moderated by SCQ to enhance firm performance.

The director ownership characteristic and concentration is likely to moderate the influence of female directors on firm performance (Setó-Pamies, 2015). The value of women's interactive characteristics as board members is possible to be improved when total numbers of women on the board are raised. Stakeholders in large firms are likely to value the supervising skills of female directors and to make a conducive environment for them to make an impact on firm performance.

The firm characteristics and their boards define the probability of women to be nominated to the boards, their involvement shapes the CG environment and their capability to impact boards' activities and firm performance (Nyatichi, 2016). The lack of enthusiasm to nominate women on the boards deprive firm owners and its stakeholders from the potential economic benefits of female directors (Aribi et al., 2018). Studies on a total number of women on the board of directors as it affected by SCQ to improve firm performance are unreported. So as to evaluate the moderating role of SCQ between the Gender Diversity and the firm performance, the following hypotheses are formulated:

H5: Gender Diversity on financial Performance is moderated by Shariah committee quality.

3. Moderating Variable

A moderator variable is a third variable that impacts the strength of the relationship between an independent and dependent variable (Matthew & Ann, 2017). In a relationship, if S is the predictor variable (first variable) and T is a resultant variable (second variable), then Q is the moderator variable (third variable) that influences the relationship of S and T (Baron & Kenny, 1986; Kim et al., 2001). In the case of this current study, the SCQ act as moderator variable between the board structure and corporate performance. The moderator variable is introduced to determine the strength or weakness of this

relationship, which can be measure both qualitatively and quantitatively (Baron and Kenny, 1986; Fairchild et al., 2009; Ahmed & Manab, 2016b).

3.1. Justification for a Moderator

SCQ as moderator to date no previous study has investigated nor chosen the role of the SCQ as a moderating variable on the relationship between the CG and firm performance in Takaful companies. The current study has two main justifications for a new area of examination. The first is related to the reason why the current study has chosen a moderating variable, while the second justification shows why the SCQ is suitable to be a moderating variable on the relationship between CG and firm performance in Takaful companies. The first reason for selecting a moderating variable is that, as argued by Baron and Kenny (1986), Holmbeck (1997) and Frazier Tix, and Barron (2004), when the relationship between an independent variable and a dependent variable is poor or inconsistent, a moderating variable can be established in such a case to strengthen or weaken such a relationship and to explain when or for whom an independent variable affects a dependent one. Secondly, the rationale for determining the SCQ as being suitable to be a moderating variable is that the SCQ is one of the most important governance mechanisms of IFIs to ensure there is compliance with the principles of Shariah. Therefore, the role of the SCQ as a moderator on the relationship between CG and firm performance in Takaful companies could be used to enhance and strengthen the role of the SC towards increase firm performance. Furthermore, the choice of the SCQ as a moderating variable for the current study is justified as the SCQ has a positive impact as assured by several studies in the literature. For example, Ajili and Bouri (2018) all demonstrated that a SCQ is an important variable that has its significant effect on CG and firm performance. In summary, this study selected a SCQ as a moderator for two reasons: firstly, based on the literature, it can be considered that the SCQ has a high influence on firm performance, and secondly, there is a lack of studies about the relationship between SCQ and firm performance. Thus, the current study chooses the SCQ as a moderating variable on the relationship between the CG and firm performance in Takaful companies.

4. Firm Performance

Firm performance is an indicator that aids to assess and measure how a firm succeeds in achieving its business objectives in fulfilling the need of all its stakeholders (Johl et al., 2015). In recent times, the challenges of the international business environment have reverberated the need for firms to have more interests in the success of their businesses (Zou & Hassan, 2017). Recent scandals had exposed circumstances where firms involved in unscrupulous accounting tactics to overlook relevant information about corporates' financial data (Carson, 2003; Giroux, 2008). This called for investigation on long-term solution on CG mechanisms that may improve the performance of a firm. This can be achieve through appropriate measurement of firm performance parameters.

Different researches have used different performance indicators to measure corporate performance (Carton et al., 2010). Murphy et al. (1996) reported 71 performance parameters that have been employed by investigators to measure both financial and non-financial performance. The investigators often use financial measures in most cases to describe corporate performance. Return on Investment, Return on Assets, Return on Sale, Return on Equity, and Tobin's Q are some of the frequently used parameters to measure performance (Alzharani et al., 2011; Saeidi et al., 2015; Abdullah & Shukor, 2017; Green & Homroy, 2018; Yang et al., 2018). In more inclusive valuation, firms have recourse to the application of both financial and non-financial performance measures.

Studies conducted on the relationship between board structures and corporate performance has yielded inconclusive results (Jackling & Johl, 2009; Blake, 2016). Studies found a positive relationship between CG mechanisms and corporate performance (Abdullah, 2016; Hadi et al., 2016), while other studies reported a negative relationship between CG mechanisms and corporate performance (Hillman & Dalziel, 2003; Chen, 2011). Further, the internal competition within the boards is another factor that is vital considering when the relationship between board structure and firm performance as affected by SCQ is being examine. This is in addition to the factors such as the total number of women on the board,

number of Muslim directors on the board, and the size of the board. All these have an impact on the moderating role play by SCQ in relationship between BOD and financial performance.

5. Conceptual Framework

The present study is proposing a research framework (Figure 1) using key SCQ success factors (i.e. shariah committee expertise, multi committee membership, academic qualification, shariah committee size) as a moderator in the framework to further improve firm performance. Based on the review of literature above, and the inconsistencies found as well as the justifications for SCQ introduction as a moderator, the following propositions are hence proposed

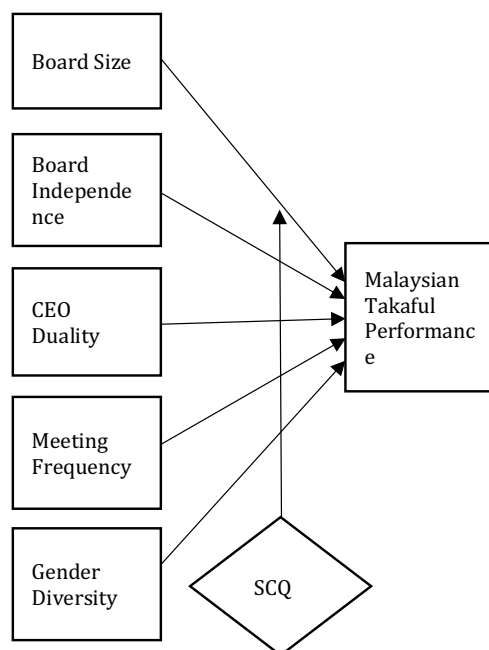


Figure 1: The Conceptual Framework.

6. Conclusion

This study contributes to the knowledge and understanding of SCQ use as moderating variable to enhance corporate performance and stakeholders' value. The findings showed that SCQ has strong potential to moderate the relationship between BOD and firm performance. The finding also indicated that this moderating effect has a strong impact on corporate performance as it affected each of the BOD under this study.

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How Should Ethical Finance Be Reported?

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Abstract

The objective of this paper is to explore the current classification of investments in the financial reports and the CSR reports, and describe the short-comings of not only the financial reporting but also the CSR reporting for ethical finance. In order to explain the importance of ethical finance, history of the regulations related to consumer finance in Japan is reviewed and the serious problems caused by the multiple debts at the turning of the millennium is discussed. And then, current disclosure requirements for investments in the accounting standards and standards for CSR reports such as GRI Standards will be reviewed. As Islamic finance is considered as one of ethical finance, the reporting practice of Islamic institutions will also be reviewed. As a conclusion, in order to enhance ethical finance, not only financial reports but also CSR reports have to be improved.

Keywords: Consumer finance, ethical finance, financial reporting, CSR reporting, Japan

1. Introduction

The objective of this paper is to explore the current classification of investments in the financial reports and the CSR reports, and describe the short comings of not only the financial reporting but also the CSR reporting for ethical finance.

What is ethical and what is not cannot be determined easily. In this paper, we are not going to provide definition for ethical finance or criteria for being ethical, instead, we will be discussing what kind of information should be provided in what form so that the users of the financial reports or CSR reports will be able to judge whether the business could be considered as ethical from each user's viewpoint or criteria.

In Japan, at the turning of the millennium, serious problem related to consumer finance led to amendment of the related law and regulations. So-called "gray zone interest rate" and multiple debt was the direct cause of that social problem. Those consumer finances were provided by relatively small financial institutions or even individuals who run consumer finance business. After the amendment of the law and the regulations, large financial institutions are now providing consumer finance through subsidiaries. It became much important to monitor those large financial institutions what kind of business they are conducting. Disclosure related to ethical finance of financial groups or banks by securities report and CSR report will be summarized and discussed.

Islamic finance is considered as ethical finance for its discipline or religious precepts. How those are reported in annual reports or CSR reports will also be analyzed in this paper.

From the observations of the rules and regulations related to annual reports and CSR reports, the shortcomings of those rules and regulations about the necessary information for the investors making decisions will be clarified.

2. History of the regulation for consumer finance in Japan

The beginning of consumer finance in Japan is said to be SUIKO (lending seed rice for farming) in 8th century. In 12th century, TANOMOSHIKO (mutual aid society for lending money for purchasing instruments or for maintenance cost of temples) began to develop for consumer finance without collateral. It is considered to be the original form of mutual bank in 1951 (Kawanami, 2011, p.48). In Kamakura period (13th century), original form of pawnbrokers, TOKURA began to develop (Kawanami, 2011, p.49; see Gelpi & Julien-Labruyère, 1994, pp.156-162 for further details). Another major source of consumer finance was installment sales. It is said that one of the early developments of installment sales could be found in WANBUNE (lacquer ware vessel) trade by IYOSHONIN (merchants of IYO, IMABARI area) during Edo period (17th to 19th century) (Janome Mishin, 1971, p.204).

Although there were rules regulating pawnbrokers established by Edo Shogunate in 17th century, and there were also rules for interest rates (Suzuki, 1982, pp.14-16), modern law and regulation were enacted in Meiji period at the end of 19th century. At the beginning of Meiji period there were rules established for pawnbrokers at each prefectural level. In 1884, Statute of Control Over Pawnbrokers was established by the Senate, and in 1895, Pawnbroker Business Act was established by the Imperial parliament. The Act set the ceiling for the interest rate at 30 to 48 % per annum depending on the amount (Shibuya, 1982a, pp.455-466). However, inconsistency between the Act and the Interest Rate Restriction Act established in 1877 which set the ceiling at 12-20 % per annum depending on the amount, caused controversy but not solved (Shibuya, 1982b, pp.536-545).

In May 1954, new Interest Rate Restriction Act was enacted and the ceiling for the interest rate was set at 15% to 20% per annum depending on the amount of the loan (Article 1). In June same year, Act Regulating the Receipt of Contributions, the Receipt of Deposits, and Interest Rates was enacted, and in Article 5 it is prescribed that if a person lending money has formed a contract to receive an annual interest exceeding 109.5 percent (daily interest exceeding 0.3 percent), he or she is subject to imprisonment, a fine, or both. Those two inconsistent regulations for the ceiling of the interest rate were later called “gray zone” interest rate. If the interest rate exceeds 109.5%, that will be subjected to criminal charge, but although it is considered as illegal and exceeding interest could not be forced to pay by the court decision, lending money with interest rate exceeding the ceiling set by the Interest Rate Restriction Act were not totally invalid. So, the practice of setting interest rate higher than the ceiling set by the Interest Rate Restriction Act, but below the ceiling set by the Act Regulating the Receipt of Contributions, the Receipt of Deposits, and Interest Rates, proliferated in Japan.

In order to cope with the social problems caused by high interest consumer loan that proliferated in Japan by the beginning of 1980s, in 1983, Act Regulating the Receipt of Contributions, the Receipt of Deposits, and Interest Rates was amended so that the interest rate exceeding 40.004% would be subject to punishment. In the same year, Money Lending Business Act was enacted to regulate money lending business by enforcing registration, measures concerning operational management, money lenders' associations, and supervision by the government (Ono, 2010, pp.56-64).

In 1990s, after the “bubble economy”, Japanese interest rate became very low, and the interest rate ceiling set by the law became very high considering the interest rate at that time (Ono, 2010, p.65). The Japanese Diet enacted bills to regulate “SHOKO loan” money lenders, because they were under fire for their strong-arm loan collection tactics and superhigh interest rates. Some employees of those firms were arrested for their practice (Jiji Press, 1999c). The explanation about the notorious practice of those firms could be found in Tett (1999).

By the 1999 Amendment of the Act Regulating the Receipt of Contributions, Receipt of Deposits and Interest Rates, interest exceeding 29.2% will be punished by imprisonment or fine, or both (Article 5). Also, the Money Lending Business Act was amended to impose more restriction on money lenders (Ono, 2010, p.65).

In order to cope with “Yamikin” problem, in 2003, the Pawnbroker Business Act, the Act Regulating the Receipt of Contributions, Receipt of Deposits and Interest Rates, and the Money Lending Business Act were amended to strictly control money lending business (Ono, 2010, pp.67-69). And by the amendment in 2006, the ceiling of the interest rate regulated in the Act Regulating the Receipt of Contributions, Receipt of Deposits and Interest Rates, became same as the ceiling set by the Interest Rate Restriction Act, at last, so-called “gray zone interest rate” was eliminated (Ono, 2010, p.367).

3. Classification for investments in financial reports

IFRS 7 requires entities to provide disclosures in their financial statements that enable users to evaluate the significance of financial instruments for the entity's financial position and performance, and the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the end of the reporting period, and how the entity manages those risks (par.1). But those requirements do not provide information necessary to make ethical financial investment decisions.

According to the Ordinance on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements Article 21, assets shall be stated by classifying them into current assets, fixed assets and deferred assets, and assets categorized as fixed assets shall be further classified into tangible fixed assets, intangible fixed assets, investments, and any other assets.

In Article 23 (1), it is required that assets categorized as current assets shall be set down under account titles having names that indicate said assets, in accordance with the following classification of items; provided, however, that assets categorized under any of said items of which the amount is not more than one percent of the total amount of assets and which are found appropriate to be presented collectively with assets categorized under another item, may be set down collectively under an account title having an appropriate name: (i) cash and deposits; (ii) negotiable instruments receivable and accounts receivable; (iii) lease receivables and lease investment assets ; (iv) securities; (v) merchandise and manufactured goods; (vi) work in progress; (vii) raw materials and supplies; (viii) Deferred Tax Assets; and (ix) others.

Article 30 (1), it is written that assets categorized as investments and other assets shall be set down under account titles having names that indicate said assets, in accordance with the following classification of items; (i) investment securities; (ii) long-term loans; (iii)Deferred Tax Assets; and (iv) others.

Above mentioned articles do not provide specific information so that the investors can judge whether the company is investing in ethical manner. Notes on financial instruments are regulated in Article 15-5-2, but the information required there are similar to IFRS 7: such as (a) the policy on dealing in Financial Instruments; (b) contents of Financial Instruments and the risks involved in said Financial Instruments; and (c) the risk management system for Financial Instruments, which are not sufficient for making ethical investment decisions.

As for banks, there are specific regulations. Ordinance for Enforcement of the Banking Act Article 18 (2) requires that the business report pursuant to the provisions of Article 19, paragraph (1) of the Banking Act must be prepared by separating data into a summary statement of business, balance sheet, profit and loss statement, a statement of changes in net assets, and cash flow statement pursuant to item (iii) of the appended form. The form is specifically prepared for banking business, and detailed rules for disclosing risk related information, but it does not include specific information about what is the range of interest rates for loans.

In the securities report published by the listed companies that involved in "SHOKO loan" money lenders problem at the end of 20th century in Japan, not only the list of banks lending money to those money lenders, but also the list of interest rates that exceeds the ceiling set by Interest Rate Restriction Act, which means, that the fact that they charge "grey zone" interest rate was disclosed and some of the money used for that high interest loan came from banks.

Before 1998, very few, even if any, "SHOKO loan" money lenders problem was reported in the newspaper. One of the earliest newspaper articles could be found in Asahi Newspaper January 8th 2018, page 31, but not so many articles could be found in 1998. In 1999, that number of articles suddenly jumped up to hundreds, and many problems of those money lenders were revealed which finally resulted in the amendment of laws and regulations.

In case of "SHOKO loan" money lenders problem, because people was not aware of the seriousness of that problem until 1999 when employees of listed "SHOKO loan" companies were arrested. There were several "SHOKO loan" companies listed, and their securities report are available in the eol data base.

According to the Securities Report of NICHIEI for the 30st Period (from April 1st,1998 to March 31st, 1999), in the list of major shareholders, there were three foreign financial institutions which held 1.33 to 4.73%, and two trust account

by Japanese trust banks which held 1.30 and 2.35, and one Japanese major bank which held 1.56% of the outstanding shares of the company. As for the list of short-term borrowings of the company, names of the 6 major Japanese banks, 8 local banks, 2 trust banks, 23 foreign banks, and many other financial institutions were disclosed. As for the list of long-term borrowings, there were names of 7 Japanese major banks, 9 local banks, 5 trust banks, 2 foreign banks, and many other financial institutions. As for the interest rate of the loan, in average at March 1999 18.21%, which include promissory note loan (SHOKO loan) in average 20.55% which still (it was 24% in March 1997) exceeds the ceiling interest rate (maximum 20% depending on the amount) set by the Interest Rate Restriction Act but below the limitation (40.004% at that time) set by the Act Regulating the Receipt of Contributions, Receipt of Deposits and Interest Rates.

According to the Securities Report of SHOKO Fund for the 22nd period (from February 1st, 1999 to July 31st, 1999), in the list of major shareholders, there were eight foreign financial institutions which held 1.07% to 3.62%, and one Japanese trust bank which held 1.69% of the outstanding shares of the company. As for the list of short-term borrowings of the company, names of 5 major Japanese banks, 1 long-term bank, 1 trust bank, and 3 local banks, 12 foreign banks, and 3 agriculture co-ops, were disclosed. As for the list of long-term borrowings, there were names of 6 major Japanese banks, 2 long-term banks, 6 trust banks, 20 local banks, 17 foreign banks, and many other financial institutions were disclosed. As for the interest rate of the loan, in average during 22nd Period, was 22.12% (SHOKO loan), which exceeds the ceiling interest rate set by the Interest Rate Restriction Act but below the limitation set by the Act Regulating the Receipt of Contributions, Receipt of Deposits and Interest Rates, and lower than the interest rate 23.71% in the previous period.

Although the names of those who were providing funds for unethical finance could be analyzed from the information provided by the Securities Report of the “SHOKO loan” companies, that information was not disclosed in each of the securities report of those financial institutions that provided funds to “SHOKO loan” companies, because they were large financial institutions or banks and the amount provided to each “SHOKO loan” company was relatively small compared with the total amount of their short-term or long-term loan balance.

In directly, many banks were providing money to the business that caused social problem. However, as for the securities report or the business report did not include that information. Because the amount provided to each of those “SHOKO loan” money lenders were relatively small compared with the size of bank. As a result, shareholders or depositors of those banks did not know that their money was invested into such kind of business indirectly. What kind of business those large financial institutions are providing money for, must be disclosed directly.

4. Classification for investments in CSR reports

For companies’ reporting not only for economic aspect but including information related to social and environmental dimensions, there are the GRI Sustainability Reporting Standards (GRI Standards) and THE INTERNATIONAL<IR> FRAMEWORK.

The GRI Standards have been developed to help organization prepare a sustainability report, which promote organization’s practice of reporting publicly on its economic, environmental, and/or social impacts, and its contributions towards the goal of sustainable development (GRI 101, 2016).

GRI 419: Socioeconomic Compliance 2016 requires to disclose significant fines and sanctions for non-compliance with laws and/or regulations in the social and economic area, or to state that the organization has not identified any.

In the extreme situation like “SHOKO loan” cases in Japan, their strong-arm loan collection tactics resulted in criminal charges, and their superhigh interest rates resulted in civil lawsuits. In such kind of situation, companies must disclose what they were doing in the sustainability reports if they were preparing sustainability reports. However, just imposing relatively high, but below the legal ceiling, interest rates to person with multiple debts might not fulfill the requirement to disclose those facts by GRI 419.

Maybe GRI 203: Indirect Economic Impacts, could be the place where providing additional loan to person with multiple debts at superhigh interest rates and aggressive loan collection tactics should have been disclosed. But, sustainability reporting is not something that is regulated and enforced by law, nor audited by independent auditors, it is quite unlikely

that necessary information to judge whether the company's investments are utilized by proper loan providers or not, will be included in it.

Another and recent movement toward business reporting is integrated reporting based on THE INTERNATIONAL<IR> FRAMEWORK. As for what should be included in integrated report, eight content elements are listed in the FRAMEWORK. Among those elements, 4.1 C Business model and/or D Risks and opportunities were probably the places where those companies investing or providing funds to "SHOKO loan" money-lenders should have been reported what they were doing.

As the FRAMEWORK does not specify in detail what and how that information should be reported and integrated report itself is not mandated to prepare, same as sustainability report, there is a limitation for this channel to function as a tool to provide necessary information to enhance ethical finance.

5. Islamic finance as an ethical finance

In principle, asset backed, and at least asset based. Just lending money and charge high interest is prohibited. It might not be easy to borrow money but those who need money and cannot pay back should be helped by Zakat, not by loan sharks.

In principle, Islamic finance based on asset backed or at least asset based is a more justifiable option to overcome the problems and weaknesses faced by Japan in managing its banking system and economy. Just lending money and charging high interest that is prohibited in Islam is the best option for all economies including Japan. Instead of lending, financing mechanism found in the Islamic banking system is a better alternative to the conventional system. This has been proven to be so in many countries including non-Muslim countries. Even for those who cannot get financing from Islamic banks have the options to get help from Zakat and Awqaf institutions. These options are not available in conventional finance and banking system.

Ethical finance like Islamic finance should adopt GRI standards for reporting and disclosures on sustainability, CSR activities, environmental, social and governance practices. This report will add value to the role of Islamic banks and stakeholders. The GRI report should be prepared along with the proposed value-based intermediation (VBI) report based on VBI financing and Investment Impact Assessment Framework (VBIAF), and VBI Scorecard. The framework facilitates the implementation of an impact-based risk management system for assessing the financing and investment activities.

Overall, the VBI aims to re-orient Islamic finance business models in realizing the objectives of Shariah to generate positive and sustainable impact to the economy, community and environment through practices, offerings and conduct. GRI and VBI reports will give an impact on the reporting and disclosures of the Islamic banks.

6. Conclusion

Current regulations or guidelines should be amended so that the investors could decide which financial institutions are conducting business concerning the impact of their business to the society.

Especially for larger financial institutions, what kind of business or subsidiaries they are providing funds should be clearly stated in the financial reports, and for CSR reports, they should be explained in detail.

Especially for larger financial institutions, what kind of business or subsidiaries are providing funds should be clearly stated in the financial reports, and for CSR reports, they should be explained in detail. GRI should be fully adopted by Islamic finance reporting besides the adoption of value-based intermediation (VBI) to strengthen Islamic finance as a social-economic mechanism to overcome the weaknesses of conventional finance and banking systems.

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Environmental, Social, and Governance (ESG) Performance and Earnings Management in ASEAN: Are Islamic Companies Better?

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Abstract

This study aims to analyze the effect of corporate sustainability performance on earnings quality with Islamic listing company's distinction. The sustainability performance measured by Environmental, Social, and Governance (ESG) disclosures is expected to affect the earnings quality by reducing the company's earnings management and improving the earnings informativeness, especially for Islamic listing companies. This study was conducted on 84 companies with ESG Thomson Reuters score from 2012 to 2016 in ASEAN countries such as Indonesia, Malaysia, Philippines, and Singapore. This study shows that high corporate sustainability performance has a negative effect on earnings management. While, negative effect of ESG on earning management for Islamic indexed companies is lower than non-Islamic. So, it is a substitution effect rather than complimentary.

Keywords: Environmental, social, performance, earnings management, Islamic

1. Introduction

Financial scandals and the global financial crisis in 2007 to 2009 caused public companies to become more sensitive in disclosing long-term sustainability performance, including matters relating to the company's reputation (Rezaee, 2016). Now a lot of research discusses corporate sustainability in a more integrated manner is not only focuses on social aspects, but also on environmental and governance aspects. A disclosure that combines the three aspects (environmental, social, and governance) is known as Environmental, Social, and Governance (ESG) disclosure.

To meet investor demand for non-financial information, public companies have disclosed non-financial information, including environmental information, responsibilities and corporate governance (Rezaee & Tuo, 2017). In other words, companies that have special attention to sustainability and then disclose them will have to be informative and valuable because this disclosure presents the company's sustainability performance that can benefit companies and investors in the long term. When a company has a better ESG sustainability performance, it is expected that the company's earnings quality will also be better in a way that the company tends to reduce its opportunistic and unethical behavior such as doing earnings management.

This research focuses on Southeast Asia because there is currently a single market program created by ASEAN called the ASEAN Economic Community (AEC) that can cause foreign direct investment (FDI) to the Southeast Asian region will be higher. It needs to be examined whether ESG's performance in companies in Southeast Asia affects the earnings management that can affect decision making for investors. Based on research conducted by Global Reporting (2016) which examines ESG topics in ASEAN, investors have now paid attention to ESG as a new trend. Malaysia is called the biggest market for sustainable investment. While Indonesia and Singapore are the fastest-growing markets in Asia. Therefore, it is necessary to conduct research related to ESG topics in the Southeast Asia region.

Islamic index listing is given to companies which fulfill the Islamic standard requirements such as non-liquor, interest rate basis, no-pork and gambling or uncertainty. UNDP (2014) highlights that the issue of Environmental, Social and Governance (ESG) is highly correlated to Islamic finance issue. Islamic finance may have higher standard from ESG as they have specific standards as discussed above (CFA Institute, 2019). Thomson Reuters (2014) states that the combination of Islamic finance and ESG can give potential impact in the future.

This study contributes to understanding the effect of corporate sustainability and Islamic index on earnings quality by reducing earnings management practice and opportunistic behavior. This research is important because many companies are now starting to be more concerned on sustainability performance and Islamic index. In addition, there are considerations from regulators around the world to require sustainability reporting so that guidance is needed regarding ESG topics (Rezaee, 2016). Companies with high sustainability initiatives have better ranking compared to companies that have poor sustainability reporting (Khan, Serafeim, & Yoon, 2016). Hopefully this research can provide additional evidence regarding the effect of the company's sustainability performance as measured by ESG disclosure on earnings management.

2. Literature Review and Supporting Hypothesis

According to legitimacy theory, a company pays attention to sustainability performance to provide information that the company will be in good condition for the next few years while at the same time trying to maintain its legitimacy. One way for companies to provide sustainability information to the public is by conducting ESG disclosures. Agency theory is used to explain the behavior of management in an effort to maximize the interests of shareholders by taking earnings management actions to benefit shareholders. More previous research on sustainability performance addresses the disclosure of social responsibility or CSR rather than ESG which has incorporated environmental, social, and governance elements. Throughout the literature review, research that looks at the effect of corporate sustainability on earnings management practices still gives different results and focuses on social or CSR aspects. B. B. Choi, Lee, & Park (2013) found that good CSR quality is associated with low earnings management. Whereas Chih, Shen, & Kang (2008) found that corporate earnings aggressiveness appeared to be higher in companies with higher CSR involvement because companies with high CSR orientation tend to do earnings management with various interests. So, managers tend to serve all stakeholders in a company rather than pursuing one goal of maximizing value.

There have not been many studies examining the topics of corporate sustainability that cover several countries. Many previous studies focused on certain countries. Depoers, Jeanjean, & Jérôme (2016) suggested that companies registered in France tend to disclose lower amounts of greenhouse gases in the Carbon Disclosure Project, but provide more explanation in their company reports. In addition, Mio, Venturelli, & Leopizzi (2015) found that there were differences between information on corporate responsibility disclosed in the sustainability report and mandatory reports produced by Italian companies.

One form of sustainability that the company does is to do CSR. Kim, Park, & Wier (2012) found that companies that carry out CSR tend to reduce earnings management activities through discretionary accruals. Corporate social responsibility can represent the company's commitment to business ethics that is contrary to the opportunistic view of corporate social responsibility. High attention to sustainability shows that the company has views regarding the sustainability of the company in the future. The company's sustainability in this study is measured by the sustainability disclosure as measured by the ESG score. Sustainability activities carried out by the company can provide management flexibility to convince the public that the company is in good condition in accordance with legitimacy theory. Thus, management has incentives and policies to carry out real sustainable activities with the expectation that the sustainability of the company in the future will last long. Therefore, a hypothesis was developed regarding the company's sustainable performance and its effect on earnings management as follows:

H1: The company's sustainability performance has a negative effect on earnings management.

The relationship between ESG and Islamic finance has been discussed by UNDP (2014) and CFA Institute (2019) as Islamic finance has a higher standard compared to ESG. Therefore Islamic finance may give better result with ESG for earnings management reduction. It is called a complementary effect for Islamic finance to ESG. Thus, the hypothesis is as follows:

H2: The negative effect of ESG on earnings management is higher for Islamic index companies due to complementary effect.

3. Research Method

Like 2016, there are 196 companies in Southeast Asia that have ESG scores according to Thomson Reuters. All 196 companies are from Indonesia, Malaysia, Philippines, and Singapore. The number of companies in each country can be seen in Table 1 below:

Table 1. Selection of Research Samples

Criteria	ID	MY	PH	SG	Total
Companies that have ESG scores from 2012 to 2016	39	49	26	43	157
Less:					
Financial Firm	(9)	(12)	(9)	(13)	(43)
Company with an incomplete ESG score of 5 years	(7)	(7)	(3)	(2)	(19)
Companies with incomplete financial data and outliers	(4)	(3)	-	(4)	(11)
Number of companies that become a sample of research	19	27	14	24	84
Total observation (five years)	85	135	70	120	410
Notes: ID: Indonesia; MY: Malaysia; PH: Philippines; SG: Singapore; and TH: Thailand					

The country that has the most companies with ESG scores is Malaysia, followed by Singapore. While the Philippines is the country with the least number of companies that have ESG scores in Southeast Asia. This research excludes companies in the financial industry because the industry has different characteristics compared to other industries. In addition, the financial industry also has unique regulations that cannot be applied to other industries. The type of panel data used in this study is balanced panel data, so the data must be available from 2012 to 2016. The final sample is 84 companies or 410 observations.

The reason for selecting the sample year from 2012 to 2016 is to capture the latest conditions related to the company's sustainability reporting. The increase in the number of companies that have ESG scores from 2011 to 2012 is higher than from 2010 to 2011 or from 2012 to 2013. Therefore, 2012 is set as the initial year of this study.

This study uses an earnings management model developed by Kasznik considering that in the research of Siregar & Utama (2008) and Mita (2009), the Kasznik (1999) model is better than the Kothari, Leone, & Wasley (2005) model because it has a better average adjusted R². This first research model is written through the following equation:

$$DACC_{it} = \beta_0 + \beta_1 ESG_{it} + \beta_2 NOA_{it} + \beta_3 ROA_{it} + \beta_4 SIZE_{it} + \beta_5 LEV_{it} + \beta_6 MTB_{it} + \beta_7 GDP_{it} + \text{industry dummy} + \varepsilon \quad (1)$$

This study is using the absolute value of earnings management calculations because this study focuses on the amount of earnings management carried out by the company, not in the direction of income increasing or income decreasing.

The ESG score in this study was obtained from the ESG score assessed by Thomson Reuters named 'ESG Combined Score'. Based on the Thomson Reuters ESG Scores (Methodology) (Thomson Reuters, 2017), there are more than 150 analysts trained to collect ESG data and operate in various locations around the world. The analysts process many available sources of information and process them using more than 400 ESG measurements manually.

The ESG Combined Score itself is based on two ESG related assessments, namely the ESG Score and ESG Controversies Score. The ESG Score ranges from 0 to 100 with 100 is the perfect score. The maximum score for the Environmental pillar is 34, then for Social is 35.5, and Governance is 30.5. The ESG Score will then be compared to ESG Controversies Score. ESG Controversies Score is judged based on the controversies that occur in the company and has links with ESG, such as lawsuits, consumer health issues, human rights issues, and so on. The majority of ESG Combined Score companies have the same number as the ESG Score because there are not many companies that have high ESG Controversies Score that can affect the ESG Combined Score. If the company does not have a significant

ESG controversy that can affect the ESG Controversies Score number so that the score is not high, the company's ESG Combined Score will be the same as the ESG score.

This research differs from previous research because this research analyzes ESG score measurements obtained from Thomson Reuters in the form of ESG Combined Score. Some of the previous research still use a sustainability performance measurement using the Global Reporting Initiative (GRI) analysis in the form of dummy variables (whether implementing GRI or not) and by analyzing the level of application of the GRI framework.

The second model applies Islamic listing company's distinction to differentiate the impact of Islamic index company as interaction variable with ESG, the model as follows,

$$DACC_{it} = \beta_0 + \beta_1 ESG + \beta_2 Islamic * ESG + \beta_3 NOA_{it} + \beta_4 ROA_{it} + \beta_5 SIZE_{it} + \beta_6 LEV_{it} + \beta_7 MTB_{it} + \beta_8 GDP_{it} + \text{industry dummy} + \varepsilon \quad \dots\dots\dots (2)$$

The control variable in the form of net operating assets (NOA) at the beginning of the year is used as a proxy to see the manager's choice in determining his accounting policy (Rezaee & Tuo, 2017). NOA is calculated as 1 if the company's net operating assets at the beginning of the year are scaled by initial year sales above the median net operating industrial assets, 0 if otherwise. Return on assets (ROA) is calculated from net income divided by total assets. ROA is considered able to reflect the company's profit expectations. When companies have high expectations for profits, the incentives to practice earnings management will be reduced. Therefore, the expected coefficient for ROA is negative. The size of the company in this study was calculated by using the company's total sales which were then converted to the form of natural logarithms (Nollet, Filis, & Mitrokostas, 2016). These variables are included as control variables because the structure of large companies has greater complexity to practice earnings management than small firms. But on the other hand, information asymmetry in large companies will decrease and companies will be more transparent in reporting their financial condition. The more transparent the company, the easier it is to detect earnings management practices so that the size of the company is not predicted in its direction.

Leverage (LEV) is calculated by comparing total liabilities to total assets of a company. Market to Book Value (MTB) is considered as a proxy for company growth. The higher the company's growth, the management incentives to carry out opportunistic actions in the form of earnings management will be even greater because companies tend to make increasing income to maintain growth and meet shareholder expectations (Mita, 2009).

This study uses a sample of companies from five different countries. For this reason, a country-level control variable is needed to capture the characteristics of each country. One of the country-level control variables used is GDP (Leuz, Nanda, & Wysocki, 2003). This variable is calculated from Gross Domestic Income per capita in units of dollars which is then changed in the form of natural logarithms. The number of GDP per capita is obtained from the World Bank website. Because this variable only reflects the characteristics of a country, this study does not predict the direction for this variable.

To ensure that the results of this study are not affected by the industrial effects, there is also an industrial dummy variable. The industrial group used in this study is based on Thomson Reuters' industrial group.

4. Analysis

The descriptive statistics of this study are shown in table 2 below.

Table 1. Descriptive Statistics

Variable	Average	Std. dev	Min.	Max.	Skewness
DACC	0.036	0.03	0.000	0.15	1.459
ESG	45.36	15.49	3.41	86.71	-0.073
ROA	0.08	0.063	-0.13	0.41	0.983
SIZE (US\$)	4,409M	9,412M	112M	45,500M	5.282
LEV	0.265	0.159	0	0.61	0.292
MTB	2.747	1.956	0.35	12.48	1.628
GDP (US\$)	20,233,3	21,073.20	2,581.8	56,336	0.089
		Dummy = 1	Dummy = 0		
Islamic	0.631	36.9%	63.1%		-0.545
NOA	0.581	41.9%	58.1%		-0.329

Earnings management (DACC) in companies in Southeast Asia from the sample of this study had an absolute value of an average of 0.036. The standard deviation of 0.03 indicates that the value of corporate earnings management that has a complete ESG score from 2012 to 2016 in the ASEAN-5 countries does not vary greatly. The earnings management value used in this study is an absolute value. This value shows the amount of discretionary earnings management from the company.

ESG value that shows the score of ESG performance which has an average of 45.36 and a standard deviation of 15.49. This shows that in general the company's ESG score is quite varied and scattered. The highest ESG score of 86.71 is the ESG PTBA JK score, a company in the mining sector in Indonesia. While the lowest ESG score of 3.409 is the ESG score of Universal Robina Corp which is located in the Philippines. The score is still included in the study because after the outlier value test, the figure is still within the range of outliers. The skewness value of the ESG variable is quite low when compared to other variables. It can be concluded that the distribution of ESG score data is quite normal and almost symmetrical.

Correlation test is conducted to find out the relationship of a variable with other variables with a coefficient between 0 and 1. The coefficient value that reaches more than 0.8 indicates that the two variables have a strong correlation. Meanwhile, if the coefficient reaches 1, then the two variables have a perfect correlation. ESG score (ESG) have a negative correlation with earnings management (DACC). This is consistent with the research hypothesis which states that the company's ESG performance is negatively affect the earnings management.

The control variable in the form of net operating assets (NOA) has a negative correlation to earnings management variables because companies with NOA that are above the industry average have utilized the available resources well for their operational activities so that they will be differentiated to make earnings management. The ratio of the stock market value to its book value (MTB) has a positive correlation with earnings management variables because this high ratio shows high information asymmetry. The high information asymmetry causes the opportunity to increase earnings management. Another control variable that has a positive correlation with earnings management is Gross Domestic Product per capita (GDP). In other words, companies in countries with high GDP show high earnings management practices. However, this test is not intended to see the effect of each independent variable on the dependent variable. The results of Pearson correlation testing and its significance are presented in Table 3.

Table 3. Pearson Correlation

	Islamic	DACC	ESG	NOA	ROA	LEV	MTB	SALES	GDP
Islamic									
Pearson Correlation	1	.088	.058	.020	.300***	-.326***	.203***	-.223***	-.163***
Sig. (2-tailed)		.073	.235	.676	.000	.000	.000	.000	.001
DACC									
Pearson Correlation	.088	1	-.110**	-.115**	-.032	.006	.183***	-.053	.118**
Sig. (2-tailed)	.073		.024	.018	.518	.896	.000	.276	.015
ESG									
Pearson Correlation	.058	-.110**	1	-.029	-.124**	.053	-.172***	.001	-.098**
Sig. (2-tailed)	.235	.024		.552	.011	.274	.000	.983***	.044
NOA									
Pearson Correlation	.020	-.115**	-.029	1	-.188***	-.012	-.239***	-.206***	.022
Sig. (2-tailed)	.676	.018	.552		.000	.812	.000	.000	.660
ROA									
Pearson Correlation	.300***	-.032	-.124**	-.188***	1	-.322***	.659***	-.141***	-.177***
Sig. (2-tailed)	.000	.518	.011	.000		.000	.000	.004	.000
LEV									
Pearson Correlation	-.326***	.006	.053	-.012	-.322***	1	-.069	.207***	-.204***
Sig. (2-tailed)	.000	.896	.274	.812	.000		.156	.000	.000
MTB									
Pearson Correlation	.203***	.183***	-.172***	-.239***	.659***	-.069	1	-.169***	-.160***
Sig. (2-tailed)	.000	.000	.000	.000	.000	.156		.000	.001
SALES									
Pearson Correlation	-.223***	-.053	.001	-.206***	-.141***	.207***	-.169***	1	.282***
Sig. (2-tailed)	.000	.276	.983	.000	.004	.000	.000		.000
GDP									
Pearson Correlation	-.163***	.118**	-.098**	.022	-.177***	-.204***	-.160***	.282***	1
Sig. (2-tailed)	.001	.015	.044	.660	.000	.000	.001	.000	

The regression results of the first research hypothesis are presented in Table 4.

Table 4. Testing Results

$DACC_{it} = \beta_0 + \beta_1 ESG_{it} + \beta_2 NOA_{it} + \beta_3 ROA_{it} + \beta_4 SIZE_{it} + \beta_5 LEV_{it} + \beta_6 MTB_{it} + \beta_7 GDP_{it} + \text{industry dummy} + \varepsilon$					
Dependent variable: Earnings Management (DACC)					
Variable	Prediction	Coefficient	t-stat	P-value	Significance
ESG	H1: -	-0.000162	-1.74	0.0813	*
NOA	-	-0.006289	-1.94	0.0526	*
ROA	-	-0.128104	-4.03	0.0001	***
SIZE	+/-	-0.001080	-0.77	0.4390	
LEV	-	-0.004599	-0.45	0.6491	
MTB	+	0.005316	5.23	0.0000	***
GDP	+/-	0.002525	1.9	0.0572	*
cons	?	0.045663	1.4	0.647	
INDUSTRY		yes			
Obs		410			
R ² overall		0.101640			
F-Stat		6.659098			
Prob		0.000000***			
***significant 1%; **significant 5%; *significant 10%					
Notes:					
DACC: Earnings Management; ESG: ESG scores; NOA: Net operating assets; ROA: Return on Assets; SIZE: Natural logarithm of sales; LEV: Total debt divided by total assets at the beginning of the year; MTB: Stock market value divided by book value; GDP: Gross Domestic Product.					

This study predicts that ESG's performance negatively affects earnings management. The higher the ESG disclosure score of the company, the lower the earnings management practices that occur. Table 4 shows that the ESG coefficient is significantly negative. In other words, it is proven that high ESG's score can reduce earnings management practices. This is consistent with several previous studies that have proven that sustainability performance in the form of CSR is negatively related to earnings management (B. B. Choi et al., 2013). Management tends to make earnings management when there is agency conflict as explained in agency theory. However, when a company provides better sustainability performance through its concern for sustainability and expresses it to the public, according to legitimacy theory, the company wants public to judge that the company has a good performance that can be seen from the actions and concerns of the company in the context of sustainability. The company does not want to sacrifice the trust gained from the public by doing a discretionary action, such as doing earnings management. The existence of good governance in the company is also able to reduce earnings management due to good supervision so that discretionary actions will be reduced.

One control variable that is proven to have an effect on earnings management is net operating assets (NOA). When a company NOA is above the median value of its industry, the company will be reluctant to make earnings management because the accrual pressure that causes the company to manage its earnings is reduced. The return on assets (ROA) is also proven to reduce earnings management actions. ROA can reflect the company's expectations of the company's profits in the future. When a company has high expectations for its profits, the company's incentive to manage earnings is decreased.

The ratio between stock market value and book value (MTB) has a significant positive effect on earnings management. The high MTB ratio makes the gap for earnings management even greater because of the high ratio illustrates the high information asymmetry that occurs so that the company has more willingness to manage its earnings. While the country characteristics seen from the GDP per capita figure in each country show a different condition related to earnings management practices.

Two control variables that are proven not to significantly affect earnings management, namely company size (SIZE) and leverage (LEV). This shows that the size of the company does not give different results on the amount of earnings management that occurs. In addition, the leverage is not significant to control ESG in the model.

A similar result of control variables in the second model (table 5). Contrary to hypothesis that the negative effect of ESG on earning management is substitution effect. The negative effect of ESG on earning management for Islamic indexed companies is lower than non-Islamic. Islamic listing companies which are claimed to be linear to SEG give different results as they are not actually practicing the Islamic teaching which is in line with the ESG.

Table 5. Testing Results

$DACC_{it} = \beta_0 + \beta_1 ESG_{it} + \beta_2 Islamic * ESG_{it} + \beta_3 NOA_{it} + \beta_4 ROA_{it} + \beta_5 SIZE_{it} + \beta_6 LEV_{it} + \beta_7 MTB_{it} + \beta_8 GDP_{it} + \text{industry dummy} + \varepsilon$					
Dependent variable: Earnings Management (DACC)					
Variable	Prediction	Coefficient	t-stat	P-value	Significance
ESG	H1: -	-0.000259	-2.43	0.0151	**
Islamic*ESG	-	0.000124	1.85	0.0650	*
NOA	-	-0.006847	-2.11	0.0351	**
ROA	-	-0.136578	-4.25	0.0000	***
SIZE	+/-	-0.001277	-0.91	0.3601	
LEV	-	0.000390	0.03	0.9702	
MTB	+	0.005208	5.13	0.0000	***
GDP	+/-	0.002800	2.10	0.0357	**
cons	?	0.048304	1.48	0.1376	
INDUSTRY		yes			
Obs		410			
R ² overall		0.116330			
F-Stat		6.763247			
Prob		0.000000***			
***significant 1%; **significant 5%; *significant 10%					
Notes:					
DACC: Earnings Management; ESG: ESG scores; NOA: Net operating assets; ROA: Return on Assets; SIZE: Natural logarithm of sales; LEV: Total debt divided by total assets at the beginning of the year; MTB: Stock market value divided by book value; GDP: Gross Domestic Product.					

5. Conclusion

The purpose of this study is to observe the effect of ESG sustainability on earnings management. The earnings management model used refers to Kasznik's Model (1999). The sample in this study were 84 companies in Southeast Asia whose ESG sustainability score data was available in full from 2012 to 2016. From the results of testing, it is proved that the company's sustainability performance has a significant negative effect on earnings management. While negative effect of ESG on earning management for Islamic indexed companies is lower than non-Islamic. Claiming as Islamic indexed companies do not directly to the implementation of Islamic teaching. This confirms as substitution effect with ESG. In accordance with the theory of legitimacy, the company cares about its sustainability so that social contracts with the public are maintained. The company does not want to sacrifice the trust received by the public by making earnings management.

This research still needs to be developed and many opportunities in the future to conduct research related to the sustainability of the company. For example, by comparing the sustainability of companies

in developing countries and countries that are already in mature stages or by looking at the conditions before and after the implementation of sustainability actions. Regulators can also consider enforcing or encouraging companies to pay more attention to sustainability in the future considering the results of the research have supported the condition that the existence of sustainability performance can limit earnings management behavior. Of course, the sustainability that is carried out needs to be adjusted to internationally standardized regulations, such as GRI which has been widely adopted compulsorily in several countries, especially in developed countries.

There were several limitations encountered when this study was conducted. The number of observations of this study is constrained by the number of companies in Southeast Asia that have ESG scores. For further research, we can use ESG disclosure scores obtained from Bloomberg, the Dow Jones Sustainability Index, MSCI ESG Research, and so on. The measurement of earnings management used in this study only comes from Kasznik Model (1999) only. Future research can use other earnings management models, such as the Kothari (2005) model to measure the level of corporate earnings management and see if there are differences in results when different models are used.

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Accountability Measurement in Waqf Institutions: A Qualitative Survey

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Abstract

The purpose of the study is mainly to comprehensively investigate the accountability practices of waqf institution in the specific context of Malaysia. This situation highlighted the main problems in the waqf institution in Malaysia which are the inefficient management of waqf. In addition, the growing concern of mismanagement in these institutions such as fraud and inefficiency may discourage the potential waqf donors to support such practice. The study uses qualitative approach in form of in-depth interviews of a number of waqf practitioners and scholars active within the Malaysian waqf institutions. The findings revealed that the waqf institutions in Malaysia are mostly perceived to be accountable to the Allah SWT, followed by the accountability to the waqif (donor) and accountable to the government. The findings support the notion that waqf institutions still lacks on the accountability practices, as the Waqf institution are still following the minimum requirements and standards on the accountability. This study provides some valuable recommendations to further enhance the accountability practices in waqf institutions not only in Malaysia, but also in similar settings.

Keywords: Accountability, Measurement, Waqf, Qualitative.

1. Introduction

Waqf refers to a religious endowment i.e. a voluntary and irrevocable dedication of one's wealth or a portion of it – in cash or kind, and its disbursement for Shariah-compliant projects. With proper structuring and administration, it can provide perpetual benefit to the society. Waqf is considered as a virtuous act, and was seen as the pillar of the religious, social, cultural, scientific, economic and political life of the Islamic society. According to Arshad and Mohd Zain (2017), the revival of waqf institutions has been an upsurge interest of Muslim communities around the world. In line with the revitalization, the issues of measuring and managing waqf performance are growingly being discussed and concerned by the academicians and constituents.

The growth in scholarly concern on the effectiveness of waqf management is reflected in numerous studies. Researchers have been studying, reviewing, and surveying the performance of waqf management and found that in general, substantial improvements need to be done (Akhunov, 2015; Ibrahim & Ibrahim, 2013; Rashid, 2012; Chowdhury et al., 2012). There are many studies conducted to measure the performance of various organizations in the private, public and third sector. However, studies on the accountability measurement of waqf institution are still limited. Waqf institutions need to demonstrate their performance as whether they have effectively and efficiently managed in order to discharge their accountability to various waqf stakeholders (Arshad and Mohd Zain, 2017).

Review on the literature reveals that there are limited studies on performance measurement of waqf institutions (Sulaiman et al., 2009) especially through the empirical research (Sulaiman and Zakari, 2015). The research to date has tended to focus more on financial ratios (Sulaiman et al., 2009; Sulaiman

and Zakari, 2015), (Pirasteh, 2011) rather than the non-financial aspect of accountability measurement. As a waqf institution religious entity, managing the entrusted waqf fund and assets for social and economic development of the society, the accountability measurement of waqf institutions should also focus on realizing their missions. Therefore, the aim of the study is mainly to comprehensively investigate the accountability practices of waqf institution in the specific context of Malaysia. Drawing from the practicing and experience on accountability measurement discussed in the waqf institutions literatures,

The remainder of the paper is organised as follows: Section two reviews the past related studies. Section three provides an overview on the waqf institutions in Malaysia and accountability practices. Section four presents the methodology applied in the study and section five discusses the main findings and their implications. The final section provides a detailed discussion of the findings and corresponding limitations, as well as some recommendations for future studies.

2. Literature Review

Waqf derived from a word of wa-qa-fa (وقف). It has various meanings according to the purpose and the usage of the word in sentences. Literally, waqf means to stop (السكن), forbids (المنع) and holding (الحبس) (Zuhaili, 1985) (Sabran, 2002). In terms of Shariah interpretation, it means to hold a person's property to be benefited by others. From Shariah point of view, waqf may be defined as holding a *mal* (an asset) and preventing its consumption for the purpose of repeatedly extracting its usufruct for the benefit of an objective representing righteousness or philanthropy. In Islamic term, waqf is defined as the perpetual dedication of any property from which its benefit may be used for any charitable purpose, whether as general waqf (-any waqf that is created for a general charitable purpose according to *Syarak*-Islamic Law) or special waqf (-a waqf that is created for a specified charitable purpose according to *Syarak*) according to *Syarak*, ruling of Islamic law (Dahlan et al., 2014).

Waqf institutions had played a major role in providing social goods such as education and health, public goods (roads, bridges and national security), helping the poor, orphans and the needy, built commercial businesses, utilities (water and sanitation), infrastructure for religious services (building and maintenance of mosques and graveyards), creating employment, supporting agricultural and industrial sector without imposing any cost to the government (Mohsin, 2008). Learning from the successes of the past, it is believed that waqf has great potential in solving the problems facing the ummah today. Waqf has a built-in dynamism to contribute to the socioeconomic development of the ummah. The dynamism of waqf is inherent in its basic characteristics viz. permanence and inalienability. All the schools of shariah have stressed the importance of the creation of a waqf which had played an important role in ameliorating poverty and in furthering learning in the past and it is expected to play its role in the future provided this institution is reactivated and its management is placed on the sound footing (Kahf, 2003). Besides, waqf is one of the mechanisms for wealth creation and distribution developed based on Islamic teachings and principles.

However, to date, as elsewhere, in Malaysia there has been an increased public interest in waqf institutions transparency, particularly concerning their outcome, impact, effectiveness and efficiencies. The public has continued to demand the best standard of services and greater transparency. Besides, a number of recent cases on Islamic faith-based institutions in Malaysia were reported in the local media that give a big question especially on the accountability of Islamic faith-based institutions including waqf institution. It is undeniable that the accountability practice is still weak among waqf institutions especially in Malaysia. Besides, practitioners and scholars are still continuously debating the proper and suitable measurement that should be used in order to evaluate waqf institutions in Malaysia. However, it is not an easy task to define, conceptualizing and measuring particularly for waqf projects and activities (Arshad and Zain, 2017). This is due to the complexity of the measurement as waqf institution focus and emphasize on achieving their missions which the accomplishments are difficult to measure (Epstein and McFarlan, 2011).

Waqf institutions must be managed professionally and sustainably so that it can serve the purpose intended by dedicators and ensure that the waqf assets always remain and appreciate in value overtime in order to meet the needs of a growing community (Ayedh, et al., 2018). If good governance is in place, the accountability can be discharged to various stakeholders such as givers and beneficiaries (Ramli and Muhamed, 2013). Thus, the gap of the above literature can be summarized in following points. First, there is an essential need of accountability practices to maintain the existing of waqf institutions, to build new waqf institutions, to invest and generate income, and to involve in microfinancing. Thus, this paper will comprehensively investigate the accountability practices of waqf institution in the specific context of Malaysia. In-depth interviews were conducted to gather information and feedback on these options and the feasibility of future framework that can be adapted

3. Overview Waqf Institutions in Malaysia

As mentioned above the purpose of the study is mainly to comprehensively investigate the accountability practices of waqf institution in the specific context of Malaysia. The purposes of waqf are to provide continuous charity that could generate a perpetual income flow for the needy. Waqf has been practiced by the Malaysian Muslims since the early 1887 (Dahlan et al., 2014). In Malaysia, the role of waqf in the economy has been recognized by the government. This is shown in several special allocations by the government as stated in the 9th Malaysian Plan and 10th Malaysian Plan. The perpetuity of waqf implies that waqf property needs to be preserved and the benefit can be gained without consuming it (Kahf, 1998; Chowdhury et al., 2012). The responsibility to preserve and administer waqf property lies in the hand of *mutawalli*/agent that is the administrator, nazir or trustees (Mahamood, 2000). Therefore, the *mutawalli*/agent has to be appointed to manage the property in order to ensure that the benefits will continually disseminate to the beneficiaries.

Malaysia is formed under a concept of federalism and consists thirteen (13) states. A constitution, the federal constitution of Malaysia, is formulated to govern the relationship between state and federal governments (Mahamood, 2006). The constitution states that Islam is the official religion of Malaysia. In addition, the constitution also delineates the responsibilities of federal and state governments, which are referred to in the constitution as the “federal list” and the “state list” respectively (Mahamood, 2006). The specific details of the responsibilities of federal and state governments are spelled out in the ninth schedule of the federal constitution of Malaysia. The constitution also outlines the role of the monarchs, i.e. the sultans of the thirteen (13) states. In Part 1 of the Constitution, which is entitled “The states, religion and the law of the federation”, Article 3 (2) states that: *“In every State other than those not having a ruler, the position of the ruler as the Head of the religion of Islam in his state, in the manner and the extent acknowledged and declared by the Constitution, all rights, privileges, prerogatives and powers enjoyed by him as Head of that Religion, are unaffected and unimpaired...”*

The motivation behind featuring the above is to underline that each state's Sultan is the leader of the religion in that state. Even with the establishment of the federal government, the matter of religious still falls under state, not the federal, government (Mahamood, 2006). The authority to enact a law in the state list is enshrined in the Article 74 (2) in Part VI – Relation between the federation and the states – of the constitution states that: *“...the legislature of a state may make laws in respect to any matters enumerated in the state list...”*. There are eighteen (18) items in the State list and the first of these concerns Islam in that the state holds the power in: *“Islamic law and personal and family law of persons professing the religion of Islam, including the Islamic law relating to succession...waqf...”*.

The above paragraph makes it clear that waqf is under religious matters and these falls to state jurisdiction, headed by the state Sultan. For the administration of Islamic matters, every state passes a law to create an entity, a SIRC to assist and advise the Sultan on these matters. Thus, every state has a SIRC. According to Al-Habshi (1991), waqf is considered a religious matter, its jurisdiction falls under the purview of the SIRC. The matter of waqf is highlighted in the enactments of administration of Islam in every state. Therefore, the Islamic administration enactment of every state has enacted that all waqf matters fall under the purview of SIRC. These involve trusteeship, management, development and monitoring of waqf lands and buildings.

As a federally-structured government and through the division of jurisdiction between federal and state in the Federal Constitution, waqf laws in Malaysia are placed under the jurisdiction of the state and its administration is provided in the enactment of the Islamic religious enactment or the enactment of Islamic law in every state. Four states are enacting enactment of state endowment is Selangor, Negeri Sembilan, Melaka and Perak. Perak proclaimed the waqf control regulations in 1959, while Johor implemented its waqf method through the Rules of Johor Waqf 1983. Table 1 shown the waqf enactment rules according to state in Malaysia.

Table 1: The waqf enactment rules according to the state in Malaysia

State	Enactment	Section
Perlis	Administration of the Islamic Religious Law Enactment (Perlis) 2006	63-68
Kedah	Administration of Islamic Law Enactment (Kedah) 2008	51-58
Penang	Administration Islamic Religious Enactment (Penang) 2004	89-95
Perak	Administration Islamic Religious Enactment (Perak) 2004	78-84
Federal Territory	Administration Islamic Law Act (Wilayah Persekutuan) 1993 (Act 505)	61-68
Selangor	Administration Islamic Religious Enactment (Selangor) 2003	89-95
Kelantan	Islamic Religious Council and Malay Customs Enactment (Kelantan) 1994	61-66
Terengganu	Administration of Islamic Affairs Enactment (Terengganu) 2001	63-69
Pahang	Administration of Islamic Law Enactment (Pahang) 1991	70-78
Malacca	Administration Islamic Religious Enactment (Malacca) 2002	77-83
Negeri Sembilan	Administration Islamic Religious Enactment (Negeri Sembilan) 2003	89-95
Johor	Administration Islamic Religious Enactment (Johor) 2003	89-95
Sabah	Islamic Religious Council Enactment Sabah 2004	51-57
Sarawak	Ordinance Islam Council Sarawak 2001 (Chapter 41)	43, 51-54

Although Johor earlier introduced the waqf enactment in 1973, the Selangor State waqf Enactment 1999 was better known as the first waqf enactment in Malaysia, followed by Melaka and Negeri Sembilan. The Selangor waqf Enactment is enacted on the basis of the waqf bill proposed by the Islamic Legal and Civil Legal Committee under JAKIM. This enactment contains more detailed provisions on the management of waqf in Selangor.

Basically, every decision or ruling relating to Islam is seen as the sole authority of the States. It is placed under a body known as the National Council for Fatwa Committee of Islamic Religious Affairs

Malaysia (Jawatankuasa Fatwa Majlis Kebangsaan Bagi Hal Ehwal Agama Islam Malaysia). At the state level, institutional fatwa is a legal entity other than the State Islamic Religious Council, State Islamic Religious Department, and Syariah Court granted recognition by each state's Islamic law (Nooh, 2003). The problems and disputes arising in respect of Waqf property involving Islamic law will be referred to the Fatwa Committee Meeting and the committee itself will address these problems (Ab Majid, 2004). Laws enacted in the states have delegated authority to the respective state governments to set up a committee to help the department to issue a fatwa of Mufti Council (Tapah, 2004).

4. Accountability Practices

Being the sole trustees of waqf, as well as religious-based institutions, there are basic requirements that the waqf institutions need to fulfil which include accountability stakeholders. Accountability can be defined as “the duty to provide an account (by no means necessarily a financial account) or reckoning of those actions for which one is held responsible” (Gray et al., 1996). Ibrahim (2000) elaborate further the definition of accountability as “the duty of an entity to use (and prevent the misuse of) the resources entrusted in an effective, efficient, and economical manner, within the boundaries of moral and legal framework of society, and to provide an account of its actions to the accountees who are not only the persons who provide it with financial resources but also to the groups within the society and to society at large”. This definition indicates that waqf institution has a duty to carry out certain actions in managing the resources entrusted to them by the resource's provider in a proper and permissible manner and also to fulfil its obligation towards the society.

However, the concept of accountability in Islam is different from the conventional as it goes beyond accountability to mankind and worldly life. In Islam, the ultimate accountability of man is to Allah SWT and then to mankind and nature. All deeds will be counted in this world and in hereafter (*al-falah*). As mentioned in the Quran, a man is entrusted as the *Khalifah* (vicegerent) to safeguard the earth, which ultimately belongs to Allah SWT.

“To Allah SWT belongs whatever is in the heavens and whatever is in the earth. Whether you show what is within yourselves or conceal it, Allah SWT will bring you to account for it. Then He will forgive whom He wills and punish whom He wills, and Allah SWT is over all things competent”. (Quran, Al Baqarah: 284)

Previous studies by Ibrahim (2000), Yaacob (2006), and Ihsan and Adnan (2009) have proposed dual accountability for waqf management. For primary accountability, everybody who is responsible for waqf should discharge his or her accountability to Allah SWT (*hablun min Allah*) by fulfilling Allah's command and avoiding His prohibitions. This can be done by following the guidelines as stated in the sharia rules. As an administrator of waqf, *mutawalli*/agent should manage and utilize the waqf assets effectively in accordance with the sharia rules. Concerning secondary accountability, Yaacob (2006) and Ihsan (2007) have stressed that the *mutawalli*/agent is also accountable for various waqf stakeholders, namely the donors (waqif), waqf board, regulators, beneficiaries, and the society.

There are mechanisms that can be used by an organization to discharge its accountability to the stakeholders. Ebrahim (2003) proposed the mechanisms of accountability comprises of reports and disclosure statement, participation, self-regulation, social audits and performance assessments and evaluations. Stewart and Walsh (1992) asserted that accountability is associated with performance measurement as the managers who are managing resources entrusted to them are required to achieve certain objectives and goals and they are accountable for their actions and performance. Therefore, in waqf institutions, the *mutawallis* are required to achieve the highest level of performance in waqf management in order to discharge their accountability as they are not only accountable to the stakeholders but also to Allah SWT.

5. Methodology

In line with the objectives above mentioned, a qualitative research approach is applied. According to Merriam (2009), qualitative research allows the researcher to understand how people interpret their experiences, how they construct their worlds, and what meaning they attribute to their experiences.

The choice of qualitative research methodology can be further explained by its ability to generate comprehensive details about accountability practice in waqf institutions. Given that, brief answers to structured questions will not be able to provide the required in depth information to adequately assess the issue at hand (Weischedel, Matear and Deans, 2005).

A potential list of interviewees was established covering the waqf institution members suitable for the study. These come from all the Malaysian waqf institutions. A total of seven interviewees were subsequently selected depending on specific criteria. These include experience in the waqf and Islamic finance matters and the educational level (regardless of the specialisation), this allows the interviewees to understand and respond to detailed questions concerning the issue at hand. Subsequently, formal interview request letters were sent and or calls were given to each of the waqf institution practitioners and scholars. Five waqf institutions practitioners and scholars from the five waqf institution responded favourably and hence interview sessions were arranged over a period of one and a half month. Polit, Beck and Hungler (2001) recommend that not more than ten interviewees should be included in the study, to allow an in-depth exploration in phenomenological studies. Furthermore, the sample of five respondents is considered suitable since it has been used in similar studies (Tijani, Fifield and Power, 2009; Koenigstorfer and Klein, 2010).

To access participants' experiences, in depth interviews were conducted, in forms of semi structured interviews, using tape recorder. These interviews were ranging from 1 to 2 hours. At the beginning of every interview, the interviewees were given a guarantee of the confidentiality and were also assured that their identities will not be revealed in any publication.

All the interviews were reviewed several times before been transcribed. Subsequently, a phenomenological approach to analyse data was adopted, which involves interpreting and reflecting on the data transcript so as to achieve a holistic understanding of the meaning of the participants' experiences (Alexis and Vydelingum, 2007). The profile of all interviewees are as follows:

Table 13: Profile of Respondents

Interviewee	Gender	Age	Marital Status	Level of Education	Position
A	Male		Married	PhD	Academician
B	Male		Married	PhD	Academician
C	Female		Married	Bachelor Degree	Practitioner
D	Female		Married	PhD	Academician
E	Male		Single	Master's Degree	Practitioner

6. Findings and Discussion

The present study identified three major themes from the data analysis, as presented in Table II.

6.1 Important of Accountability in Waqf Organization

The participants in the interviews were asked their views on the importance of accountability in waqf organization for the development of the national economy. In general, the participants (n = 5) strongly agreed on the economic and social significance of waqf institution. Below are some of their responses:

Accountability is an important element which required to all organisation including non-profit and profitable institution. First, the need of the authority which demand all the institution to be transparent in their operation. It is comprising of monetary and non-monetary information that will enhance a company reputation. In the case of waqf institution, issue of accountability will affect the trust of donor who basically expected waqf institution to be responsible and accountable... (Interviewee A)

In the same line Interviewee B stated that:

Accountability become a signal to the society, and if we have a good accountability you can expect good/positive vibes from the society. Accountability become important and part of non-profit and waqf institutions. Without accountability, waqf institution cannot sustain in long term. Because, towards end it will get the feedback and perception from the society.

Accountability concept is important for waqf organization. Since waqf organization is gather sum of money from public donors, there is need to show the integrity to gain a public trust. Thus, a concept of accountability is need to be shown to the public/donors in order to gain trust form them about waqf. (Interviewee C)

We are working for ummah, where we were collected waqf fund and zakat for disburse to the asnaf. But, the priority in this research is to waqf which is we collect waqf fund and develop the asset, whereas the asset is fixed and benefits to the society. From this benefit it will help Muslim to start up business and creating opportunities for job. Thus, waqf and zakat is kind of the Islamic economic system that can develop the economics of ummah. So, accountability of waqf is important to the benefits of ummah. (Interviewee D)

Accountability is associated with performance measurement as the managers who are managing resources entrusted to them are required to achieve certain objectives and goals and they are accountable for their actions and performance. As a waqf institution religious entity, managing the entrusted waqf fund and assets for social and economic development of the society, the accountability measurement of waqf institutions should focus on realizing their missions. In order to examine these aspects, the first section focuses on the important of accountability in waqf institution. In this regard, the interviews have shown that the accountability practice in waqf institutions are important due to gain trust from stakeholders. According to Arshad and Zain (2017), the concept of accountability in Islam is different from the conventional as it goes beyond accountability to mankind and worldly life. In Islam, the ultimate accountability of man is to Allah SWT and then to mankind and nature. All deeds will be counted in this world and in hereafter (*al-falah*).

In summary, the rest of interviewees were stated that accountability is important in the waqf institutions. These practices are basically similar with other organizations. However, since waqf gain donation from Muslim community it is need to have accountability practices in the institution. This is in line with the findings of Arshad and Zain (2017), accountability is not only a religious matter towards Allah SWT but it is also considered as an economic and social institution which benefits the Muslims. It is also claimed that waqf can contribute significantly towards the ultimate goal of Islamic economic system which covers eradication of poverty, socio-economic justice, and equitable distribution of income.

6.2 To Whom Waqf Institutions Should Accountable

As aforementioned, different states usually apply different governance practices. Thus, SIRC's usually have different opinions in to whom they should be accountable. Accountability in some definitions by researchers can be defined as showing responsibility to the public. This definition was inferred by Lipman and Lipman (2006) and Fox and Brown (1998). Stakeholders can be the important aspect of reporting by institutions (Ebrahim, 2005; Tremblay-Boire and Prakash, 2014). In this regard the statement of interviewee A is typical:

They are accountable to everyone. But, the most fundamental is of course to Allah SWT. Because someone has been through the responsibility. So whatever responsible has given to you, you have to ensure you must fulfil it with the concept of amanah, trust, without any cheating, everything must be disclosed. After that is accountable to the society. Because, society is the one who are trust you. They donate the money and they give it to you and give land and so on about the waqf then you must fulfil their responsibility. But it depends. First to the Allah SWT and second to the society and third to the government, fourth to the beneficiaries, and fifth to the counterparties and so on.

Interviewee D, agreed with a broader concept of accountability in waqf institutions in Malaysia, by including Allah SWT and the stakeholders. However, the ranked were different according to his understanding.

Our waqf institutions were given Mutawalli status by SIRC's which any state in Malaysia the legislation related to Islamic matters was put under the state power. And SIRC's is the sole trustee on waqf matter which is automatic belong to Allah SWT. Thus, there is no ownership, that why it been call as waqf which is the ownership is hold. Thus, in the accountability concept of this institution was accountable to SIRC's. Besides that, it also accountable to stakeholders. Each of waqf has their characteristics. Thus, it is needed to fulfil the intention of stakeholders in waqf. (Interviewee D)

The other three participants in the interviews were agreed that waqf institutions should responsible to their government and SIRC's in the first place and to the other stakeholders. For instant interviewee B said that:

"In the case of Malaysia, Mutawalli or trustee of Waqf is fall under the State Government". "However, Waqf institution currently is treated as a unit under the State Islamic Councils under some State. Thus, I strongly believe that Waqf institution should play a bigger role such as providing the detail of the activity, collection and distribution of cash Waqf in a respective website. Thus, this will enhance the confident of the Muslim toward this institution.

6.3 Programme Enhance Accountability to Allah SWT by the Waqf Institutions

The participants in the interviews were asked to provide their opinions on the program enhance accountability to Allah SWT were provided by the waqf institutions. The participants ($n = 5$) agreed that program enhance their accountability towards deliver waqf institutions objectives. Below are excerpts of their views:

This is one of the important things. Because, through the tazkirah program it has positive to the heart of society or even the particular person and going to assemble positive feeling to particular person towards the end he/she going to accountable to Allah SWT. Because tazkirah if you give in proper way it going to attach to the particular person heart. Hereby, he/she start going to thing what is the objective of life and so on. Try to imagine, if we can touch in particular person with good tazkirah and good approach way sure in the long

term the particular person with the help from Allah SWT, he/she to be more accountable. All these training, tazkirah and test will enhance he/she and toward the end he/she will accountable to Allah SWT. (Interviewee B)

Team building every year. Within this, tazkirah and etc were delivered to ensure members are practicing accountability during working time. (Interviewee C)

Accountability is a part of Islamic religion which requires every Muslim to pay Zakat. I mean, as a Muslim we accountable for every deed. Similarly, strict regulation by government should be impose to the non-profit organisation. (Interviewee D)

Based on the above findings, the participants opined that program conducted were enhance the accountability to Allah SWT and to human. According to the experts' views, there is a need for an alternative by waqf institution to provide more training or program to the staff or other department in order to improve the performance of waqf institution.

7. Conclusion and Recommendation

The main objective of the study is to comprehensively investigate the accountability practices of waqf institution in the specific context of Malaysia. These perspectives offer valuable guidance for waqf institutions to measure their accountability practice comprehensively based on both qualitative and quantitative measurement. This study has significant contributions to the body of knowledge, to the practitioners and scholars, as well as to the policy makers and regulators.

The findings of this study may help the improvement of waqf management. As this study focuses on accountability, which, among other things, encompasses accounting and performance, the waqf institutions are expected to improve their accountability and transparency in administering waqf. This is crucial as the demand for public accountability and transparency has increased tremendously. Moreover, the results of this study may assist regulators in monitoring waqf institutions. The government should give more concern on the accountability of the waqf institutions, as there is rampant corruption across the country. Thus, the waqf regulator might come together with country authorities to improve waqf accountability.

There are a number of recommendations that are proposed by the interviewees as well as Islamic finance practitioners and scholars. Though the current study provides a number of valuable contributions, the study still suffers a number of limitations. This includes the scope of the study which is based on the Malaysia waqf institutions only. Hence, future studies are recommended to extend this endeavour to other contexts as well. Furthermore, the sample size though covers all the waqf institution and presents the experience of these waqf institution regarding the issues at hand; it is still preferable that the future studies use techniques like focus groups by arranging sessions of several waqf institutions practitioners and scholars of the different organizations.

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The Relationship between Person-Environment Fit, Employee Attitudes and Outcomes

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1. Introduction

Several research studies have been undertaken to identify the P-E fit (person-organization fit, person-job fit, person-group fit etc.) linking towards employee attitudes and overall performance. P-E fit refers to the degree of compatibility or congruence between an employee and his work environment (Kristof-Brown, Zimmerman, & Johnson, 2005). The research on the match between employees and their work environments has attracted the attention of many scholars and researchers (Kristof-Brown et al., 2005; Newton & Jimmieson, 2009; Piasentin & Chapman, 2006).

As a result, researchers started to distinguish specific types of fit sheltered under the umbrella of P-E fit. The types of fit include individual's compatibility with the organization (P-O Fit), job (P-J fit), work group (P-G fit), and supervisor (P-S fit). According to past research, P-J fit is defined as the judgments of compatibility between employees' skills and the demands of the job (Cable & Judge, 1996; Lauver & Kristof-Brown, 2001). Meanwhile, P-G fit tends to occur when there exists a compatibility between individuals and their work groups (Kristof, 1996). The next type of fit is P-S fit, which revolves around the compatibility of individuals with their supervisors or the relationship between employee and their managers. Out of all types of fit, P-O Fit is the most common and frequently studied by researchers (Hoffman & Woehr, 2006) and is viewed to be the most vital due to its ability in maintaining a flexible and committed workforce (Jung & Takeuchi, 2013; Tak, 2011). Moreover, Tak (2011) further argues that if employees not satisfied with their job or supervisor, it is possible for them to get away from current job or supervisor by changing jobs within the organization.

However, if the employees fail to have a good fit with the organization, they are more likely to search for employment elsewhere, which will definitely result in the loss of a potentially skilled and experienced employee. Furthermore, all the established outcomes are able to assist organizations in minimizing the cost of turnover and promoting extra-role related to positive employee attitudes (M. Podsakoff, MacKenzie, Lee, & P. Podsakoff, 2003; Riketta, 2005).

P-O Fit is not only related to work outcomes or organizational success, but it can also be beneficial in terms of the positive atmosphere that can be created through reciprocal interaction in work environments, social environments, and the vocation leading to an increased organizational commitment from employees (Demir, Demir, & Nield, 2015).

Fit to organization can be viewed as the compatibility between the unique qualities of the individual worker and those of the overall employing organization (Gregory, Albritton, & Osmonbekov, 2010). A study undertaken by Ng and Sarris (2009) found that an employee fit to an organization is positively correlated with the commitment towards an organization and their core task performance. Hence, it can be hypothesized that the higher the fit of an employee to an organization, the more an employee is embedded to their jobs and the more likely it is for them to go an extra mile in their duties and work activities. As a result, they will become more productive in terms of their work performance (Ng & Feldman, 2009). In summary, limited research on various types of fit differentially relate to employee attitudes and behaviours.

2. Materials And Methods

The process of data collection was conducted by accessing the samples of employees and immediate supervisors, which was facilitated and assisted through individuals who are in charge of personnel work in the organizations or HR personnel. The respondents knew their own supervisors so they helped to distribute the questionnaires to their supervisors. Two waves of data collection were involved in this process. The completed questionnaires were collected either on the same day or a few days later, but not more than three working days. In case the participants failed to provide their name, the log of distribution number of questionnaires was used to solve the problem. It was vital to ensure that both questionnaires matched and the data completed.

The present study is positioned within the positivist research paradigm. Hence, this study chose to employ a descriptive cross-sectional design in order to fulfill the research objectives. The target population for this study comprises of academicians in both public and private universities in Malaysia.

The data collection method for this study is based on convenience sampling, whereby a number of academicians including tutors, senior lecturers, lecturers, associate professors, and professors are selected from public and private universities in Malaysia. The purpose of adopting convenience sampling method is due to the challenges of gathering multiple sources based on the academicians' ratings of performance or employees-supervisor dyads survey and locations of the universities.

A questionnaire survey was used to collect the data of this study. The questionnaire was written in English language and pretested by forty academicians from public and private universities in Malaysia. The questionnaires were then distributed to a total of 600 academicians in Malaysian public and private universities. The distribution of questionnaires resulted in a total of 295 completed questionnaires, thus providing an effective response rate of 49.1%.

The data were then analysed using SEM-PLS 3.0. The PLS-SEM analysis was chosen due to the advantages offered over the covariance approach. The measurement model is validated before proceeding with the evaluation of the structural model. The PLS-SEM approach was found to be in agreement with the researcher's study, the complex structural model, small sample size, and does not require normal data distribution (Chin & Newsted, 1999; Hair, Hult, Ringle, & Sarstedt, 2014).

3. Expected Findings

The proposed research is linking different types of fit to the employee attitudes and outcomes. A limited number of studies have been conducted on many types of fit affected towards the attitudes and behaviours in one study. It is hoped that the result later will be taken into consideration in the development of productivity and efficiency of employees and organization.

4. Conclusion

The proposed study would like to focus on relationship of different types of fit among academician in Malaysia. By knowing this valuable information, the management of universities might want to improve their current offerings to better suit the customer's needs and wants.

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Ethical Sensitivity in Tax Compliance: An Application of Multidimensional Ethics Scale

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Abstract

Tax compliance is a critical issue especially if the tax system relies on self-assessment system which requires voluntary compliance by taxpayers. Since in reality, tax compliance is a complex process, taxpayers rely on tax agents to assist them in complying with the tax laws. The tax compliance process involves ethical decision making process of complying and not complying. This paper examines the ethical decision making of tax agents in performing their tasks by looking into their ethical sensitivity. Their ethical sensitivity is measured using Multidimensional Ethics Scale and tested on a tax scenario. Data for the study was analysed using PLS analysis. Findings from the survey indicate that tax agents perceive ethical sensitivity from multidimensional aspects.

Keywords: Tax compliance, Tax agents, Ethical sensitivity, Multidimensional Ethics Scale, Survey

1. Introduction

Tax compliance is a critical issue especially when the amount of tax collected relies on a self-assessment system (SAS) which requires voluntary compliance. A way to combat the problem of non-compliance is to understand the factors concerning why people comply and do not comply with the tax law. Therefore, it is worthy to conduct studies in tax compliance as tax compliance studies provide a platform for understanding tax compliance and non-compliance issues. A review of the Malaysian Income Tax Act 1967 (amended) (ITA 1967) suggests that there is no exact definition of tax compliance. The ITA 1967 only states the types of non-compliance and the relevant penalties.

The concept of what constitutes tax compliance itself needs to be clarified before delving into the issues of tax compliance. A few definitions of tax compliance have been suggested from previous studies, such as: voluntary compliance with the letter and the spirit of the tax law (Alley & James, 2006); timely voluntary payment of the difference between the actual tax due and the amount reported to the tax authority (Andreoni et al., 1998); and the timely filing of tax returns accurately according to the law and settling any tax owed without further enforcement (Singh, 2003). Tax compliance is also translated as taxpayers' willingness to comply with the tax laws and non-compliance is associated with violating the tax laws whether or not it is intentional (Kirchler, 2007). Therefore, tax compliance (and non-compliance) behaviour is the outcome of ethical and unethical decision making process (Singh, 2003). Doyle et al. (2009) further suggest that the concept of ethics in taxation now goes beyond exercising normative ethics, whether or not people in the tax system such as taxpayers and tax agents act as what they should do, but also questioning themselves whether or not there is any possibility that the tax authorities will challenge their tax decision.

The above definition suggests that the central tenets in tax compliance are voluntary compliance and timely payment according to the tax law. In reality, however, it is challenging to apply the above definition of tax compliance, for what is considered to be an acceptable level of complying with the tax law by the tax authority is subjective and varies. Hence, it is important for taxpayers to understand the boundaries between tax avoidance and tax evasion to prevent unnecessary tax litigation on that point or any other circumstances imposed by the tax authority as a result of not complying with the tax law. In this case, the role of tax agents is important to assist their clients in determining these boundaries. This paper examines the ethical decision making of tax agents in Malaysia in performing their tasks. Their ethical decision making is measured using the Multidimensional Ethics Scale tested on tax scenario.

2. Literature Review

In 2000, the Malaysian Government introduced the current year basis for assessing income for tax purposes as the first step to implement the self-assessment system in Malaysia. Prior to that, previous year basis was used tax income in Malaysia. Commencing in 2001, the SAS was introduced to replace the Official Assessment System (OAS) for corporate taxpayers. The Malaysian Government extended the implementation of SAS to businesses, co-operatives, partnerships and employees in 2004. Therefore, by 2005, the SAS was fully applied to all taxpayers in Malaysia.

The SAS was introduced to encourage voluntary tax compliance, reduce the cost of collecting taxes, and bring forward the amount of tax being collected since current year basis is used to tax income under the SAS. It also enables the MIRB to divert its resources, from its traditional task of determining or assessing the taxpayers' income, to focus more on tax audits, with the desire of increasing the income tax collected (Kassipillai et al., 2000). The change of the tax landscape under the SAS transfers more responsibility to comply with the tax laws to the taxpayers, suggesting that they have to be more responsible in managing their income tax.

Past studies in tax compliance suggest that due to the expertise held by tax agents, taxpayers rely on tax agents to handle their tax matters. In New Zealand, Tan (1999) provides evidence that small business owners are prone to agree more rather than disagree with the advice given by their tax agents, which emphasizes the importance of tax agents in a tax system. In her study, filing accurate tax returns and avoiding serious penalties are the two most important reasons why tax agents are engaged. A finding by Mohd Isa (2012), using corporate taxpayers in Malaysia, indicates that many corporate taxpayers rely heavily on tax agents who not only handle their tax compliance matters, but also tax planning as well. Tax agents have important roles in tax compliance, as advocates for their clients and intermediaries to the government.

2.1 *Multidimensional Ethics Scale*

In the ethics literature, a review by Kujala et al. (2011), found that a tool to measure ethics which has been commonly used by researchers is the Multidimensional Ethics Scale (MES) developed by Reidenbach and Robin (1988; 1990). Arguably, humans rely on more than one ethical dimension in making ethical decisions, and because a single measurement scale of ethics cannot capture the various ethical perspectives in making an evaluation, the single measurement scale has reliability problems (Reidenbach & Robin, 1988; 1990). As an improvement to the single scale measurement of ethics, using a factor analysis, Reidenbach and Robin (1988) developed a multidimensional ethics scale in marketing ethics consisting of 33 items which reflect five normative moral philosophies.

Reidenbach and Robin (1990) later reduced the original MES from 33 items to 8 items, representing three groups of ethical dimensions which are: moral equity, relativism and contractualism. Similar to the original MES, the moral equity dimension reflects an individual perception of fairness and justice, expectation of family and what is morally right or not in ethical decision making. Relativism concerns the importance of culture and tradition in determining what is right or wrong in the decision making which results in the importance of culture or social system overtakes individual considerations. Finally, contractualism represents the social construct in the form of duties, rules, obligations between businesses and society in ethical decision making.

The main advantage of MES is its ability to capture the beliefs of a person in ethical decision making while at the same time it reveals the reasons for believing that a particular action is ethical or unethical by using different ethical philosophies. This is important since not all people fit into one category (Reidenbach & Robin, 1988; 1990).

3. Research Method and Analysis

The sample in Malaysia was selected using a cross between systematic random sampling (probability sampling) and snowballing (non-probability sampling). The researcher developed a list of 500 tax agents from the website of the Malaysian Inland Revenue Board (MIRB) using a systematic random sampling approach. The tax agents who are listed on the MIRB website are normally those at high

positions, such as director and partner of taxation firms. Therefore, to obtain a more robust sample, the researcher used a snowballing approach by requesting those tax agents who were selected from the website to distribute another two sets of the questionnaire survey packs to their staff.

Table 2.4.114 Mail survey response rate

Particulars	Quantity
Number of questionnaires mailed	1,500
No longer in tax practice	(3)
Delivered but addressee has moved	<u>(9)</u>
Total available questionnaires	1,488
Number of responses received	92
Response rate (%)	6.2

Low response rates in tax studies have been experienced by other tax studies as well. A study on tax compliance cost of personal taxpayers in India by Chattopadhyay and Das-Gupta (2002) for instance, only managed to obtain a response rate of 2 percent from the postal survey, and out of 120 questionnaires sent to tax agents only 1 questionnaire was completed and returned. A recent study by Mohd Isa (2012) among corporate taxpayers in Malaysia for instance, indicates an overall mixed-mode survey response rate of 5 percent.

The demographic background is represented in the following Table 2.

Age (years)	Frequency	Percent
25 or below	22	23.9
26-30	20	21.7
31-35	11	12.0
36-40	13	14.1
41-45	9	9.8
46-50	5	5.4
51-55	4	4.3
56-60	3	3.3
Over 60	5	5.4
Missing	0	0
Total	92	100
Gender	Frequency	Percent
Male	39	42.4
Female	53	57.6

Descriptive analysis is frequently used to interpret basic features of the data. The results indicate that respondents evaluated moderately each moral dimension in the case of overstating business travelling expenses for tax purposes. This could be evidenced from the overall mean values of each moral philosophy in the MES which centred near to the middle point of the scale. The overall mean of Moral Equity of 4.87 suggests that respondents regard overstating tax expenses as leaning more towards injustice, unfairness, not morally right and not acceptable to their family. With respect to Relativism,

respondents indicate that the act of overstating tax expense inclined more towards traditionally and culturally unacceptable, with an overall mean value of 4.44. The overall mean value of Egoism of 3.78 implies that respondents perceived overstating tax expense as unethical since it promoted the well-being of oneself over the others.

The act of overstating business travelling expenses for tax purposes was also perceived as not ethical since it did not produce the greatest utility for greatest number of people or maximize benefits over harm to all parties involved. This could be seen from the overall mean value of Utilitarianism dimension of 4.18. Finally, with an overall mean value of 4.67, respondents also had the opinion that overstating tax expense had violated the unwritten contract and violated unwritten promise. The violations imply an unethical behaviour according to Contractualism moral philosophy.

Table 2.4.13 Descriptive statistics on measures of ethical sensitivity

Measures	Code	N	Min	Max	Mean	Std. Dev.
In your opinion, Rose's decision to overstate the business travelling expenses is:						
Moral Equity	MEO	92	1	7	4.87	1.416
Just.....Unjust	MEO1	92	1	7	4.64	1.661
Fair.....Unfair	MEO2	92	1	7	4.91	1.601
Morally right .....Not morally right	MEO3	92	2	7	5.22	1.389
Acceptable to my family.....Not acceptable to my family	MEO4	92	1	7	4.71	1.741
Relativism	REO	92	1	7	4.44	1.603
Traditionally acceptable.....Traditionally unacceptable	REO1	92	1	7	4.41	1.665
Culturally acceptable.....Culturally unacceptable	REO2	92	1	7	4.47	1.713
Egoism	EGO	92	1	7	3.78	1.225
Not self-promoting for Rose.....Self-promoting for Rose*	EGO1R	92	1	7	3.83	1.681
Personally satisfying for Rose.....Not personally satisfying for Rose	EGO2	92	1	7	3.74	1.722
Utilitarianism	UTO	92	1	7	4.18	1.277
Produces greatest utility.....Produces the least utility	UTO1	92	1	7	4.23	1.563
Minimizing benefits while maximizing harm.....Maximizing benefits while minimizing harm*	UTO2R	92	2	7	4.14	1.688
Contractualism	COO	92	1	7	4.67	1.467
Violating an unwritten contract.....Not violating an unwritten contract*	COO1R	92	1	7	4.68	1.482

Violating an unspoken promise.....Not violating an unspoken promise	COO2R	92	1	7	4.66	1.485
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In the measurement model, the reliability and validity of the measures in each construct are determined to evaluate whether or not the measures represent the constructs.

Table 2.4.14 Reflective constructs, measures and loadings (revised model)

Constructs	Malaysia		
	PLS loadings	t-values	Level of sig.
Intention (INO)	AVE = 0.814		
INO1R	0.909	35.795	0.001
INO2	0.896	36.767	0.001
INO3R	0.901	40.712	0.001
Moral Equity (MEO)	AVE = 0.790		
MEO1	0.925	42.901	0.001
MEO2	0.910	26.051	0.001
MEO3	0.906	39.985	0.001
MEO4	0.806	12.872	0.001
Relativism (REO)	AVE = 0.901		
REO1	0.951	46.538	0.001
REO2	0.948	59.329	0.001
Egoism (EGO)	AVE = 0.518		
EGO1R	0.640	2.371	0.05
EGO2	0.792	3.350	0.01
Utilitarian (UTO)	AVE = 0.616		
UTO1	0.805	6.875	0.001
UTO2R	0.764	5.164	0.001
Contractualism (COO)	AVE = 0.978		
COO1R	0.989	211.155	0.001
COO2R	0.988	222.292	0.001

While the common acceptable loading is 0.70, a factor loading of 0.50 is also acceptable (Hair et al., 2012). In studies involving newly developed measures, such as this study, a loading of 0.4 is still acceptable (Hair et al., 2012). Once the indicators' reliability are satisfied, the next step is to test the overall internal consistency of the constructs by examining the composite reliability of the constructs. A value of 0.60 is considered as acceptable if the study involves newly developed measure, such as this study (Hair et al., 2012).

Table 2.4.15 Composite reliability of the constructs

Intention (INO)	0.929
Moral Equity (MEO)	0.937
Relativism (REO)	0.948
Egoism (EGO)	0.680
Utilitarian (UTO)	0.762
Contractualism (COO)	0.988

The cross-loadings approach test the existence of discriminant validity at the item level and in this test, all loadings for each measure should be higher than their cross-loadings. The discriminant validity differentiates whether or not items are different among constructs.

Table 2.4.1 Item cross-loadings

	COO	EGO	INO	MEO	REO	UTO
COO1R	0.98	0.17	-0.32	0.40	0.10	0.39
COO2R	0.98	0.15	-0.31	0.41	0.10	0.43
EGO1R	0.24	0.63	-0.17	0.13	-0.02	0.15
EGO2	0.02	0.79	-0.21	0.24	0.28	0.31
INO1R	-0.29	-0.31	0.90	-0.67	-0.40	-0.43
INO2	-0.24	-0.18	0.89	-0.70	-0.46	-0.39
INO3R	-0.32	-0.24	0.90	-0.72	-0.48	-0.43
MEO1	0.38	0.26	-0.72	0.92	0.54	0.53
MEO2	0.39	0.30	-0.72	0.91	0.53	0.54
MEO3	0.41	0.15	-0.67	0.90	0.47	0.54
MEO4	0.26	0.23	-0.62	0.80	0.66	0.50
REO1	0.09	0.21	-0.47	0.60	0.95	0.44
REO2	0.10	0.16	-0.46	0.57	0.94	0.46
UTO1	0.13	0.35	-0.38	0.45	0.53	0.80
UTO2R	0.53	0.15	-0.35	0.49	0.20	0.76

At this stage, the reliability and validity of measures in the measurement first order model have been adequately satisfied. Since ethical sensitivity is developed as a second order factor model, there is a need to test the second order factor model. In this study, the repeated indicator approach, suggested by Chin (2010) was used to perform the second order factor test. As indicated in Table 7, all constructs for ethical sensitivity are significant.

Table 2.4.17 Second order factor model

Construct	Path estimate	<i>t</i> -values	Level of sig.
<i>Ethical sensitivity (ES) : $R^2 = 0.99$</i>			
MEO	0.596	11.538	0.001
REO	0.245	8.075	0.001
EGO	0.075	2.785	0.01
UTO	0.167	7.379	0.001
COO	0.190	4.063	0.001

4. Conclusions

Prior studies using MES suggest that MES is multidimensional. In this study MES was also subject to first order factor model assessment and later, as a second order factor model, using repeated indicator

approach. The results from the second order factor model confirmed that MES was formed by multidimensional constructs. From the five dimensions, Egoism is the least significant. The findings suggest that tax agents in Malaysia understand ethical values from multiple dimensions.

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Corporate Social Responsibility (CSR) Disclosure and Its Dimensions in Non-Asian and Asian Countries: A Literature Review

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Abstract

This paper examined the current status of research regarding Corporate Social Responsibility Disclosure (CSR/D) in both non-Asian and Asian countries. The company characteristics namely, company size, age, profitability, industry, share price performance, and corporate governance mechanisms and its impact on CSR/D were investigated. Most prior studies found that CSR/D has a positive effect on company performance. Crucial differences between dimensions of CSR/D in non-Asian and Asian countries were also been reviewed. In non-Asian countries, the attentions of specific stakeholders such as regulators, environment, shareholders, and media are considered very significant in the disclosure of CSR information. Meanwhile in Asian countries, CSR/D is more affected by external strength and stakeholders which include international customers, foreign investors, environment, international media, and ownership as well as internal factors namely employees, regulators, investors, media, suppliers, creditors, and communities. As opposed to non-Asian countries, companies in Asian countries face little public pressure on CSR/D. This suggests that the general public in Asian countries is less knowledgeable about CSR/D dimensions. Community, workplace, environment, and marketplace issues are perceived to have relatively little pressure from the public with regards to CSR/D. As to date, financial companies that still focus on CSR/D practices are very few.

Keywords: Corporate Social Responsibility; Dimensions of CSR/D; non-Asian countries; Asian countries

1. Introduction

The corporate social responsibility disclosure (CSR/D) dimensions namely community, workplace, environment, and marketplace information by companies have received little attention from the society. Studies on the subject have been conducted in both non-Asian and Asian countries. Non-Asian countries include the US (Alnajjar, 2000), the UK (De Klerk, Villiers, & Staden, 2015), Germany (Cormier, Magnan, & Van Velthoven, 2005), Canada (Cormier & Gordon, 2001), Australia (Deegan & Gordon, 1996), Sweden (Tagesson et al. 2009), France (Cormier & Magnan, 2003,) Italy (Prencipe, 2004), Portugal (Da Silva -Monteiro & Aibar-Guzman 2010), Spain (Prado-Lorenzo et al. 2008), and Norway (Vormedal & Ruud, 2009). Asian countries include Malaysia (Abd Rahim, 2016), Japan (Nuzula & Kato, 2010), Indonesia (Gunawan, 2007), China (Liu & Anbumozhi, 2009), India (Kansal, Joshi, & Batra, 2014), Taiwan (Chiu & Wang, 2015), and Bangladesh (Khan, Muttakin, & Siddiqui, 2013). This paper highlights previous studies on CSR/D for both non-Asian and Asian countries. The disclosure of CSR in Asian countries was found less than in non-Asian countries (Fifka, 2013). Most of the studies on CSR/D have been conducted in non-Asian countries, which include the US and the UK.

Although CSR has been gaining increasing prominence in the business world, the focus on CSR practices is still very low. For example, most of the findings on the relationship between CSR/D and company characteristics from previous studies showed a positive relationship (e.g., Chang, Chen, &

Shu, 2017; Saleh, Zulkifli, & Muhamad, 2011; De Klerk, De Villiers, & Staden, 2015). However, studies such as Crisóstomo and Freire (2011) showed a negative relationship. Nevertheless, some previous studies have dealt exclusively with the low practice of community, workplace, environment, and marketplace disclosure (e.g., Abd Rahim, 2016; Sadou, Alom, & Laluddin, 2017; Saleh, Zulkifli, & Muhamad, 2011). The relationship between CSRD dimensions (community, workplace, environment, and marketplace) and corporate financial performance had also been examined by previous studies and most of the results were positive (e.g., Saleh, Zulkifli, & Muhamad, 2011). However, Crisóstomo and Freire (2011) found a negative relationship between CSRD and corporate financial performance. Saleh, Zulkifli, and Muhamad (2010) found product and employee as the two significant and positive dimensions that relate to ownership structure whilst community contribution and environment have negative significance to ownership structure.

However, previous studies are limited in many respects. Firstly, they paid more consideration on environmental issues than on other community issues in their studies (De Klerk et al., 2015). Secondly, the researchers paid little attention on the workplace and marketplace (Sadou et al., 2017). Thirdly, the researchers paid more attention on CSRD in non-Asian countries as compared to Asian countries especially with the community and environment dimensions (Fifka, 2013). Lastly, earlier studies focused on emphasising the nature of disclosure, the measurement of CSRD, the context of the study, the type of theory used, and the dimensions of CSRD (e.g., Abd Rahim, 2016; Sadou, Alom, & Laluddin, 2017; Saleh, Zulkifli, & Muhamad, 2011; De Klerk, De Villiers, & Staden, 2015). This paper focuses on the dimensions of CSRD including community, workplace, environment, and marketplace disclosure in both non-Asian and Asian countries.

2. Literature Review

Although CSR has been a topic of prominence and growing concern in the business world, companies from the finance sector, real estate investment trusts sector, and closed-end funds sector that focus on CSR practices are very few. Most of the findings on the association between CSRD and company characteristics including company performance (Chang et al., 2017), corporate governance and ownership (Garas & Elmassah, 2018) showed a positive relation with CSRD. However, some other studies (Crisóstomo & Freire, 2011) showed a negative relationship between CSRD and financial performance. Meanwhile, there are some studies (Iqbal et al., 2012) that found no relationship between CSRD and financial performance.

There are positive findings found in most earlier studies that examined the relation between CSRD community and corporate financial performance (e.g., Saleh, Zulkifli, & Muhamad, 2011). On the other hand, Saleh, Zulkifli, and Muhamad (2010) stated that there is a negative relationship between community and ownership structure. The association between CSRD workplace and corporate financial performance was examined by previous studies and most of the results found a positive relation (e.g., Saleh, Zulkifli, & Muhamad, 2011). Prado-Lorenzo et al. (2008) reported the creation of safe and comfortable workplaces for employees to promote employee rights and freedom. Employees play an important role in achieving motives in the workplace. Several researches on the association between the environment dimension and share price performance have been conducted in different countries such as the US, the UK, Sweden, and Spain. Most of the studies focused on large companies and the different researchers arrived at some inconsistent results (De Klerk et al., 2015). The relationship between CSRD marketplace and corporate financial performance was also tested in previous studies (e.g., Saleh, Zulkifli, & Muhamad, 2011), and most of the findings revealed a positive association. Ki Hoon and Dongyoung (2010) reported a positive association between the consumers' awareness of CSR initiatives and their purchase intentions was found in their study, in which the consumers have more tendency to purchase from companies with good CSR activities. This positive tendency also leads to promoting consumers in buying the companies' products (Ki Hoon & Dongyoung, 2010). This study is organised as follows: the following section discusses the methods of this research, followed by the CSRD literature review, and lastly the conclusions and suggestions for future research.

3. Methodology

Different CSRD measures were used in earlier researchers on the extent and quality of disclosure. The extent of CSRD relates to the counting of sentences, words or pages (e.g., Deegan et al., 1996) as some of the studies used the extent of CSRD and dichotomous variables for disclosure and non-disclosure (e.g., Abd Rahim, 2016; Sadou et al., 2017), where a score of 0 is for non-disclosures and 1 for disclosures. The quality of CSRD indicates a valuation of the quality of disclosures in applying a quality index. There is a difference with researchers who used the index concerning the quality of disclosure (Sadou et al., 2017). A more detailed index has been used by others, with a scale of 0 to 3, where a score of 0 is for non-disclosure, 1 for general qualitative disclosure, 2 for qualitative disclosure with specific explanations, and 3 for quantitative disclosure (e.g., Sadou et al., 2017; Saleh, Zulkifli, & Muhamad, 2011). Meanwhile, using scoring guidelines by establishing CSR frameworks for the GRI, with a scale of 0 to 2, where the score of 2 represents detailed and quantified disclosure, 1 represents general disclosure, and 0 represents no disclosure. The dimensions of CSRD are divided into two parts: (1) Internal factors namely company characteristics, and (2) External factors such as regulators and media.

4. Corporate Social Responsibility Disclosure (CSRD) and Its Dimensions

With regards to the perception of the dimensions of CSRD, the discussion is classified into non-Asian countries and Asian countries.

4.4.1 Corporate Social Responsibility Disclosure (CSRD) In Non-Asian Countries

CSRD studies in non-Asian countries are mainly focused on the US, UK, Canada, France, Australia, Sweden, Portugal, Spain, Italy, Germany, and Norway, which all fall in line with the findings in Fifka (2013). Studies on non-Asian CSR have mainly used the way in which content analysis examines factors affecting CSRD (Table 1), in line with the studies of Fifka (2013). In addition, the earlier studies have largely examined the determinants of CSRD utilising quantitative measures (e.g., extent or quality) (Table 1) and have paid more attention on the dimensions of CSRD, including social and environment issues. Furthermore, this paper focuses on all dimensions known as community, workplace, environment, and marketplace. Findings from the review of ongoing CSRD studies in non-Asian countries (Table 1) support the earlier observation that the researchers were more concerned with community, workplace, environment, and marketplace disclosure issues (Alnajjar, 2000). Most reviewed studies have utilised a specific theory or set of theories to clarify the dimensions of CSRD (Table 1), with legitimacy theory being the leading theoretical goal. The factors considered in the studies of community, workplace, environment, and marketplace disclosure in non-Asian countries are primarily internal (company characteristics) (Table 1). We discuss these factors below.

Table 1. Corporate social responsibility disclosure dimensions in Non-Asian countries

Authors Country	Theoretical Perspective	External Factors	Internal Factors (company characteristics)	CSRD				Measurements	
				CO	EN	WP	MP	EX	QU
(Alnajjar, 2000) US	Not applied		Financial performance, corporate size, profitability Share price	✓	✓	✓	✓	✓	
(De Klerk, Villiers, & Staden, 2015) UK	Agency theory		performance, environmental reporting, social reporting, corporate governance	✓	✓			✓	

(Cormier & Gordon, 2001) Canada	Legitimacy theory		Age of assets, size, ownership status, information costs	✓	✓		✓
(Deegan & Gordon, 1996) Australia	Legitimacy theory	Environmental concern measured by membership in environmental groups	Size industry		✓		✓
(Tagesson et al., 2009) Sweden	Agency theory Legitimacy theory Stakeholder theory	Ownership (private vs. government owned)	Size, industry, financial performance		✓		✓
Cormier & Magnan, 2003) France	Cost and benefit framework		Size, industry, dependence on capital markets		✓		✓
(Da Silva Monteiro et al., 2010) Portugal	Not applied		Size, industry, financial performance, stock market listing, foreign parent company, environmental certification		✓		✓
(Prado-Lorenzo et al., 2008) Spain	Stakeholder theory	Stakeholder influence	Size, financial performance, strategic posture	✓	✓		
(Prencipe, 2004) Italy	proprietary costs theory		Size, financial performance, ownership dispersion, listing age				✓
(Cormier et al., 2005) Germany	Multi-theory	Public pressure ownership	Size, industry, financial performance, age of assets, risk, ownership		✓		✓
(Vormedal & Ruud, 2009) Norway	Stakeholder theory	Societal, political, regulatory characteristics	Size, industry, Internationalization		✓	✓	✓

¹Note:

Table 1 has abbreviations such as CO: community, EN: environment, WP: workplace, MP: marketplace. EX: extent, QU: quality.

4.1.2 Internal Factors (Company Characteristics)

The most examined dimensions are company size, age, industry, and profitability (Table 1). Studies in non-Asian countries are consistent and have shown that the size of the company has a significant positive association with the disclosure of community and the environment (Brammer & Pavelin, 2008). In a similar way, studies in non-Asian countries revealed a strong correlation between industry and disclosure (Brammer & Pavelin, 2008; Tagesson, 2009). The most examined determinant of disclosure is financial performance (Table 1), according studies (De Klerk et al., 2015), there is a positive association between CSRD and share price performance. However, some other studies (e.g., Crisóstomo & Freire, 2011) found a negative relationship between CSRD and corporate financial performance. Some of the earlier studies also examined the association between CSRD and company profitability. There was a positive connection between CSRD and company profitability (e.g., Alnajjar, 2000). In addition, other characteristics of the company such as social media and age of assets (Cormier et al., 2005) were shown to have a positive impact on the disclosure.

4.1.3 External Factors

CSRD studies conducted in non-Asian countries tested a range of external factors impacting CSRD (Table 1). Studies have revealed that variances in national external factors resulted in the difference in the overall CSR performance (Jackson & Apostolakou, 2010). Sison (2009) found that comparative institutional studies have disclosed substantial variances between Europe and the US with respect to the effects of the national institutional context on CSR, while others also revealed important institutional differences among European countries (Knudsen, Moon, & Slager, 2015). Additional studies tested the connection between CSRD and ownership and the results found a positive association (e.g., Garas & ElMassah, 2018). Neu, Warsame, and Pedwell (1998) investigated the impact of specific stakeholder groups on disclosures. They found that the pressure from environmentalists, shareholders, and regulators led to more information disclosures, and that the pressure from media led to the obligation in disclosing. Furthermore, Cormier et al. (2005) found a positive connection between regulatory pressure and disclosure. However, some studies showed that legal systems and politics were the determinants of disclosure (Vormedal et al., 2009).

4.1.4 Corporate Social Responsibility Disclosure (CSRD) In Asian Countries

Earlier studies on CSRD in Asian countries namely Malaysia, India, Thailand, Singapore, Japan, China, and Bangladesh have focused on small groups of developing economies, in line with the results from other studies (Belal & Momin, 2009; Fifka, 2013). Studies in Asian countries have been widely used for CSRD program motivations or non-disclosure (Table 2). In addition, the studies focused mainly on community, workplace, environment, and marketplace disclosures which are measured by extent and quality of CSRD (e.g., Abd Rahim, 2016; Sadou et al., 2017; Saleh et al., 2011) (Table 2). Consistent with studies conducted in non-Asian countries, company characteristics and external factors have received considerable attention in research conducted in Asian countries (Table 2). The majority of studies reviewed in Asian countries did not use a specific theory to explain the dimensions of CSRD (Table 2), which is consistent with the results of the study by Belal and Momin (2009). However, as in non-Asian countries, the theory of legitimacy probed for a leading theoretical framework between studies that used a specific theory to explain the dimensions of CSRD, which is again in agreement with the results of Belal and Momin (2009). The specific factors studied in the context of Asian countries in their particular categories are discussed below.

Table 2. Corporate social responsibility disclosure dimensions in Asian countries

Authors Country	Theoretical Perspective	External Factors	Internal Factors (company characteristics)	CSR Dimensions			Measurements	
				CO MP	EN	WP	EX	QU
(Liu & Anbumozhi, 2009) China	Stakeholder theory	Governmental, pressure, pressure from other stakeholders	Size, financial performance, geographic location within the country		✓			
(Nuzula & Kato, 2010) Japan	Stakeholder theory		Share price performance		✓		✓	
(Gunawan, 2007) Indonesia	Legitimacy theory	Stakeholder influence	Size, industry, financial performance, company age	✓		✓	✓	
(Saleh, Zulkifli, Muhamad, 2011) Malaysia	Stakeholder theory		Financial performance	✓	✓	✓	✓	✓
(Khan et al., 2013) Bangladesh	Legitimacy theory	Managerial ownership, public ownership, foreign ownership	Independent directors on board, presence of audit committee, multiple directorship				✓	
(Kuasirikun, 2005) Thailand	Not applied	Accountants attitudes towards social and environment	Latent positive attitudes towards social accounting that may result in CSR					
(Tsang, 1998) Singapore	Legitimacy theory	Govt. initiatives resulted in increase in disclosure Culture	Industry				✓	
(Chiu & Wang, 2015) Taiwan	Stakeholder theory	Impact of global supply chain, international capital markets	Size, media visibility	✓				✓
(Kansal et al., 2014) India	Not applied		Size, industry, third party recognition i.e. awards and social rating	✓			✓	

²Note: Table 2 has abbreviations such as CO: community, EN: environment, WP: workplace, MP: marketplace. EX: extent, QU: quality.

4.1.5 Internal Factors (Company Characteristics)

According to studies conducted in non-Asian countries, company industry and size appear to be the most tested dimensions with CSRD (community, workplace, environment, and marketplace). In Asian countries, the industrial sector, with the exception of some studies, found an insignificant association with disclosure (Kansal et al., 2014). According to several studies such as Chang et al. (2017), there is a positive association between CSRD and corporate financial performance. Other than that, some studies showed no relationship with disclosure (Iqbal et al., 2012). In addition, some studies have shown that the company media affects the disclosure of information in Asian countries (Branco & Rodrigues, 2008). Other characteristics of the company such as size, media visibility, and capital market found to have a significant relationship on the disclosure in Asian countries (Chiu & Wang, 2015). In contrast to non-Asian countries, the internal factors were given equal significance to other factors, which include company characteristics. In this category, more interest has been given on studying the connection between corporate governance structures and CSRD. Some studies that are consistent with non-Asian countries have revealed that the companies in Asian countries disclosed information to improve the companies' reputation and achievement (Kansal et al., 2014). In addition, some studies have revealed that corporate executives have a positive attitude towards CSRD (Kuasirikun, 2005).

4.1.6 External Factors

In accordance with studies in non-Asian countries, variances in national contextual factors (e.g., cultural, social, and political) have led to the difference of CSRD in Asian countries (Kamla, 2007). In earlier studies, it was argued that CSR is a social and dynamic concept, which means that company behaviour that is accepted in one place may not be accepted elsewhere, and may be found differently between types of CSRD (Carroll, 1979). In recent years, governments and regulators have taken steps to promote the disclosure of CSR in certain Asian markets namely Taiwan, Malaysia, and Indonesia, being the latest additions to the ACCA. In non-Asian countries the regulations or government initiatives have affected CSRD in Asian countries. These rules complement this conclusion and the absence of CSRD regulations and their implementation are a major cause of CSRD in Asian countries. Furthermore, Some studies have exposed that government ownership, ownership structure, and foreign ownership have a significant relationship with CSRD (Khan et al., 2013; Saleh et al., 2010). Saleh et al. (2010) found that there was a negative association between the environment dimensions and ownership structure. There are many reasons for the low performance of CSRD in Asian countries such as the lack of public pressures, perceived benefits, and the misconception that the environment is not impacted by the companies.

5. Discussion and Conclusion

Based on previous studies, this paper reviews the factors in achieving CSRD. This study extends past assessments by clearly comparing the factors that drive CSRD in non-Asian and Asian countries. The findings revealed that the characteristics of companies, such as corporate governance, size, industry, and profitability, seem to lead mainly to CSRD in non-Asian and Asian countries. This research discloses that a socially prestigious company, for instance, one involved in high industries and with high profitability seems to place more importance on community, workplace, environment, and marketplace issues. The companies are often subjected to several pressures from the media, non-government organisations, and regulators on community, workplace, environment, and marketplace issues, forcing reputable companies to integrate these problems into their own disclosure decisions. In addition, cultural, social, and political factors also affect CSRD. It is therefore not surprising that the companies operating in non-Asian and Asian countries must consider cultural, social, and political practices in their CSRD decisions.

There are substantial differences between the dimensions of CSRD in non-Asian and Asian countries. In non-Asian countries, the concerns by the stakeholders namely shareholders, regulators, environment and the media play a very important role in the disclosure of CSR information. In Asian countries,

CSRD is affected by external strength, environment, and stakeholders, such as international media, international customers, foreign investors, creditors, environment, ownership, and international regulators such as international banks. Non-Asian countries pay more attention on CSRD as compared to Asian countries and mostly they did not paid much attention to the dimensions of CSRD between non-Asian and Asian countries. Given the weak pressure on CSRD from the public, institutional weaknesses and the increased importance of CSRD for broader human development, it is essential to understand the dimensions of CSRD in Asian countries. The present trend leads towards government regulation of mandatory disclosure, whereby in some countries there is still a gap in Asian countries in voluntary disclosure on CSR. Governments should encourage companies by introducing tax incentives and donations to companies in which wider CSR programmes are applied, whilst the impression of CSR should be pushed even further. The relationship between corporate and industry in Asian countries will also affect the changes to CSRD standards, which are often externally identified to make them pertinent to the local context and to enhance the internal motivation for disclosure of information on CSR.

6. Suggestions for Future Research

It is recommended to carry out a comprehensive review on the CSRD dimensions in both non-Asian and Asian countries. Our review of CSRD highlights important trends for future research. It has long been suggested that it is necessary to check both the extent and quality of CSRD and its dimensions to improve the quality of CSRD. This paper showed that CSRD studies often emphasise on a limited set of factors, which often focuses on extent instead of quality disclosures, and that in-depth studies are needed to examine both extent and quality of CSRD exploration. This paper suggests that there is a need for more studies examining the quality of CSRD in Asian countries. The theoretical literature has identified the need for further CSRD studies on the nature of CSRD in Asian countries (Kansal et al., 2014). Even though comparative studies in non-Asian countries have revealed significant differences between countries in terms of CSRD, we still need more CSRD studies in Asian countries. Saleh, Zulkifli, and Muhamad (2010) tested the dimensions of CSRD (community, workplace, environment, and marketplace) by using the Malaysian context as one of the Asian countries. CSR explores the relationship between business and community to meet community expectations, achieve community goals, and reap benefits for the society. It is understood that most companies do realise the importance of CSR, but they do not make it a business practice. This paper recommends that companies use more disclosures about CSRD dimensions that will affect the companies' reputation, profitability and performance.

Companies are recommended to use online CSRD which refers to communicating any CSR information online via the internet, mainly on websites. CSR reporting utilising the internet has been revealed as a voluntary practice by several companies particularly in the US. The company website becomes a source of quick and substantial information, therefore, this paper also recommends the use of online CSRD for implementing company target and increasing the CSRD's role in the community. Some components encourage companies to investigate their activities and place their resources in practices such as transparency with stakeholders, risk management, stakeholder pressure, and competitive advantage. Therefore, this paper has identified these components that influence the choices that companies make to participate in CSRD.

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Development of Shariah Compliance and Governance Regulations within the Malaysian Islamic Banking Industry: An Analysis

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Abstract

Efforts to strengthen Shariah compliance of the Malaysian Islamic Banking industry started since its inception in 1983. The Islamic Banking Act 1983 was enacted by Parliament and came into force on March 10, 1983. Later, in addressing the issues of Islamic banking cases related to Shariah non-compliance, the Malaysian government has made several legal and regulatory interventions in the Malaysian Islamic legal framework. With the growing numbers of disputes in Malaysian Islamic finance industry, several measures have been adopted by regulators and authorities to intervene and amend the Malaysian legal framework. The discussions of this paper focus on the major statutes, legislations, and regulations supporting Shariah compliance and Shariah governance that took place in the Malaysian Islamic banking industry from 1983 until 2019. This study is descriptive and historical in nature. At the end, the authors propose the establishment of a specialised National Muamalat Court for assurance of end-to-end Shariah compliance and support the suggestion made by Hasshan, Zahid, and Ruzianmarkom (2017) for the establishment of an International Muamalat Court.

Keywords: Shariah governance; Shariah compliance; Islamic banking.

1. Introduction

Malaysia is ahead in terms of Shariah governance regulations for the Islamic finance industry (Majid & Ghazal, 2012). In addressing the issues of Islamic banking cases related to Shariah non-compliance, the Malaysian government has made several legal and regulatory interventions in the Malaysian Islamic legal framework. With the growing numbers of disputes in Malaysian Islamic finance industry, several measures have been adopted by regulators and authorities to intervene and amend the Malaysian legal framework. The discussions of this paper focus on the major statutes, legislations, and regulations supporting Shariah compliance and Shariah governance that took place in the Malaysian Islamic banking industry from 1983 until 2019. This study is descriptive in nature. It is based on secondary data and content analysis of the relevant literatures. For the purpose of interval analysis, the authors categorize the developments into three phases i.e. (i) Between 1983 and 2000, (ii) Between 2001 and 2010, and (iii) Between 2011 and 2019. The authors then discuss the selected major developments based on these intervals.

2. First Phase: Between 1983 and 2000

• 2.1 Islamic Banking Act (IBA) 1983

In Malaysia, efforts to strengthen Shariah compliance started since the inception of the Malaysian Islamic banking industry in 1983. The Islamic Banking Act 1983 was enacted by Parliament and came into force on March 10, 1983. The Act seeks to provide for the licensing and regulation of Islamic banking business. It was modelled on the Banking Act 1973 with modifications and amendments necessary to conform with Islamic banking operations and practices. The Act also introduced special licensing requirements for entities wanting to engage in Islamic banking business (Thani, Abdullah, & Hassan, 2003). In order to demonstrate the importance of adhering to the Shariah, Section 11 (1) of

Islamic Banking Act 1983²⁴ - provided the authority to the government (acting on BNM's recommendation) to revoke the license of any Islamic bank whose activities is deemed to contravene the Shariah. From the very beginning, the Shariah Committee of an Islamic bank was seen as the apex of the Shariah compliance framework. The first Shariah Committee was set up in 1983 by Bank Islam Malaysia Berhad (BIMB) (Hasan, 2007).

- *2.2 Guidelines on Skim Perbankan Tanpa Faedah 1993*

In March 1993, BNM introduced a scheme known as “Skim Perbankan Tanpa Faedah” (Interest-free Banking Scheme) – later known as “Skim Perbankan Islam” (Islamic Banking Scheme). The scheme allowed conventional banks to set up Islamic windows promoting Islamic banking to a wider market (Ahmad Ibrahim, 1997; Hasan, 2007). Conventional banks licensed under BAFIA 1989 began offering Islamic banking services using their existing infrastructures and brand name (BNM, 1993). This necessitated new Shariah guidelines known as “Guidelines on Skim Perbankan Tanpa Faedah”. Initially the windows were housed under a unit known as Islamic Banking Unit (IBU). Some of the main requirements to be met by respective IBUs were:

1. Islamic Banking Unit (IBU) must be headed by a senior Muslim banker,
2. An Islamic Banking Fund (IBF) with a minimum allocation of RM1 million must be created,
3. IBU is required to open separate current/clearing accounts for Islamic banking operations with Bank Negara,
4. IBU is required to register as Indirect Members under the wholesale payments system, and
5. IBU is required to observe a separate cheque clearing system for Islamic banking.

These conventional banks that participated in the scheme had to establish a Shariah Committee (Hasan, 2007). However, the growing numbers of Shariah Committees resulted in duplication and inconsistent Shariah rulings (Kasri, 2015; Mohamad & Trakic, 2012).

- *2.3 Shariah Advisory Council (SAC) of BNM 1997*

The first attempt to regulate and interfere with the Shariah non-compliance regulation was the establishment of Syariah Advisory Council by BNM at the national level. In 1996, BNM established an SAC and the appointments were made on 2 August 1996. In spite of this, SAC was only administrative in nature and there was no amendment made to the Central Bank of Malaysia Act (CBMA) (Markom & Ismail, 2009).

The National Shariah Advisory Council of BNM was established on 1st May 1997 under BAFIA 1989 as a part of the effort to streamline and harmonise the Shariah interpretations among the Shariah Committees and industry players. The SAC is the highest Shariah authority on Islamic banking and takaful in Malaysia (Hasan, 2007). The SAC had the authority to ascertain Islamic law for business that comes under the umbrella of Islamic finance which is based on Shariah principles and is supervised and regulated by BNM.

As the reference body and advisor to Bank Negara Malaysia on Shariah matters, the SAC is also responsible for validating all Islamic banking and takaful products to ensure their compatibility with the Shariah principles. In addition, it advises Bank Negara Malaysia on any Shariah issue relating to Islamic financial business or transactions of Bank Negara Malaysia as well as other related entities.

²⁴ This “Islamic Banking Act 1983 [Act 276]” has been repealed by the Islamic Financial Services Act 2013 [Act 759].

- *2.4 Guidelines on Skim Perbankan Islam 1998*

Later in 1998, BNM observed that the Islamic banking operations of the SPI was regarded as low priority business and being manned only by middle-level management, and the IBU (Islamic banking unit) was given limited authority to perform its duties and responsibilities effectively. The existing organization structure, scope, and responsibilities of the IBU was reviewed and enhanced further by BNM.

BNM has upgraded IBU from a unit to a department and named it Islamic Banking Department (IBD). IBD is required to prepare a strategic plan and is expected to have a constructive relationship with other departments/divisions and should be provided with the necessary support from the departments/divisions to ensure smooth implementation of Islamic banking operations. IBD should also be proficient in applying accounting standards (including IB accounting standards), legal and regulatory requirements, directives and guidelines issued by BNM or other relevant banking associations. Additionally, IBD as a division operates like “a bank within a bank” (BNM, 1999).

IBD should also be headed by a Muslim senior management officer of the bank, of at least the level of the Assistant General Manager (AGM). The position of the AGM should be equivalent to the status of other key functional heads to enable him to deal effectively with his peers and superiors. Importantly, the AGM should be functionally responsible to the Chief Executive Officer. Initially, the AGM was allowed to carry out banking duties and responsibilities other than Islamic banking during the interim period of 2 years (1999-2000). Beginning 1 January 2001, the AGM shall perform his duties and responsibilities with regard to Islamic banking on full-time basis.

3. Second Phase: Between 2001 and 2010

- *3.1 CBA Amendment 2003*

In 2003, BNM amended the Central Bank of Malaysia Act 1958 to enhance the role and functions of its Shariah Advisory Council for Islamic Banking and Takaful (SAC). This amendment accorded the SAC as the sole Shariah authority in Islamic finance. This development also made the SAC as the point of reference by the court or arbitrator in disputes involving Shariah issues in Islamic banking, finance and takaful cases. Shariah Committee of Islamic financial institutions play a complementary role to SAC of BNM (BNM, 2004).

Section 16B of the CBMA was inserted to provide for the establishment of the SAC of BNM. Since then, SAC of BNM shall be the highest authority for the ascertainment of Islamic law for the Malaysian Islamic banking industry (Markom & Ismail, 2009). This amendment enhanced the roles and functions of SAC of BNM as the sole Shariah authority and will be referred to by the court or arbitrator in any disputes related to Islamic banking and finance (Zulkifli Hasan). In the same year, IBA and BAFIA were amended to accord for the amendment made to CBMA. Section 13A of the IBA was inserted to provide an Islamic bank a platform to seek the advice of the SAC pertaining to Islamic banking and financial businesses (Markom & Ismail, 2009).

- *3.2 Muamalat Bench*

BNM with the co-operation of judiciary has agreed to set up a special High Court in the Commercial Division known as the Muamalah Bench (Hasan, 2010). On 1st March 2003, the High Court of Kuala Lumpur had established a specialised division to effectively and speedily dispose Islamic banking cases (R. Hassan, Othman, & Mokhtar, 2017). According to Practice Direction 1/2003 para.2, all cases under the code 22A filed in the High Court of Malaya will be registered and heard in the High Court Commercial Division 4 and this special court will only adjudicate cases of Islamic banking (Hasan, 2010). The Muamalat bench was presided by the High Court Judge. The setting up of Muamalat bench would spark the gradual integration of the two court systems into one. This would give rise to a court system and court procedure which is capable of adjudicating both Islamic and conventional cases under

one roof. Such court would incorporate and integrate elements of both civil and Shariah and hence, would apply to both systems (Markom & Ismail, 2009; Thani et al., 2003). Markom and Ismail (2009) asserted that a comprehensive Islamic Commercial Codes or written substantive laws governing Islamic banking and finance should be developed to facilitate the litigation and adjudication processes at this court (Rahman, 2003).

- *3.3 Guidelines on the Governance of Shariah Committee 2004*

Later in 2004, BNM introduced the “Guidelines on the Governance of Shariah Committee for the Islamic Financial Institutions” which focuses mainly on the governance of Shariah Committee of an Islamic financial institution. At the early stage of the Islamic banking industry in Malaysia, the focus on Shariah compliance framework was emphasised by the obligatory establishment of Shariah Committee at every Islamic bank or window (R. Hassan et al., 2013). The main duties of the Shariah Committee of an Islamic bank could be summed up as follows (Hasan, 2007; R. Hassan, Ibrahim, Abdullah, Aziz, & Sawari, 2010):

1. Evaluating the concept and structure of the financial products,
2. Endorsement of documentation of IFIs,
3. Monitoring the business of operations of IFIs,
4. Provision of Shariah advisory to related parties on Shariah matters upon request,
5. Provision of written Shariah opinions,
6. Endorsement of Shariah Compliance Manual,
7. Assisting the SAC of BNM on reference for advice.

In Malaysia, the supervisory authority on Shariah matters at the Central Bank is known as the Shariah Advisory Council (SAC) and at the respective bank, is the Shariah Committee (SC) (Mohamad Asmadi Abdullah et al., 2014) Shariah advisors have played a significant role in the development of the industry, particularly in ensuring the Shariah compliance of the activities and practices of Islamic banking (R. Hassan et al., 2010) In this context, the Shariah Committee plays a very important function within the Islamic financial system as they represent the interest of the religion and stakeholders in the IFIs (Laahasna, 2010). They function as mediators between classical *fiqh* doctrine and the actual operations of the Islamic banks (Shaharuddin, 2010). However, the problem of divergent Shariah resolutions could pose challenges in this context. Conflicting *fatwas* between Shariah advisors of Islamic financial institutions occur when a contract is recognised in one jurisdiction but rejected in another. Such disagreement is widely perceived to occur between the Middle Eastern and Malaysian Shariah scholars (Shaharuddin et al., 2012).

- *3.4 CBA Amendment 2009*

Another amendment to the CBA took place later in 2009. The effect of this amendment is that adherence and compliance of the resolutions issued by the SAC is mandatory not only on the IFIs, Takaful operators and arbitrators but also on the courts. The courts must now refer Shariah issues to the SAC either through the SAC’s published rulings or if there is none, to request for a fresh ruling from the SAC (Kasri, 2015).

Although the amendment of CBMA 1958 in 2003 has made the SAC of BNM as the central reference for Islamic financial matters in Malaysia, the provision made only allowed the civil court to refer to the SAC for a ruling related to Shariah issues in Islamic financial business. Upon reference, the civil court has its own discretion to regard the ruling or to reject it based on the principles of court’s independence.

Therefore, since the SAC's rulings are not mandatory upon the civil courts, the Islamic banking cases decided from January 2004 until November 2009 demonstrated the civil court's attitude towards reference to the SAC (Abdullah & Yaacob, 2012).

It must be noted that before 2009, the civil court "may" refer to SAC for ruling involved Shariah issues pursuant to Section 56 and 57 of CBMA 1958. The use of word "may" proves that the civil court has its own discretion on whether to refer the Shariah issues to SAC or not, and whether to regard or reject the advice of SAC. However, after the Act has been revised in 2009, Section 56 and 57 make it mandatory for the civil court to make reference to SAC whenever it relates to Shariah issues (Wan, 2017).

The said provision is read as follow:

56. (1) Where in any proceedings relating to Islamic financial business before any court or arbitrator any question arises concerning a Shariah matter, the court or the arbitrator, as the case may be, shall—

(a) take into consideration any published rulings of the Shariah Advisory Council; or

(b) refer such question to the Shariah Advisory Council for its ruling.

(2) Any request for advice or a ruling of the Shariah Advisory Council under this Act or any other law shall be submitted to the secretariat.

57. Any ruling made by the Shariah Advisory Council pursuant to a reference made under this Part shall be binding on the Islamic financial institutions under section 55 and the court or arbitrator making a reference under section 56

Based on these provisions, the word "shall" instead of "may" has made it compulsory for any court to refer and consider any rulings made by SAC whenever Shariah issues arise (Wan, 2017). These sections have removed from the civil courts the power to decide on Shariah issues related to the business of Islamic banking and finance. According to Tun Abdul Hamid, these provisions were made to allow speedy rulings and consistency of rulings on Shariah issues. Furthermore, the non-compliance with issued guidelines could result in administrative penalties found in 2.94 to 98 of the CBMA 2009.

- **3.5 Law Harmonisation Committee (LHM) (2010)**

BNM established the Law Harmonization Committee on 27th July 2010. It is one of the efforts made by the Malaysian government to make Malaysia a holistic hub for Islamic banking, Islamic finance and takaful (Abdul Hamid). The establishment of LHM aims to (i) further strengthen the legal system and infrastructure to cater for the growing development of the Islamic finance industry; (ii) to achieve certainty and enforceability in the Malaysian laws in regard to Islamic finance contracts; (iii) to position Malaysia as the reference law for international Islamic finance transactions; and (iv) to make Malaysian laws to be the law of choice and the forum for settlement of disputes for cross border Islamic financial transactions (BNM, 2018).

The Committee aims to ensure due recognition on the Shariah requirements in Islamic finance transactions is accorded in relevant laws affecting the same. It is envisaged that the relevant laws are accommodative and compatible with Shariah requirements. In formulating the relevant recommendations, the Committee will consult the SACs of Bank Negara Malaysia and Securities Commission Malaysia to seek their views on the Shariah aspect of the recommendations. Since the inception of the Committee, nine (9) issues have been identified, where four (4) have been recommended as requiring amendments, four (4) have been found to not require any amendments and one (1) is highlighted for further research.

Table 15: Harmonisation Initiatives and Issues Recommended and Raised by Law Harmonisation Committee 2013

Part A Four (4) Issues Raised Where Amendments Are Recommended	Part B Four (4) Issues Raised Which Do Not Necessitate Amendments	Part C Issues for Further Research
1. Legal recognition to Shariah permissibility of imposing late payment charge on judgement debts in Islamic financial cases	1. Certainty of legal definition of <i>Sukuk</i>	1. Implications of Contracts Act 1950, Civil Law Act 1950 on Shariah Contracts
2. Improving access to financing (especially Islamic financing) involving reserve lands	2. Implication of Sale of Goods Act 1957 on sale-based Shariah contracts	
3. Recognition of Islamic finance transaction under the National Land Code 1965: Legal recognition of Shariah principles to facilitate provision of Islamic finance under National Land Code 1965	3. Implication of Partnership Act 1961 on profit-sharing Shariah contracts	
4. Facilitating use of collateralised commodity <i>murabahah</i> in short-term Islamic finance market: Clarifying requirements for registration of collateral requirement under Companies Act	4. Shariah compliance of current legislation on enforcement of guarantees against gratuitous guarantors	

Source: (LHM, 2013)

4. Third Phase: Between 2011 and 2019

• 4.1 Shariah Governance Framework (SGF) 2011

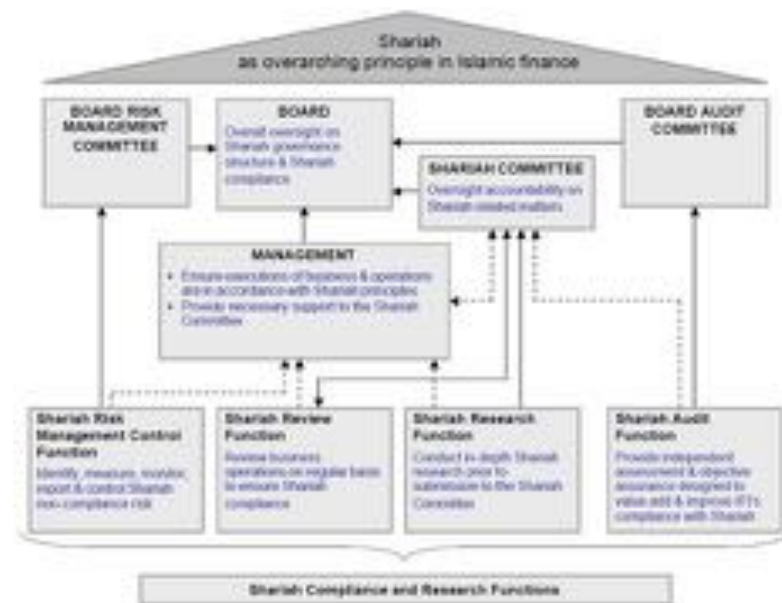
Shariah governance is relatively new to the discourse on Islamic finance but is important in order to instill market confidence on the credibility of the industry (Chik, 2013). The concept and framework of Shariah governance in Malaysia reached a new level with the introduction of the SGF (Shariah Governance Framework for Islamic Financial Institutions in Islamic Banking and Takaful Department) by Bank Negara Malaysia in late 2010 (October). The SGF came into effect in January 2011 to provide a comprehensive Shariah governance framework for Islamic financial institutions regulated and supervised by the Central Bank of Malaysia (Bank Negara Malaysia/BNM) (R. Hassan, Abdullah, et al., 2014; Menon, 2013). The introduction of BNM's SGF has put the Shariah governance on clear operational ground and could harmonise institutional approaches to Shariah governance by Islamic financial institutions.

With the introduction of SGF, BNM required all IFIs in Malaysia to comply with the framework within six-month from its issuance. Most of the provisions of the "Guidelines on the Governance of Shariah Committee for the Islamic Financial Institutions" are included in the new SGF (Chik, 2013a, 2013b; Laldin, 2011). The SGF is a unique institutional structure in Islamic banks and financial institutions. It aims to ensure the operations of IFIs as Shariah compliant (R. Hassan, Abdullah, et al., 2014).

Omar et al. (2014) found out that the Shariah advisors, management and Shariah officers of IFIs agreed that SGF has provided benefit and efficiency to the operation of IFIs. Good Shariah governance practices could lead to the enhancement of stakeholder's confidence, improvement of the Shariah compliant mechanism and mitigation of Shariah non-compliance events (Chik, 2013b).

Shariah governance function at Malaysian IFIs has been clearly elaborated in BNM's SGF. Based on BNM's SGF, there are four main Shariah compliance functions: (i) Shariah Research, (ii) Shariah Risk Management, (iii) Shariah Review and (iv) Shariah Audit.

Figure 2: Shariah Governance Framework (SGF) for Islamic financial institutions



Source: BNM (2011) – Shariah Governance Framework for Islamic Financial Institutions

Shariah Research entails the establishment of an internal unit comprising qualified Shariah scholars to conduct pre-product approval process, research, vetting of issues for submission, and to undertake administrative and secretarial duties relating to the Shariah Committee. Shariah Risk Management functions to systematically identify, measure, monitor and control Shariah non-compliance risks to mitigate any possibility of non-compliance events. It shall form as part of the IFI's integrated risk management framework (BNM, 2011)..

Shariah Review function refers to the regular assessment of Shariah compliance in the activities and operations of the IFIs by qualified Shariah officer(s). Shariah Audit conducts periodical assessment from time to time providing an independent assessment and objective assurance designed to add value and improve the degree of compliance in relation to the IFI's business operations (BNM, 2011). The function of Shariah Review and Shariah Audit could be quite similar at first glance, however Hanefah, Shafii, Salleh, and Zakaria (2012) pointed some differences between the two in term of definition, roles and responsibility, scope and process. See the following table.

Table 16: Differences between Shariah review and Shariah audit

	Shariah Review	Shariah Audit
Definition	Regular assessment of Shariah compliance in activities and operations of IFI by qualified Shariah officers (i.e. having knowledge in Shariah – Usul Fiqh	Periodical assessment to provide independent assessment and objective assurance to add value and improve IFI compliance in ensuring sound and effective internal control system for Shariah compliance
Roles and responsibility	Examine and evaluate IFI level of compliance to Shariah, remedial rectification to resolve noncompliance and control mechanism to avoid recurrence	Performed by internal auditors – trained and have adequate knowledge of Shariah. The internal auditors may engage expertise of Shariah officers in performing the audit
Scope	Covers the IFI's overall business operations including end-to-end product development process – from pre-product approval (i.e. product structuring before introduction to the market) to post-product approval process (i.e., product offering process)	Audit of financial statements of IFI's. Compliance audit on organisational structure, people and information technology application system Review of adequacy of Shariah governance process
Process	Planning the review program objectives, scope, reporting rectification and follow-up actions. Documentation of processes involved in review Communicate the outcome of review and highlight any non-compliance to senior management and Shariah Committee. Rectify any non-compliance of Shariah and prevent recurrence. Communicate results of review to the Shariah Committee.	Understand business activities (i.e. auditability and relevance of activities). Develop comprehensive internal audit program or plan. Objective, scope, personnel assignment, sampling, control and duration. Establish proper audit processes. Obtain and refer to relevant references: SAC rulings, Shariah Committee decisions, <i>fatwas</i> , guidelines, Shariah audit results and internal Shariah checklist.

Source: Hanefah et al. (2012)

R. Hassan, Arifin, Napiyah, Omar, and Yusoff (2014) conducted a study to identify the level of readiness among IFIs to adopt the SGF and to identify the IFIs' capabilities in terms of resources and infrastructure for adoption. In addition, the study also ascertained the IFIs' general expectation on significant impact arising from the implementation. The study was conducted after almost two years from the date SGF 2011 was enforced. The study found that IFIs got ready for the SGF 2011 by beefing up their infrastructure and resources towards full implementation of the SGF requirements. IFIs have also shown positive commitment to fully comply with the SGF. Shafii, Abidin, Salleh, Jusoff, and Kasim (2013) studied the impact of the Shariah audit function on the role of Shariah Committee post implementation of the Shariah Governance Framework. They concluded that the Shariah audit function provide added value in ensuring the Shariah compliance. This study also highlighted some challenging issues faced by the Shariah Committee of the selected institutions.

Muhammad Naim Omar *et al* (2014), in their study titled as “The Implementation of Shariah Governance Framework of 2010: Advantages and Constraints”, investigated the advantages and constraints resulting from the implementation of SGF 2011 one year after its implementation. The data was collected through questionnaires distributed to industry players. The study found that most of the respondents agreed that with the introduction of SGF 2011 the IFIs had become more efficient in their operations and they are more conversant with rules and guidelines affecting their business. However there exist few constraints and challenges needing to be rectified.

- 4.2 *Manual for Arbitrator 2012*

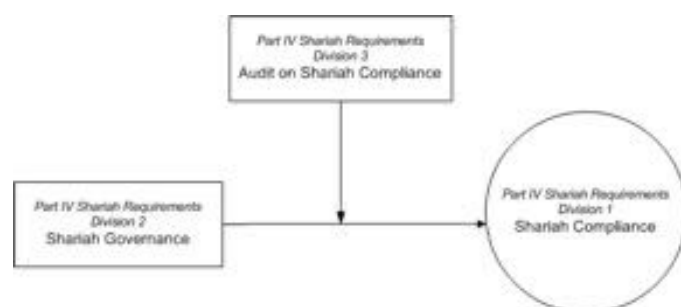
In 2012, the SAC issued a “Manual for Reference by the Court and Arbitrator to the SAC.” However, some members of legal fraternity expressed uneasiness with the manual, insinuating that the SAC is trying to usurp the function of the judiciary. The SAC clarified that the courts is only required to refer to the SAC questions related to Shariah issues arising from the disputed Islamic financial transactions (Kasri, 2015).

- 4.3 *IFSA 2013*

IFSA 2013 is regarded as major revision in the legal infrastructure pertaining to Islamic banking and finance in Malaysia since 1983 (Lahsasna, 2014). With the introduction of IFSA 2013, IFIs are operating under the condition where Shariah compliance is greatly and seriously emphasised. IFSA 2013 accentuates Shariah compliance as one of its main regulatory component (Idris, 2015). Section 6 of IFSA 2013 clearly states: “the principal regulatory objectives of this Act are to promote financial stability and compliance with Shariah.”

In the IFSA 2013, the three main Shariah requirements are: (i) Shariah compliance, (ii) Shariah governance and (iii) Audit on Shariah compliance. IFSA 2013 has also allowed for the introduction of a contract-based regulatory framework for the Malaysian Islamic finance industry (BNM, 2012).

Figure 3: The theoretical framework encompassing the three components of Shariah requirements of IFSA 2013



Source: Researcher’s Own

Yussof (2013) analysed the impact of the IFSA 2013 from the Shariah compliance and governance perspective to examine whether IFSA 2013 has overcome the constraints or limitations of the Shariah Governance Framework (SGF). A. Hassan (2014) states that IFSA 2013 is an immense and laudable effort towards promoting and advancing Malaysia as the hub of Islamic financing. However, there are several provisions of the said Act that may benefit from further clarification or elaboration in the interest of clarity and consequentially the effectiveness of IFSA 2013.

The foundation of end-to-end Shariah compliance and governance has been further strengthened by IFSA 2013. IFSA 2013 provides the Malaysian Islamic finance industry a comprehensive legal framework that reflects the specificities of the various types of Shariah financial contracts. It also

substantiates the effectiveness and enforceability of Islamic contracts in the offering of Islamic financial products and services (BNM, 2012).

Figure 4: End-to-end Shariah compliance under the Islamic Financial Services Act (IFSA) 2013



Source: : BNM (2012) - Financial Stability and Payment Systems Report 2012

The Act clearly defines assets and liabilities in Islamic banking business based on the underlying contractual features. On the asset side, the scope of financing activities draws on the distinctive features of Islamic contracts to include equity and partnership financing contracts such as *mushārah mutanāqishah*, lease-based financing contracts such as *ijārah muntahiyah bi al-tamlīk*, and fee-based activities under *wakālah* contracts (BNM, 2012). On the liability side, the use of principal-guaranteed Shariah contracts such as *qard*, *wadī'ah* and *tawarruq* in deposit-taking is clearly distinguished from principal non-guaranteed Shariah contracts for investment such as *muḍārabah* and *wakālah*. See the following table for illustration.

Table 17: Shariah contracts applied in Islamic financial business

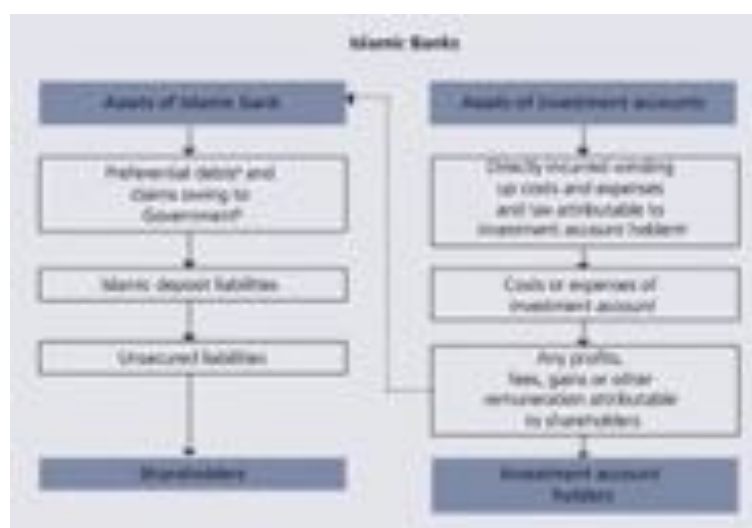
	Assets	Liabilities
Shariah contracts	Sales Based	Islamic Deposits (Principal-Guaranteed Contracts)
	<ul style="list-style-type: none"> • <i>Murābahah</i> • <i>Istiṣnā'</i> • <i>Ijārah</i> • <i>Tawarruq</i> 	<ul style="list-style-type: none"> • <i>Wadī'ah</i> • <i>Qard</i> • <i>Tawarruq</i>
	Equity Based	Investment Accounts (Equity/Principal Non-Guaranteed Contracts)
	<ul style="list-style-type: none"> • <i>Muḍārabah</i> • <i>Mushārah</i> 	
	Fee Based	<ul style="list-style-type: none"> • <i>Muḍārabah</i> • <i>Mushārah</i>
	<ul style="list-style-type: none"> • <i>Wakālah</i> • <i>Kafālah</i> • <i>Rahn</i> 	Investment Accounts (Other) <ul style="list-style-type: none"> • <i>Wakālah</i>

Source: : BNM (2012) - Financial Stability and Payment Systems Report 2012

IFSA 2013 also brings the legal framework for the resolution of Islamic financial institutions in line with distinctive elements of the relevant Islamic contracts. Assets that are managed by Islamic banks

on behalf of investors are legally ring-fenced from the assets of Islamic banks to reflect the prohibition of any co-mingling of profits and losses attributed to the investment account with other funds. In the event of the resolution of an Islamic financial institution, payments to Islamic depositors are prioritised in a manner that is consistent with the guaranteed nature of contracts employed in Islamic deposit products. See the below figure.

Figure 5: Priority of payment - on Malaysian Islamic banks in the case of winding-up - reflective of underlying Shariah contracts



Source: BNM (2012) - Financial Stability and Payment Systems Report 2012

- **4.4 Shariah Policy Documents/ Standards: Shariah Parameters and Shariah Operational Requirement**

One of the latest developments in Shariah compliance regulations and Shariah governance in the Malaysian Islamic banking industry is the introduction of Shariah contract-based regulatory framework by BNM. This effort aims to address the inconsistencies in the use of Islamic contracts by the various Islamic financial institutions.

Islamic Financial Services Act (IFSA) 2013 provides BNM the authority to specify Shariah standards for key Islamic contracts in consultation with the Bank's Shariah Advisory Council. The Shariah policy documents are expected to define essential features of the underlying Shariah principles that are adopted by Islamic financial institutions, while enhancing certainty and public confidence in Islamic financial transactions. The introduction of BNM's Shariah Standards for specific contracts could ensure end-to-end Shariah compliance with Shariah and promote harmonization of Shariah interpretation domestically and globally (Singh, 2016).

The Shariah contract-based regulatory policy document consists of two components, namely the Shariah and the operational requirements. The Shariah requirements highlight the salient features and essential conditions of a specific contract. The latter outlines the core principles underpinning good governance and oversight, proper product structuring, effective risk management, sound financial disclosure and fair business and market conduct. The operational requirements aim to complement and promote sound application of Shariah principles (BNM, 2015). Until now, BNM has issued 15 Shariah parameters with the operational requirements and only a few of them are still in status of exposure draft. Refer the table below for details.

Table 18: Compendium of Shariah contract-based standards

No.	Shariah Contract	Shariah Parameters	Operational Requirement
1	<i>Murābahah</i>	√	√
2	<i>Muḍārabah</i>	√	√
3	<i>Mushārah</i>	√	√
4	<i>Tawarruq</i>	√	√
5	<i>Istiṣnāʿ</i>	√	√
6	<i>Kaḡālah</i>	√	√
7	<i>Wakālah</i>	√	√
8	<i>Qarḡ</i>	√	√
9	<i>Wadīʿah</i>	√	√
10	<i>Hibah</i>	√	√
11	<i>Ijārah</i>	√	√
12	<i>Waʿd</i>	√	√
13	<i>Bayʿ al-ʿĪnah</i> (Exposure Draft)	√	√
14	<i>Rahn</i> (Exposure Draft)	√	√
15	<i>Bayʿ al-Ṣarf</i> (Exposure Draft)	√	√

Source: BNM's Website

Shariah policy documents are expected to increase the Shariah contracts certainty and reduce the argument of SNC made towards the Shariah contract before the civil courts. With these developments that took place in the Malaysian legal structure, Trakic (2013) suggested Malaysian law as the law of reference for parties in international Islamic contracts and Malaysian courts as the forum for settlement disputes in Islamic finance. His research found that Shariah issues brought up before Malaysian civil courts would be duly adjudicated and enforced compared to the secular UK courts. The is due to fact that the civil court is legally required to refer the Islamic finance issues to the SAC of BNM for them to be ascertained. This model for adjudication of Shariah issues in Islamic financial contracts is very effective and can be successfully exported to other countries wishing to introduce or develop Islamic finance (Trakic, 2013)

Being Islamic does not mean that IBIs are not subject to the Malaysian civil laws. Malaysian Islamic banking industry is governed by two sets of law namely Islamic law and civil law. Furthermore, the governing law of Malaysian Islamic banking industry could be categorised into two types namely, (i) regulatory or enabling laws and (ii) transactional laws (R. Hassan et al., 2017).

Table 19: The Governing Law of Malaysian Islamic Banking Industry

Legislation for Islamic Banking in Malaysia	
Regulatory or Enabling Laws	Transactional Laws
Central Bank of Malaysia 2009	National Land Code 1965
Islamic Financial Services Act 2013	Contracts Act 1950
Financial Services Act 2013	Hire-Purchase Act 1967
Development Financial Institutions Act 2002	Companies Act 2016
Government Funding Act 1983	Stamp Duty Act 1949
	Real Property Gains Tax Act 1976
	Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful Activities Act 2001
	Rules of Court 2012

Source: (R. Hassan et al., 2017)

In the case of *Bank Kerjasama Rakyat Malaysia Bhd v. Emcee Corporation Sdn Bhd* [2003], Abdul Hamid Mohamad JC stated:

“The facility given by the appellant to the respondent was an Islamic banking facility. But that did not mean that the law applicable in this application was different from the law applicable if the facility was given under conventional banking. The charge was a charge under the National Land Code. The remedy available and sought was a remedy provided by the National Land Code.”

In the case of *Maybank Islamic Berhad v. M-10 Builders Sdn & Anor*, Civil Appeal No. W-02(MUA)(W)-1595-09/2014, Rohana Yusuf JCA stated:

“The English court had also applied English Laws to enforce a Murabahah contract.”

Therefore, IBIs must ensure their compliance to Shariah principles and codified law such as IFSA 2013, Contracts Act 1950 and National Land Code 1965 (R. Hassan et al., 2017). Hence, Shariah compliance and legal compliance run in parallel for IBIs. “The Shariah legal framework operated in two ways, some of the laws were newly enacted and the others were modifications of the current laws”(Markom & Ismail, 2009). The need to harmonise between Shariah and legal compliances within the Malaysian Islamic judicial system has brought several challenges for the development of Islamic banking industry.

5. The Way Forward

Court system which supports the principles and operations of Shariah contracts and practices is essential for end-to-end Shariah compliance system of Islamic banking industry. The court is expected to issue a ruling that is Shariah compliant based on the right conceptualization of Shariah contracts and practices. Although the current model of Malaysian civil jurisdiction requires the judges to refer to SAC of BNM for Shariah ascertainment, there are still risks of judgments by civil judges which would be made in contradict to the principles of Shariah contracts and practices.

As recommended by the Law Harmonisation Committee, Malaysian law should evolve towards providing for legal certainty of Shariah contracts enforcement, producing highly qualified legal talent and commercially experienced judiciary and a supportive and reputable dispute resolution environment (LHM, 2013). Therefore, the authors propose the establishment of a specialised National Muamalat Court for assurance of end-to-end Shariah compliance, in line with the spirit of IFSA 2013 and the five recommendations made by the Law Harmonisation Committee. Furthermore, the authors support the suggestion made by Hasshan, Zahid, and Ruzianmarkom (2017) for the establishment of an International Muamalat Court which could be in the similar fashion with the Singapore International Commercial Court (SICC) for the conventional disputes.

According to Buang (2018), specialisation usually becomes necessary at the high court level. In 2007, the government established the special Intellectual Property Court in 2007 in response to complaints from the international community. The specialised court was set up to reduce the backlog of IP cases in the courts. Later in February 2011, 18 special courts for corruption cases were established. These courts, named Corruption Sessions Courts and Corruption High Courts, were necessary to speed up the hearing of corruption cases. In 2016, the Malaysian government once again established Cyber Court to deal with offences such as online gambling, spying, bank fraud, defamation, document falsification and pornography (Buang, 2018).

Therefore, the establishment of specialised courts for Muamalat cases at the national and international level would be significant landmarks in the Malaysian Islamic banking and finance industry. Such moves could also furthermore position Malaysia as the frontier of Islamic banking and finance practices. Specialised courts are not peculiar to the Malaysian legal system.

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Finance in Islam, Rich Legacy, Tradition and Relevance

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Abstract

This paper is mainly discussing about Islamic perspective about finance and its relevance in the present society. As we know that Islam is the religion of peace and humanity. It gives more importance to morality and charity like Zakah, Waqf, Hiba, Hadya and etc. Once prophet (PBUH) said that, "no wealth (of servant of Allah) is decreased because of charity" (Al Thirmidhi, hadeeth 2247). As a Muslim, everyone should follow the path of Islamic lessons and teachings. There are five pillars for Islam. Indeed, all should know and obey the rules of Islam as it is prophetic way of living. Zakah is the compulsory giving of a share from his own wealth to charity. As such, it is considered as the third pillar of Islam. Its beneficial face, calculation, distribution of zakah fund are briefly discussing here. Likewise, another significant term is waqf. The term does not actually appear in the Holy Quran but some verses make clear references to the critical importance of being charitable and helping others selflessly. Laws related to waqf, rules and its mechanism of performance are also included here. Several kinds of tabulation and survey reports are cited in the paper especially regarding with the poverty, financial backwardness and poor living condition of Muslim world.

Keywords: Zakah, Waqf, Tradition (Sunnah of Prophet), Hadith

1. Introduction

Islam is the religion of peace and brotherhood. It stands upon five different pillars. Quran and prophetic tradition (sunnah) are the major basement of laws in Islam. Moreover, all these draw the ways of straight path. The prophetic way of living, his words, deeds are included in hadeeth (tradition). The Prophet (PBUH) gave more importance to the humanitarian rights. He often stood up with the values of morality, charity and humanity.

Once Prophet (PBUH) said that, "no wealth (of servant of Allah) is decreased because of charity" (Al-Thirmidhi, Hadeeth 2247). The Prophet (PBUH) always encouraged his companions and followers to be focused on charity. Because it directly or indirectly influences the entire societies, generations in different aspects. He loved the orphans and requested others to look after all the orphans and announced they would be in Janna (paradise). As part of charity, numerous laws were brought between the devotees like zakah, waqf, hiba, hadya and etc.

Being charitable and providing for the needy is a major aspect of Islam and salient feature of the Muslim. Let's examine some of the teachings of profit about the charity and its beneficial face.

On the day of resurrection

- The Prophet said: "The believer's shade on the Day of Resurrection will be his charity." (Al-Tirmidhi). It is an offer granting by almighty Allah to those who sacrificed and kind hearted to his people

The protection from calamities

- "Give charity without delay, for it stands in the way of calamity." (Al-Tirmidhi). It tell us about the benefits of charity, it will be a protector and a defender from all the unpredictable calamities and disasters.

Helping families

- The Prophet said: “To give something to a poor man brings one reward, while giving the same to a needy relation brings two: one for charity and the other for respecting the family ties.” (Al-Tirmidhi).

2. Zakah

The quote from the Holy Quran, Surah 2, verses 43; 83; 110; 177; 277

“And be steadfast in prayer, Practice regular charity; and bow down your heads with those who bow down (in worship).”

“Treat with kindness your parents and kindred, and orphans and those in need; Speak fair to the people; Be steadfast in prayer, Practice regular charity.”

As a Muslim, everyone should follow the path of Islamic lessons and teachings. There are five pillars for Islam. Indeed, all should know and obey the rules of Islam as it is prophetic way of living. Zakah is the compulsory giving of a share from his own wealth to charity. As such, it is considered as the third pillar of Islam.

Once prophet said that:” “The upper hand is better than the lower hand (he who gives is better than him who takes). One should start giving first to his dependents. And the best object of charity is that which is given by a wealthy person (from the money left after his expenses). And whoever abstains from asking others for some financial help, Allah will give him and save him from asking others, Allah will make him self-sufficient.” (Al-Bukhari). Zakah is one of the fundamental precept of Islam, established mandatory since 2 Hijri or 624 AD. The essential features of Zakah can be observed from the Holy Quran, Surah Taubah, verse: 103.

“Of their properties, take alms, so that you might purify and sanctify them.”

2.1 Beneficial Face

It was made really for the eradication of disparities between “haves and have not”, in a large extent, the discrimination based on money, wealth can be diminished while practising the zakah. Moreover, it helps the devotees to think about the almighty and his mercy.

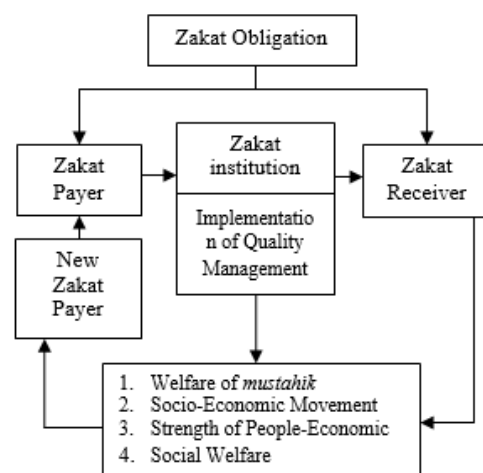


Figure 1: Entire diagram of zakah

The above diagram, Figure 1 describes about the entire performance of zakah; the way of wealth is transformed from payer into receiver also can be observed. It is denoted there the other significance and the influence of zakah especially in the socio –economic movement. It is believed that there will be always a reason or a mystery behind all the creation and laws of almighty Allah. As we know that in every country whether it is developed or, there will be mass count old poor people, who are begging for their daily life. Having said that, Allah looks after them till their death with his lenient approach.

2.2-Zakah Fund

By the fund it mainly focusing on the wealth of poor. Its an act of charity as such all other humanitarian values. The people may be from the same locality and if not available there, then it should be distributed in other adjacent localities and so on. This is a transparent technique of poverty eradication. Each locality becomes self-sufficient, then the district and then the state, the country and, finally, thus there may not be any contradiction between the mass in the case of wealth. But unfortunately, somewhere the people are hesitated to give their share to others. Otherwise they are not well aware about the law and it is a tradition of Islam. It can be used to:

- To provide help in the form of welfare and insurance to the deserving.
- To establish orphanages and fulfil their needs.
- To promote educational facilities of backward communities.
- To provide the ultra structural facilities and methodological precautions for the minorities.

In short, it should be given the poor people who are really deserving the fund, it can be seen that most of the prophetic lessons about misuse full of zakah fund and the warning to ones who are not ready to give zakah. Zakah is one of the fundamental tenets of Islam, which has been made obligatory since 2 Hijri or 624 (Zaid, 2004). The importance of Zakah is placed next to Salah in Islam.

2.3 Calculation

Literally, it's a law, but not controlling by any authorities, governments, administration only the consciences of each person will decide the obedience. The possession of three ounces of gold or 21 ounces of silver or its equivalent in cash for a year, entitles one for a payment of Zakah. If both these metals separately do not reach the Nisab level, then they should be clubbed together to calculate the value of wealth. To illustrate,

One ounce = 28 gm

Three ounces = $28 \times 3 = 84$ gm

21 ounces = $21 \times 28 = 588$ gm

The prevailing market rates of these two bullions in September 2006 in India were:

One gram of gold was worth Rs. 880 and one gram of silver was worth Rs. 17.

Therefore, 84 gm of gold was worth $84 \times 880 = \text{Rs. } 73,920$ and 588 gm of silver was worth $588 \times 17 = \text{Rs. } 9996$.

This means if a person had Rs. 9996 of silver or cash for a year, he or she was entitled to pay Zakah @ 2.5% of the above amount of Rs. 9996."

3. Waqf

"By no means shall ye attain righteousness unless ye give (freely) of that which ye love; and whatever ye give, of a truth God knows it well." – (3:92)

“It is not righteous that ye turn your faces toward East or West, but it is righteousness to believe in Allah, and the Last Day, and the Angels, and the Book, and the Messengers, to spend of your substance out of love for Him, for your kin, for orphans, for the needy, for the wayfarer, for those who ask, and for the ransom of slaves, to be steadfast in prayer, and practice regular charity.” – (2:177)

The term waqf does not actually appear in the Holy Quran but verses within it make clear references to the critical importance of being charitable and helping others selflessly. Both of these two attributes are in fact the basic drivers for doing waqf” (Abdel Mohsin, 2009).

From the above description we can make out that waqf is an act of charity like zakah but not compulsory for all. It is not considered as any kinds of pillars of Islam. But it was established as a law at the time of prophetic era. Most of his companion and followers were very interested in performing waqf. Often, he described the beneficial face of the act.

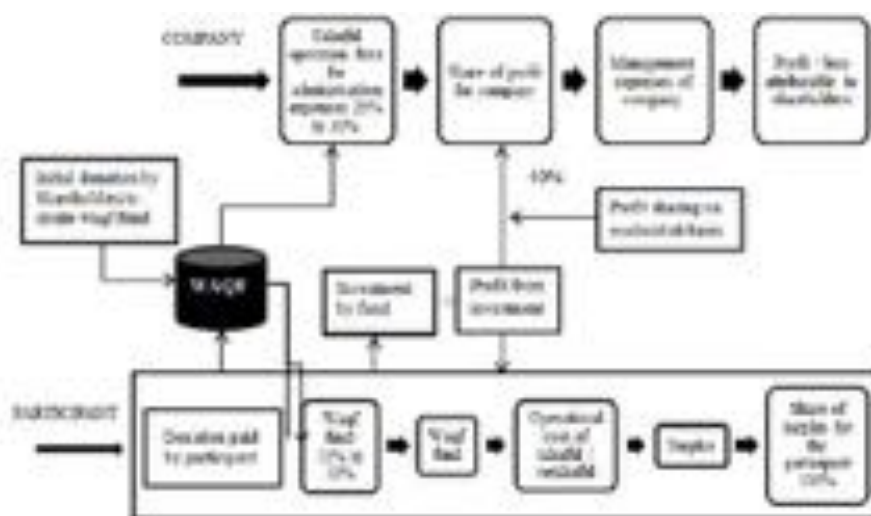


Figure 2: Waqf model, Islamic marketing

The abovementioned diagram is a flowchart which describes a typical waqf model established by ‘Islamic marketing’. There can be observe the various way of reaching into waqf fund and the involvement of companies and individuals. His companion like Hazrath Usman(r) and other companions had performed waqf at the time of Islamic revolution, time of famine, scarcity and etc. which includes well, mosque, toilets and etc.

3.1 Valid Waqf

There are numerous laws existing related to the term waqf because most of the Islamic rules are well covered with strict regulations and limits. Likewise, specifically, the waqif or founder of the waqf must be:

- ‘Aqil (someone in full possession of their mental capacity)
- Baligh (adult)
- Hurr (free person)
- Capable of transferring the ownership of the asset or property from himself to the ownership of Allah. One who is well cooperate with the rules can do waqf where he knows for waqif.

3.2-Provision Within Waqf

It is necessary to list the provisions which give significant flexibility to waqf trusts and makes them powerful tools in achieving their goals. According to Hanafi school of law, there are dozens of provisions. They are;

- Ziyadah (increasing) and Nuqsan (decreasing) allow the founder to increase the share of a certain beneficiary while decreasing the share of another beneficiary. This can be done to safeguard the interests of one beneficiary that needs more funds at a certain time to continue functioning when another beneficiary does not need all of his allocation during that same period.
- Idkhal (addition) and Ikhraj (removal) permit the founder or trustee to add a new beneficiary and/or remove another beneficiary based on their assessment of the need to assist a new beneficiary that has a much more urgent or important need than another beneficiary.
- I'ta (granting) and Hirman (depriving) entitle the trustee or founder to give all or a part of his waqf to any beneficiary for a designated period of time and similarly to deprive any beneficiary if there is a critical need.
- Taghyir (replacement) and Tabdil (conversion) enable the founder to change the use of the waqf revenue whereas Tabdil gives the founder the right to change the nature of the waqf itself. For example, a building that was used for housing can be used for commercial retail if the area surrounding that building has become a business district.
- Istibdal (substitution) and Ibdal (exchange) are very important provisions because they authorize the founder or trustee to sell a non-profitable waqf property (Ibdal) and then acquire another profitable property (Istibdal) to replace the non-profitable asset that was disposed of.

3.3-Categories

Waqf can be classified into two different divisions: the first category is according to its purpose and the nature of the beneficiaries and the second category is according to the use of the Mawquf asset. There are two classes of waqf according to Al-Gebori and Humaish (2008):

- Waqf khayri or public endowment occurs when the beneficiaries of the usufruct consist of ongoing charitable concerns such as the needy, mosques, hospitals, schools and any similar vehicles that achieve general wellbeing for members of the Muslim ummah at large.
- Waqf ahli or dhurri or familial endowment occurs when the beneficiaries of the usufruct can be the waqif himself or certain people designated (specifically or generally) by the waqif regardless of whether these beneficiaries are related to him or not. Such waqfs automatically become khayri when the designated people cease to exist.”

4. Conclusions

In a nutshell, Islam is composite of several ideas, laws, rules and provisions. Islam gives more significance to the individual life. All are equal before him almighty except in the norms of acquiring ‘thaqwa. Likewise, Islam gives more importance to the act of charity. Prophetic ways of living teach us about how the life should be.

As we know, in this contemporary scenario, there are myriad of backward people in each country even in most well- developed countries. According to the World Bank, in 2012, more than 900 million people were estimated to be living under the international poverty line. Likewise, the World Bank also estimated that more than 700 million people lived in extreme poverty as of 2015

Recent report asserts that, most of the Muslims are under the threat of poverty. Millions are under poverty line. It is believed that the reasons behind this danger is due to lack of education, lack of awareness, lack of Islamic studies and so on. These concerns were addressed by Muhammad Zubair Mughal, Chief Executive Officer, Al-Huda Centre of Islamic Banking and Economics while speaking at Islamic Microfinance Symposium that was held at Tunis – Tunisia which was organized by Tunis Association of Islamic Economics with association of Islamic Development Bank (IDB) and German Donor Agency GIZ. Some of the report says that Nigeria has become the poverty capital of world. The 86.9 million Nigerians now living in extreme poverty represents nearly 50% of its estimated 180 million population. Most astonishing fact is that, according to a 2001 report from The World Factbook by CIA, about 50% of Nigeria's population is Muslim; which means most of the people who are facing financial problem are of millions of Muslims. In fact, there are plenty of changes should be brought among the Muslims. Otherwise, there may be chance to the tremendous increase of poverty between devotees.

Followings are some suggestions:

- Muslims should be well aware about the Islamic lessons
- Provide free and informative education
- Promote the job opportunities
- Provide the chances of performing Islamic provisions, laws, rights and etc.
- Bring the poverty eradication methods and schemes for the minorities
- Raise the minimum wage
- Promote agricultural jobs
- Promote the small-scale industries
- Accelerate human resources development
- Encourage all the Muslims to be a part of various charities.

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A Comparative Analysis on Islamic Banks using DEA, Financial Ratios and Maqasid Index

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Abstract

The purpose of this study is to make a comparative analysis of selected Islamic banks' performance using three different methods throughout 2012 to 2016. Data Envelopment Analysis is used in conjunction with financial ratios, and the Maqasid performance index to compare how the Islamic banks perform throughout this period. The DEA is used to estimate the relative technical efficiency, while the financial ratios utilize both the ROA and ROE measures, and the Maqasid index used the objective of *maslahah* (public interest) to attain performance indicators of three selected Islamic banks, including Bank Islam Malaysia Berhad (BIMB), Public Islamic Bank Berhad and RHB Islamic. The banks are ranked accordingly following each method. Results show that the ranking differs depending on the measures applied; with RHB Islamic Bank being the most efficient following DEA, BIMB being the most efficient following financial ratios, while Public Islamic Bank being the most efficient following the *maqasid* Index. Overall, BIMB is considered to have consistent performance according to the three methods.

Keywords: Islamic bank, Performance, DEA, Financial ratios, Maqasid index

1. Introduction

Islamic banking has been growing side by side with the conventional counterpart although it may lag a little behind. However, it has also contributed to the increase in revenue of countries resulting in positive development. The performance of Islamic banks cannot be disregarded in the current economy as it takes an important role towards the future of Malaysia to become the global leader of Islamic financial hub. The increase in development and globalization have encouraged many banks to compete and this does not leave out the Islamic banks; and thus, performance or efficiency assessment is an important element to show whether the banks use their resources effectively.

Although the performance of the Islamic banking industry has been encouraging, it is still relatively insignificant if compared to the conventional one. Based on the pieces of evidence in recent studies, Islamic banks mostly depend on financial benchmarks to measure their banking performance. This is due to the misinformation about the main reasons for the existence of Islamic banks. Hence, it is important to recognize the distinctions between conventional performance indicators and the objectives of Islamic banking operation so that it would complement to Islamic banks' financial objectives.

Financial performance is a measurement of policies and operation of a firm in monetary terms (Mohammad Adam, 2014), which are important to make comparisons across related companies or financial firms. Traditionally, financial ratio analysis has been used to measure such performance, and later the development of the Data Envelopment Analysis (DEA) were employed. Problems arise to as which method is better since banks may perform well using one measure but worse using other methods.

With the rising need to adhere to the objectives of Shariah, a maqasid index approach was developed by Mohammed, Abdul Razak & Md.Taib (2008) to measure the performance of Islamic banks, which takes into account three objectives to be achieved. To date, there are limited number of studies to compare the approaches in measuring performance of Islamic banks. It is therefore essential to compare the various performance measures to identify whether the approaches are consistent or not.

With the said problem and purpose above, the paper tries to achieve the following objectives:

1. To analyse the performance of selected Islamic banks following three approaches
2. To compare the ranking of the Islamic banks following the three approaches

Consequently, this paper aims at answering the following research questions:

1. How do selected Islamic banks perform using the three different approaches?
2. How different are the three approaches in measuring the performance based on the ranking?

2. Literature Review

Islamic banking being a branch of Islamic finance is a Shariah compliant concept of finance guided by the Islamic principles. The emergence of Islamic banking can be dated back to the early days of Islam. It is even recorded that Al-Zubair bin Al-Awwam was already receiving deposits from the people where he invested the money and later returned them back during the Islamic Empire. It was during these days that financial tools such as deposits, transfers and trades began to spread. However, later when the Europeans adopted these practices, they continued and modified them which replaced the Islamic version of banking with the conventional or western one (Alharbi, 2015).

The establishment of Islamic banks in Malaysia started with the inception of Tabung Haji in 1963 which was created for the purpose of collecting funds for local Muslims to go for the Pilgrimage. Based on the Islamic contracts such as Mudharaba, Musyaraka, and Ijarah, Tabung Haji focused its financing based on the guidance from the National Fatwa Committee of Malaysia. Following this, a call for separate Islamic bank started in 1980s which finally brought to the first Islamic Banking Act in Malaysia on 7th April 1983. This was when Bank Islam Malaysia Berhad (BIMB) was launched, as the first Islamic bank in Malaysia.

Banks' performance evaluation is essential for all parties involved in banking sectors such as depositors, bank managers and bank evaluators (Samad & Hassan, 1999). Measurement of performance is considered important to determine possible improvements and to compare across companies and industries locally and internationally. Some of the performance indicators include analyzing the efficiency of banks using non-parametric approaches and financial ratios. Previous studies have been done by various authors on the non-parametric approach which is by implementing the Data Envelopment Analysis (DEA) to examine the efficiency of Islamic banks as compared to conventional ones. According to Kamarudin et al. (2017), a study on DEA across Malaysia, Indonesia and Brunei found that local Islamic banks have higher technical efficiency as compared to their foreign counterparts. On the other hand, a much earlier study by Sufian (2007), the efficiency of local Islamic banks in Malaysia seem to be lower than those of foreign Islamic banks from 2001 to 2005. Other studies have also ventured on different methodologies to capture the performance of banks by using the traditional method such as financial ratios (Samad & Hassan, 1999; Wozniowska, 2008; Mousa, 2015).

Considering the core aspects of Islamic banking and institutions, the general performance measurement approaches fail to look at the performance through various characteristics that link with the maqasid al-Shariah; therefore it is not clear as whether the IFIs have performed well or not in terms of adhering to Islamic law.

Mohammed, Abdul Razak & Md.Taib (2008) is one of the first to develop the performance measure through a maqasid index approach based on Sekaran's operationalizing method. The study assessed the performance of Islamic banks in Malaysia according to the objectives of Shariah. Through these

objectives, dimensions and elements adapted from Sekaran & Bougie (2010) are used to produce indicators of each objective into measureable figures through the elements using ratios.

3. Data and Methodology

This is a preliminary study on comparing the performance measuring approaches among Islamic banking institutions. Only three banks were selected at the beginning stage to see how these banks perform. The selected banks are Bank Islam Malaysia Berhad, Public Islamic Bank Berhad and RHB Islamic Bank Berhad. Data ranges from 2012 to 2016 and are sourced from respective banks' annual reports. The following table summarizes the banks under study.

Table 1. Islamic Banks under Study

No.	Name of firm	Symbol	Type of business
1	Bank Islam Malaysia Berhad	BIMB	Local
2	Public Islamic Bank Berhad	PIBB	Local
3	RHB Islamic Bank	RHBI	Local

The study implements three approaches to measuring performance of Islamic banks. These are the Data Envelopment Analysis (DEA), financial ratios and the maqasid index approaches. The following will explain the different approaches used.

3.1 Data Envelopment Analysis

This study applies a non-parametric approach which is Data Envelopment Analysis (DEA) to measure and analyze efficiency of Islamic banks. The efficiency is measured by the banks' ability to maximize output with a certain input level given. DEA involves the use of mathematical programming methods to construct a non-parametric frontier over the data. At first, DEA function in evaluating the relative efficiency of non-profit organization such as universities and hospitals. However, DEA method has been adopted by firms and financial institutions in analyzing monetary value.

Basically, DEA is comprises of two basic models which are DEA Charnes-Cooper-Rhodes (CCR) model under constant return to scale assumption (CRS) and DEA Banker-Charnes-Cooper (BCC) model under variable return to scale assumption (VRS) (Othman et al, 2016). Charnes, Cooper and Rhodes (1978) had first introduced an input-oriented model and constant returns to scale (CRS) assumption. On the other hand, an alternative set of assumptions has been considered such as Banker, Charnes, and Cooper who proposed a variable return to scale (VRS) model from subsequent paper.

The study uses software package DEAP version 2.1 developed by Coelli in 1996. Coelli (2008) explains that the computer program can consider a variety of models such as standard CRS and VRS DEA models which involves technical and scale efficiency calculation. Other options are the extension of the CRS and VRS models to calculate the cost and allocative efficiency and the application of Malmquist DEA method which measures the total productivity change, technology change, technical change and scale efficiency change of a panel data. The study adopts both CCR and BCC in order to examine the efficiency of Islamic banks. DEA method provides a convenient way to categorize efficiency as technical efficiency (TE) and scale efficiency (SE).

- a) Charnes-Cooper-Rhodes (CCR) model under constant return to scale assumption (CRS)

The CCR model which is CRS assumption can be represented as following Coelli (2008):

$$\min_{\theta, \lambda} \theta$$

Subject to:

$$\begin{aligned} -\theta y_i + Y\lambda &\geq 0 \\ \theta x_i - X\lambda &\geq 0 \\ \text{and } \lambda &\geq 0 \end{aligned} \quad (1)$$

where:

θ represents the scalar ($1 < \theta \leq \infty$);

λ is an $N \times 1$ vector of constants;

For N number of firms Y represents all the inputs and outputs,

y_i are the output for the i th firms;

x_i are the inputs for the i th firms.

The efficiency score for each of DMUs is represents by θ , where the value is between 0 and 1 that indicates the efficiency level.

b) Banker-Charnes-Cooper (BCC) model under variable return to scale assumption (VRS)

The CRS model above can be modified into VRS by adding a convexity constraint which is $N1' \lambda = 1$. The input-oriented DEA model with VRS can be expressed by the following linear programming problem:

$$\min_{\theta, \lambda} \theta$$

Subject to:

$$\begin{aligned} -\theta y_i + Y\lambda &\geq 0 \\ \theta x_i - X\lambda &\geq 0 \\ N1' \lambda &= 1 \\ \text{and } \lambda &\geq 0 \end{aligned} \quad (2)$$

Where $N1$ is $N \times 1$ vector of one.

Technical Efficiency

Kumar and Gulati (2008) mention that technical efficiency (TE) is a comparative measure on the ability of banks process inputs to achieve most adequate output. If a bank operates below the frontier, then it is technically inefficient. A technical efficiency measurement under the CRS assumption is known as a measure of overall technical efficiency (OTE). In DEA, OTE measure has been used to be decomposed into pure technical efficiency (PTE) and scale efficiency (SE) which allow to see the source of inefficiencies. PTE measure has been used to indicate managerial performance. The PTE measure can be obtained by estimating the efficiency under VRS. Hence, CRS indicates overall technical efficiency of banks and VRS indicates the pure technical efficiency of banks in case of the study.

Selection of Input and Output

The selection of input and output is the most important step in analyzing efficiency. If wrong selection is made, the result will be misinterpreted and meaningless. Based on Tahir, Abu Bakar & Haron (2009), two inputs and one output are determined for this study. This study has two inputs denoted as X1 and X2 which are total deposit and total overhead expenses respectively. The total deposit (X1) input include both Mudharabah Investment and Al-Wadiah Savings deposits from customers and other banks. Meanwhile, the total overhead expenses (X2) includes both personnel and other operating expenses.

The output of this study is total earning assets which is denoted as Y. The inputs and output definitions are adopted from in the article. Table 2 shows the list of input and output.

Table 2 Variables involved in DEA Approach

	Variables
Inputs	<ul style="list-style-type: none"> - Total deposits - Total overhead expenses
Outputs	<ul style="list-style-type: none"> - Total earning assets

3.2 Financial Ratio Analysis

The determination of the ratios is adapted based on the sector's needs and in correlation with the business nature of Islamic banking. This study will be using two ratios as done by Wozniowska (2008). The two ratios used with regard to profitability which are return on assets (ROA) and return on equity (ROE). Both ROA and ROE are the managerial efficiency measurement indicators (Mousa, 2015).

a) Return on Assets

ROA represents the management ability to acquire reasonable deposit cost and invest the deposit in profitable investments. The ROA indicates generated net income per Ringgit Malaysia (RM) of assets. Thus, the higher the ratio, the more profitable the bank. ROA is calculated by following formula below:

$$ROA = \frac{\text{Net Income after tax}}{\text{Total Assets}}$$

c) Return on Equity

This ratio evaluates profitability of a firm and shows profits obtained from invested shareholder's money. The higher ratio indicates the higher managerial performance. ROE is calculated as below.

$$ROE = \frac{\text{Net Income after tax}}{\text{Equity Capital}}$$

3.3 Maqasid Index

The Maqasid Index (MI) approach is basically derived from Sekaran's Operationalization Method (Sekaran & Bougie, 2010). The operationalization method is based on objectives, where in the case of Islamic banks, the objectives are simply the objectives of Shariah. The initial notions termed as concepts, (C) are defined through some observable behaviors, which are known as dimensions (D). These dimensions are further broken down into measurable items that they refer to as elements (E). The classic example given to provide more understanding of this concept is through the concept of thirst. From initial perspective, thirst is something that cannot be measured. But when broken down into the dimensions and elements, it becomes measurable. The dimension in this case would be the fluid while the degree of thirst that can be measured is the fluid intake, or number of glasses that a person drink.

Therefore, applying this method to the current system, the objectives of Islamic banking becomes the concept (C). The observable behaviors, D and the process of breaking this down into elements, E will be linked to the identified objectives of Islamic banking. In general, this method also use certain ratios but specific to measuring three objectives of Shariah, following Mohammed, Abdul Razak & Md.Taib (2008):

1. *Tahdhib al-Fard* (Educating the individual)
2. *Iqamah al-'Adl* (Establishing Justice)
3. *Jalb al-Maslahah* (Promoting welfare)

The use of such objectives is summarized in the following table:

Table 3. Dimensions, Elements and Performance Ratios for calculating the Maqasid Index

Concepts (Objectives)	Dimensions	Elements	Performance Ratios
1. Educating the individual	D1. Advancement of knowledge	E1. Education grant	R1. Education grant/total income
		E2. Research	R2. Research expense/total expense
	D2. Instilling new skills and improvements	E3. Training	R3. Training expense/total expense
		E4. Publicity	R4. Publicity expense/total expense
2. Establishing justice	D4. Fair dealings	E5. Fair Returns	R5. Profit/total income
	D5. Affordable products and services	E6. Affordable prices	R6. Bad debt/total investment
	D6. Elimination of injustices	E7. Interest free product	R7. Interest free income/total income
	D7. Profitability	E8. Profit ratios	R8. Net profit/total asset
3. Public Interest	D8. Redistribution of income and wealth	E9. Personal income	R9. Zakat/net income
	D9. Investment in vital real sector	E10. Investment ratios in real sector	R10. Investment deposit/total deposit

The original maqasid index formula is as follows:

$$MI = PI(O1) + PI(O2) + PI(O3) \quad (3)$$

Due to limited available data, the study focuses on the third objective only (Public Interest) for the purpose of the three selected Islamic banks. Therefore, the formula is now truncated to:

$$MI = PI(O3) \quad (4)$$

Where PI(O3) is calculated based on the dimensions, elements and ratios with the following formula:

$$PI(O3) = (W_3^3 \times E_3^1 \times R_3^1) + (W_3^3 \times E_3^2 \times R_3^2) + (W_3^3 \times E_3^3 \times R_3^3) + (W_3^3 \times E_3^4 \times R_3^4) \quad (5)$$

Where

(O3) denotes the third *Shariah* objective

W_3^3 denotes the weightage assigned to the third objective

E_3^1 denotes the weightage assigned to the first element of the third objective

E_3^2 denotes the weightage assigned to the second element of the third objective

E_3^3 denotes the weightage assigned to the third element of the third objective

R_3^1 denotes the evaluation of the performance ratio with relation to the first element of the third objective

R_3^2 denotes the evaluation of the performance ratio with relation to the second element of the third objective

R_3^3 denotes the evaluation of the performance ratio with relation to the third element of the third objective

4. Results and Findings

4.1 Data Envelopment Analysis (DEA)

For the performance of Islamic banks using DEA, the results are as follows. As shown in table 4.1, the efficiency under CRS is consistent throughout the years. RHB Islamic Bank (RHBI) showed a positive result from the score of 1 from 2012 to 2016, resulting in the first rank for these years. While BIMB and Public Islamic Bank Berhad (PIBB) scored somewhat lower; varying from 0.6 to 1. For majority of the years, BIMB ranked third after PIBB.

Under the VRS, a slightly different result is seen in Table 5. However, RHBI maintained its efficiency score and ranking throughout the years. Both BIMB and PIBB showed higher scores under the VRS as compared to the CRS. From both CRS and VRS, it is clear that RHBI is consistently efficient over the said period. On average, PIBB ranked second under CRS (0.9092), while BIMB ranked second under VRS (0.9548).

Table 4. The efficiency scores and the ranks of Malaysian Islamic Banks under CRS, 2012-2016

Year	Islamic Banks (DMUs)	Technical Efficiency from CRS DEA	Ranks
2012	BIMB	0.881	3
	Public	0.945	2
	RHB	1	1
2013	BIMB	0.878	2
	Public	1	1
	RHB	1	1
2014	BIMB	0.882	3
	Public	0.967	2
	RHB	1	1
2015	BIMB	0.801	3
	Public	0.828	2
	RHB	1	1
2016	BIMB	0.679	3
	Public	0.806	2
	RHB	1	1

Table 5. The efficiency scores and the ranks of Malaysian Islamic Banks under VRS, 2012-2016.

Year	Islamic banks	Pure Technical Efficiency from VRS DEA	Ranks
2012	BIMB	1	1
	Public	0.968	2
	RHB	1	1
2013	BIMB	0.997	2
	Public	1	1
	RHB	1	1
2014	BIMB	0.995	2
	public	0.982	3
	RHB	1	1
2015	BIMB	0.912	2
	public	0.873	3
	RHB	1	1
2016	BIMB	0.87	2
	public	0.834	3
	RHB	1	1

4.2 Financial Ratios

The study utilized financial ratios using return on assets (ROA) and return on equity (ROE). For both ratios, the rank is consistent for all three banks, BIMB being the first, PIBB second and RHBI third as depicted in Tables 6 and 7 below.

Table 6. ROA for Individual Islamic banks in Malaysia, 2012-2016

Islamic banks	ROA%	Ranks
BIMB	1.56	1
Public	0.99	2
RHB	0.66	3

Table 7. ROE for Individual Islamic banks in Malaysia, 2012-2016

Islamic banks	ROE%	Ranks
BIMB	19.00	1
Public	13.57	2
RHB	10.48	3

4.3 Maqasid Index

In essence, the maqasid index involves three objectives as mentioned earlier. However due to limited data on certain ratios, the study is limited to only the third objective of Shariah which is the public interest element, measured by the ratios as in Table 8.

Table 8. Third Objective of Shariah with Elements and Ratios

Concepts (Objectives)	Dimensions	Elements	Performance Ratios
Public Interest	D7. Profitability	E8. Profit ratios	R8. Net profit/total asset
	D8. Redistribution of income and wealth	E9. Personal income	R9. Zakat/net income
	D9. Investment in vital real sector	E10. Investment ratios in real sector	R10. Investment deposit/total deposit

Table 9. Performance Ratio for Third Objective

Banks	Performance Ratios of Third Objective Average Ratios (2012-2016)		
	R_3^1	R_3^2	R_3^3
BIMB	0.0108	0.0076	0.0317
PIBB	0.0099	0.0003	0.0467
RHBI	0.0061	0.0037	0.0183

Table 9 above shows the ratios for each dimension which includes ratios E8-E10 in table 4.5. R_3^1 measures the profitability of the bank, R_3^2 measures the personal income which embeds the zakat payment, and R_3^3 measures the investment activities of the bank, where each of these are associated to the objective of public interest. For the profitability measure, BIMB scores highest while RHBI scores lowest. For personal income measure, again, BIMB scores highest, but PIBB scores lowest this time. Finally, for investing measures, PIBB scores highest and RHBI scores lowest. Based on formula in equation (5), the maqasid index is calculated and is summarized in table 4.7.

Table 10. Performance Indicator for Third Objective

Banks	Performance Indicator for Third Objective			
	PI13	PI23	PI33	Total
BIMB	0.0010	0.0007	0.0034	0.0051
PIBB	0.0009	0.0000	0.0050	0.0059
RHBI	0.0006	0.0003	0.0020	0.0029

Based on table 4.7 above, PIBB ranks highest for overall in achieving the third objective although BIMB resulted in higher performance in the profitability and personal income measures.

The total maqasid index for BIMB and PIBB are not much far from each other with only a difference of 0.0008.

4.4 Comparative Performance Across Three Different Approaches

Based on the findings, it is found that the three approaches to measuring performance of the selected banks are somewhat different. Using DEA, RHBI resulted in highest efficiency, while using financial ratios, BIMB ranked highest, and finally using the maqasid index, PIBB ranked first. The difference is probably due to the different criteria focused on within each approach. The overall result is summarized in Table 11.

Table 11. Summary of Ranks using DEA, Financial Ratios and Maqasid Index

Islamic Banks	Average CRS Ranks	Average VRS Ranks	ROA	ROE	Maqasid Index
BIMB	3	2	1	1	2
PIBB	2	3	2	2	1
RHBI	1	1	3	3	3

5. Conclusion

The study aimed at comparing the approaches to measure performance and efficiency of Islamic banks. Three local Islamic banks were selected at the initial stage to see how the banks rank according to each approach. The study implemented the Data Envelopment Analysis (DEA), financial ratios and maqasid index approaches to arrive at the findings. The results show that rankings are somewhat different based on the approach being used, since each of the methods focus on different elements of banking. From the study it is found that RHBI, BIMB, and PIBB ranked first for each of the three approaches respectively (DEA, financial ratios, and maqasid index). It can be concluded that BIMB have a considerable stable stand since it does not fluctuate much between the rankings due to different approaches of measuring performance.

There are limitations to the study. Firstly, the selected banks are only three in the initial stage. This is due to the lack of data to calculate according to the different approaches, especially the maqasid index. Secondly, the maqasid index can be considered covering a comprehensive performance criterion, however the study only focused on the third objective due to the non-availability of data. A more comprehensive study could be done on more sample of banks in the future, with data collected from interviews or questionnaire to tap the areas of education and justice to meet the first and second objectives in the maqasid index approach. Besides, the financial ratio approach could also implement other ratios related to liquidity and efficiency of banks.

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Challenges in the Establishment and Implementation of Waqf in Public Institutions of Higher Learning: USIM's Experience

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Abstract

Rising cost of education is faced by all parties involved viz. education providers, parents, students and society (Azri Ahmad, 2012). This trend has motivated the search for alternative form of financing to complement Government financing and to help students who are not financially well off. Waqf has been shown to contribute significantly to the development of the Ummah (Mannan, 2008). The establishment of USIM's Al-Abrar Waqf Fund was inspired by Prof Dato' Dr Asma Ismail's New Year Address delivered on 6 February 2013 as the then USIM's Vice Chancellor. She envisaged that in future public IHLs may be asked to seek endowments and/or involved in awqaf (plural for waqf) in order to complement Government allocations (operating and development) (Mohammad Haji Alias et al., 2017). Recent developments point to the need for Public Universities to seek alternative forms of financing. Government funding for higher education has been reduced since 2007 (Doria Abdullah, 2017). Government allocation to Public Universities had been reduced from RM7.57 billion in 2016 to RM6.12 billion in 2017, a reduction of 19.23%. Under the uncertain prevailing economic environment, Universities accept the fact that Government allocation/funding is no longer an advantage (Aminah Md Yusof, 2016). These developments provide justification for Public Universities' foray into waqf and endowment financing.

Keywords: waqf, education, economic environment

1. Introduction

Rising cost of education is faced by all parties involved viz. education providers, parents, students and society (Azri Ahmad, 2012). This trend has motivated the search for alternative form of financing to complement Government financing and to help students who are not financially well off. Waqf has been shown to contribute significantly to the development of the Ummah (Mannan, 2008). The establishment of USIM's Al-Abrar Waqf Fund was inspired by Prof Dato' Dr Asma Ismail's New Year Address delivered on 6 February 2013 as the then USIM's Vice Chancellor. She envisaged that in future public IHLs may be asked to seek endowments and/or involved in awqaf (plural for waqf) in order to complement Government allocations (operating and development) (Mohammad Haji Alias et al., 2017). Recent developments point to the need for Public Universities to seek alternative forms of financing. Government funding for higher education has been reduced since 2007 (Doria Abdullah, 2017). Government allocation to Public Universities had been reduced from RM7.57 billion in 2016 to RM6.12 billion in 2017, a reduction of 19.23%. Under the uncertain prevailing economic environment, Universities accept the fact that Government allocation/funding is no longer an advantage (Aminah Md Yusof, 2016). These developments provide justification for Public Universities' foray into waqf and endowment financing.

The main objective of this paper is to chronicle and to give meaning to USIM's effort to establish the USIM Specialist Health Clinic and USIM-MAINS Haemodialysis Clinic, both partly financed by waqf funding from the State Islamic Religious Council Negeri Sembilan. The ensuing discussions will relate to the CSFs. The challenges faced and the way forward will be articulated. USIM's experience is hoped to provide useful lessons not just for initiators of waqf projects but also for public universities that have been appointed as mutawallis/agents by State Religious Islamic Councils in the respective states they are in.

2. Waqf: Concept and Attributes

2.1 Concept And Guidance From Al-Quran And Hadith

The term *Waqf* is an Arabic word. *Waqf* is a masdar derived from the verb *wa-qa-fa*. It has various meanings according to the purpose and the usage of the word in sentences. Literal meaning of waqf is to stop (السكن), forbids (المنع) and holding (الحبس). In terms of Shariah interpretation, it means to hold a person's property to be benefited by others. *Waqf* property shall be in a good condition, permanent and the *waqf*'s purpose is to be closer to Allah by providing social welfare to the other people.

The following verse 92 from Sura Al-Imran (translation) implicitly justifies the institution of waqf.

“By no means shall you attain Al-Birr (piety, righteousness), unless you spend (in Allah’s cause), of that which you love; and whatever of good you spend, Allah knows it well” (Al-Quran 3:92).

The following hadith (translations) supports the establishment of the Institution of Waqf.

Ibn ‘Umar told that when ‘Umar got some land in Khaibar, he went to the Prophet and said, “Messenger of God, I have acquired land in Khaibar which I consider to be more valuable than any I have ever acquired, so what do you command me to do with it?” He replied, “If you wish you may make the property an inalienable possession and give its produce as sadaqa.” So ‘Umar gave it as sadaqa declaring that the property must not be sold, given away, or inherited, and he gave its produce as sadaqa to be devoted to the poor, relatives, the emancipation of slaves, God’s path, travelers and guests, no sin being committed by the one who administers it if he eats something from it in a reasonable manner or gives something to someone else to eat, provided he is not storing up goods (for himself). Ibn Sirin said, “provided he is not acquiring capital for himself.” (Bukhari and Muslim) (al-Bukhari (5/354, no 2737, Muslim (3/1255, no 15/1632)

2.2 Attributes of Waqf

Waqf is an important Islamic instrument within the ijtima’i sector of the Islamic economic system. Waqf has great potential to spur the growth and development of the socio-economy of the Ummah. There is no doubt about this. The waqf institution had played a significant role during the Ottoman period in the financing of health, education and welfare services i.e. in the provision of public goods. The waqf-based Al-Azhar University As-Sharif, an important centre of Islamic and Arabic learning in the world, established in 970 AD, is an epitome of success in the field of education until the present day. All waqf properties must have the following three important attributes or features. First, irrevocability: once a property has been pronounced to be given as waqf it cannot be revoked. The owner has given up his rights over the property. Second, perpetuity which means the asset remains as waqf continuously forever. The asset cannot be transacted viz. cannot change status, cannot be sold, mortgaged, transferred, etc. except under certain strict conditions Third, inalienability which means the ownership cannot be changed in any way. The moment the owner of an asset pronounces (*sighah waqf*) even verbally that he is giving away a part of his property as waqf, it is valid and he has no more authority over that piece of property. Its ownership is immediately transferred to Allah SWT. He needs to specify the beneficiaries whether specific or general. He cannot reclaim the asset. He needs to appoint a trustee who can be an individual or a group of people. Since waqf is irrevocable, i.e. once pronounced cannot be withdrawn, the chances are it can only increase in quantity and cannot diminish. The total stock of awqaf assets and therefore the benefits, provided that the assets are productive, will increase over time.

3. USIM’s Experience

USIM embarked on waqf financing with the setting up of the Centre for Waqf Development and Financing (PPPW) which managed the USIM Al-Abrar Waqf Fund in 2013. USIM made engagements from the beginning with NS SIRC. The Chairman and members were very supportive of USIM’s plan to develop and manage waqf projects. The Negeri Sembilan State Islamic Religious Council (SIRC) appointed USIM as mutawalli for waqf development in July 2013. PPPW had since been restructured to become USIM Centre for Waqf and Zakat (PWZ). Among the objectives of the setting up of PPPW

(later PWZ) are: to carry out research on waqf for education, to develop awqaf products that are relevant to USIM, to manage and distribute usufructs/benefits/profits from awqaf assets and to identify and determine suitable projects that can be financed using waqf fund.

Engagements were also made with Public Universities that have embarked on waqf projects earlier viz. UKM, UPM and IIUM (Islamic endowment) and Private Universities viz. Bestari University College and Albukhary International University. A working visit to the State of Johor Islamic Religious Council with the help of Dato' Nooh Gadut (Islamic Advisor to the Sultan of Johor) was also done. We needed to understand a multitude of issues: governance, waqf fund raising, awqaf products, societal acceptance and awareness on waqf. A number of critical success factors (CSF) impact on the success or not of awqaf projects/initiatives. The CSF are first the existence of clear legislation, secondly the adequacy of waqf fund, third efficient and professional management, fourth sincerity and integrity and finally there is a champion of the cause.

The appointment of USIM as mutawalli of waqf by the NS SIRC is based on clear provision provided in the Wakaf (Negeri Sembilan) Enactment 2005. Section 33 (1) (a) and (b) of the said Enactment allowed the SIRC on the advice of the Advisory Panel to appoint any person whom the Majlis considers as competent and qualified to manage and develop any mauquf (waqf asset) including to manage investments of the mauquf; and also to manage the benefit from the mauquf in the interest of the beneficiaries.

USIM chose to establish the USIM Specialist Health Clinic and USIM-MAINS Haemodialysis Clinic. Adequacy of waqf fund is pertinent here. The way forward was facilitated by the agreement of the NS SIRC to allocate RM2 million (RM1 million as waqf and RM1 million as qardhul hassan) for the establishment of the USIM Specialist Health Clinic and another RM1.5 million for the establishment of the USIM-MAINS Haemodialysis Clinic. The business model adopted was called Ecclectic Waqf Business Model. As the available waqf fund was not sufficient to cover the capital costs and no usufructs yet to cover operating costs, the University allocated funds from operational expenditures to cover overheads (such as rental payments for three double-storey shoplots at Nilai Square, premises for the two clinics). Strong support from the then Vice Chancellor – the Champion – facilitated progress. Medical specialists (from USIM's Faculty of Medicine and Allied Health and Faculty of Dentistry) were willing to accept lower consultation fees, implied acceptance of waqf of expertise. After the completion of rental agreement, renovation works, procurement of medical equipments and receipt of operating licences from the Private Medical Practising Control Section, Ministry of Health, the clinics began operations. The Specialist Health Clinic started operations in April 2015 while the Haemodialysis Clinic started operations in October 2018. The success of the clinic prompted the State Government to provide funds to set up the USIM-State Government Mobile Specialist Eye Clinic (CLIP-Mobile). The latter provided specialist eye screening service for low-income patients with eye-sight problems in rural areas.

The establishment of the clinics that are partly funded by waqf funds have benefitted low-income/asnaf patients. The Medical Specialist Clinic had set up a Tabarru' Fund for the purpose. As for the Haemodialysis Clinic, patients from the asnaf category who are registered with the NS SIRC, the cost of treatment is covered by the latter. We have also patients whose cost of treatment is covered by SOCSO. Given the fact that part of the capital costs were covered by waqf (social financing which need not be repaid), the Clinics may be able to charge lower consultation fees (but within the parameters set by the MMC). Until now the Clinics have not been able yet to generate surpluses of income (partly usufructs of waqf) that can be channeled to finance education related activities as envisaged under waqf for education.

Adequacy of waqf fund is an imperative. USIM's staff can make waqf contribution to the USIM Al-Abrar Waqf Fund via monthly salary deductions. The response has been quite good. One GLC namely the PNB had contributed RM700 thousand as waqf. As a result the University has succeeded in purchasing 2 of the double-storey intermediate shop-lots (premises for Haemodialysis Clinic and Specialist Medical Clinic). The third one had also been bought. This move is very desirable as it preserves the integrity and perpetuity of the waqf embedded in the structures besides augmenting the stock and value of awqaf assets belonging to the Muslim society.

4. Summary and Conclusion

This paper provides a conceptual articulation of USIM's experience and foray into waqf financing and development. The supports of the NS SIRC, USIM's Top Management and USIM's fraternity are crucial. Sincerity/integrity is a necessary condition for success and sustainability of waqf effort. The establishment of the USIM Medical Specialist Health Clinic and the USIM-MAINS Haemodialysis Clinic provide concrete examples. More is yet to be done. USIM's experience is hoped to provide useful lessons not just for initiators of waqf projects but also for public universities that have been appointed as mutawallis/agents by State Religious Islamic Councils in the respective states they are in.

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Identifying Stakeholder Salience of Waqf Institutions in Malaysia

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Abstract

Improved accounting and reporting practice for waqf institution in Malaysia has become an indispensable necessity. The identification of waqf stakeholders may help the institution to achieve this objective as the interests of these accounting users are to be properly addressed in the financial reports. Addressing the stakes of each and every single group of stakeholders may not be of effective and efficient practice by any organization as it may involve more resources. This paper investigates the stakeholder salience of waqf institutions in Malaysia by identifying the stakeholder group(s) which is(are) worth for more attention by waqf managers. The Stakeholder Identification and Salience model (MAW model) is employed in this study to analyse the salience level of waqf stakeholders. In this model, three attributes; power to influence, legitimacy, and urgency of claims, are the key identifiers for stakeholder salience. This model suggests the cumulative number of these stakeholder attributes determines the salience level of stakeholders. A total of eighteen groups of stakeholders of waqf institution in Malaysia have been identified by the interviewees in this qualitative study. Out of these groups, five groups of waqf stakeholders have been determined as salient stakeholders using MAW model.

Key words: Waqf, Stakeholder, Salience attributes

1. Introduction

In Malaysia, the administration of waqf assets has been formally entrusted to the Islamic religious council of each state as early as 1938 when State Religious Council of Kelantan was appointed as sole trustee or *mutawalli* of waqf. The centralization of waqf management by this waqf institution has one ultimate purpose that is; to ensure the effectiveness and efficiency in managing waqf assets. To manage waqf assets at state level requires more resources and involves more entities as more responsibilities are to be borne by waqf institution hence, the accountability issue becomes more complex. They are accountable not only to the *waqif* (donor) but also the *mauquf 'alaih* (beneficiaries) and other entities that involve in developing waqf projects.

2. Stakeholder accountability

The discourses on stakeholder theory have gained much attention from scholars ever since the idea of “stakeholder approach” had been introduced by Freeman in 1984. In explicating the theory of stakeholder, Freeman (1984) defines stakeholder as “any group or individual who can affect or is affected by the achievement of an organization’s objectives”. The inclusion of multiple groups of stakeholders for an organization results in accountability issue. One of the issues being addressed in the accountability framework is the question of whom an account is to be given (Lindberg, 2013) or also known as accountor. In business entity, the accountor is normally referred to the capital providers (Cordery & Sinclair, 2016) who have entrusted their resources to the management of an entity and hold the management to account. In terms of discharging accountability through financial reports, the 2018 Conceptual Framework for Financial Reporting explicitly refers these capital providers to “*existing and potential investors, lenders and other creditors*”. They are the primary users of the financial information. These capital providers, amongst others, are considered as stakeholders of the entity based on the definition of stakeholder by Freeman (1984) as their decisions and actions about providing

economic resources would affect the entity's operation. It is the aim of accountability practice that the information needs and concerns of all relevant stakeholders are being addressed through reliable and relevant information (Owen, Swift, & Hunt, 2003). Waqf institution is also an entity that have been entrusted with waqf assets by the founder or *waqif* and waqf management is held to account for its efforts in managing the waqf assets. The relationship of accountor-accountee does exist in this situation but in a wider context as more entities other than the founder or *waqif* have stakes or interest in waqf activities. In other words, the identification of "whom an account is to be given" should be expanded to wider range of stakeholders. This leads to the need for identifying the potential entities that can be considered as waqf stakeholders. This current study embarks on this premise by empirically identifying the stakeholders of waqf institution in Malaysian context.

The identification of all potential waqf stakeholder groups is important to ensure the inclusivity of the process of social and ethical accounting, auditing and reporting (Rasche & Esser, 2006). Inclusivity is one of the stakeholder accountability principles which refers to "actively identifying stakeholders and enabling their participation in establishing an organisation's material sustainability topics and developing a strategic response to them" (AccountAbility, 2018). When it comes to the notion of stakeholder accountability, it is imperative to recognize that organizations face time and resource constraints while engaging with their stakeholders (Rasche & Esser, 2006). This applies to waqf institution as well. Due to these constraints, waqf institution may need to identify certain groups of stakeholders that the management attention priority should be given. This issue is also being addressed in this current study through the lens of stakeholder identification and salience model (MAW Model).

3. Stakeholder identification and salience model (MAW Model)

In an attempt to resolve the issue of stakeholder identification and salience for business organization, Mitchell et al. (1997) expanded the stakeholder theory by proposing what they call as the concept of stakeholder salience. The main purpose of this model is to determine the salience level of stakeholders – the degree to which managers give priority to competing stakeholders' claims. Mitchell et al. (1997) argues that the level of stakeholder salience is dependent on three attributes i.e. power to influence, legitimacy of relationship and urgency to claim.

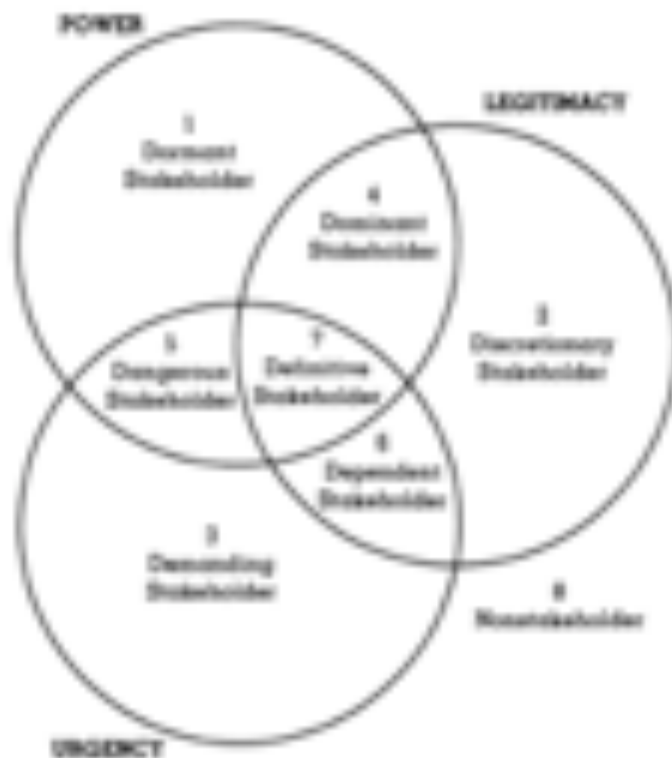
Power is defined as "the probability that one actor within a social relationship would be in a position to carry out his own will despite resistance, regardless of the basis on which this probability rests (Weber, 1947, p. 152)." Power is exercised based on the type of resource used. When physical resources of force, violence or restraint are used, it is called coercive power. One is considered to have utilitarian power if he/she uses the material or financial resources for control purpose. Control based on symbolic resources is ascribed as normative power (Mitchell, Agle, Chrisman, & Spence, 2011).

Legitimacy attribute of stakeholders refers to socially accepted and expected structures or behaviours. Suchman (1995) defines legitimacy as "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". The combination of power and legitimacy creates authority in the stakeholder-manager relationship.

To capture the dynamics of stakeholder-manager interactions, Mitchell et al. (1997) add the attribute of urgency to the model as they argue that having power and legitimacy alone makes it a static model. When a relationship or claim is time-sensitive and critical to the stakeholder, the manager is deemed to have a call for immediate attention. All these three attributes together form a basis to determine the degree of attention manager pay to competing claims of stakeholders.

4. Typologies of Stakeholders in MAW Model

The MAW model represents seven classes of stakeholders' groups based on the various combinations of the three salient attributes i.e. power, legitimacy and urgency. These classes of stakeholders are dormant stakeholders, discretionary stakeholders, demanding stakeholders, dominant stakeholders, dangerous stakeholders, dependent stakeholders and definitive stakeholders.



Source: Mitchell et al. (1997)

Figure 1 Stakeholder typology: one, two or three attributes present

Dormant stakeholders are those that possess only power attribute to influence a firm to exercise their wills. However, this power is of no use without having legitimate interaction with the manager and urgent claims. Those who control financial resources has utilitarian power but cannot influence a firm if no legitimate relationship exists. Discretionary stakeholders are those who have legitimacy attribute in the relationship but have no power and urgent claims over the firm. Beneficiaries have a very strong legitimate reason for a charity existence but may not have the power to control the charity operation. Demanding stakeholders refer to those with urgency attribute. Without the power to influence and legitimate relationship with the firm, their urgent claims may not attract the attention of the managers.

Stakeholders who possess both power and legitimacy attributes are ascribed as dominant stakeholders. Having these two attributes gives them a strong valid reason to dominate the attention of manager from other stakeholders. Mitchell et al. (1997) classify those who have a legitimate relationship and urgent claims but have no power to impose their will on firm as dependent stakeholders. These stakeholders have to rely on other powerful stakeholders or supports from within the organization to satisfy their claims. Dangerous stakeholders refer to those who have only urgent claims and power attributes. They are classified as “dangerous” because, in many cases, these stakeholders will use a coercive type of power, often because of illegitimate status to satisfy their urgent claims.

The final classes of stakeholders, i.e. definitive stakeholders possess all three attributes of power, legitimacy, and urgency. These stakeholders are considered as the most salient stakeholders to whom managers should give priority of attention. Mitchell et al. (1997) propose “stakeholder salience will be high where all three of the stakeholder attributes – power, legitimacy, and urgency – are perceived by managers to be present.”

Referring to Figure 1 above, stakeholders who have only one attribute (i.e. 1, 2, 3) is labelled as latent stakeholders and is considered as having low salience. In this case, managers may give no attention to these groups of stakeholders. Stakeholders who have two attributes (i.e. 4, 5, 6) are referred to as expectant stakeholders. This stakeholder group is considered to have moderate salience to the firm. The level of engagement with this group may be likely higher as they are seen as “expecting something” from the firm. Stakeholders who have all attributes (i.e. 7) are called definitive stakeholders and have high salience. The managers of a firm should give immediate priority and attention to these stakeholders as they have the power to influence the firm, legitimate relationship with the firm and urgent claim on the firm.

5. Methodology

This is a qualitative study that employ semi-structured interview method involving 26 participants who are among the top management officials from fourteen different waqf institutions in Malaysia. These top management officials henceforth are referred as waqf managers. There are two primary reasons for selecting semi-structured interviews as the main source of empirical data. First, they are appropriate research tool to explore the perceptions and opinions of interviewees with regards to complex and sometimes sensitive issues and enable probing for more information and clarification of answers. Second, the varied professional, educational and personal backgrounds of the interviewees can be better addressed using semi-structured interviews than the standardized interview schedules (Barriball & While, 1994). Thematic analysis is used to analyse the data collected from the semi-structured interviews. The thematic analysis includes the process of coding the data into appropriate themes (Corbin & Strauss, 1990).

6. Identifying Stakeholders of Waqf Institutions in Malaysia

Running as organizations that are perceived to uphold both social and economic missions as compared to other organisations, waqf institutions may have different groups of stakeholders. The identification of waqf stakeholders is important as this may influence the financial reporting practice because they are the users of such reports. In this study, the identity of the stakeholders of waqf is empirically identified based on the perception of the managers in waqf institutions. During the interview sessions, the interviewees were asked on who they regard as waqf stakeholders. The interviewees also shared their perceptions on the respective stakes or interests that each group of waqf stakeholders may have on waqf institutions. Different level of understanding on the concept of stakeholders among waqf managers has led to the identification of eighteen different groups of stakeholders of waqf institutions in Malaysia. They include Allah, waqif, beneficiaries, SIRCS, Sultan, nazir khas, agent, highest management officials, fatwa committee, auditors, members, special management committee, government, waqf partners, regulators, consumers, public, and academicians. Table 1 shows these groups of waqf stakeholders and their respective stakes or interests towards waqf institutions.

Table 1

#	STAKEHOLDER	THE INTEREST	STAKES/CLAIMS/	QUOTES FROM INTERVIEWS
1)	Allah	<i>Waqf assets being managed according to rules and laws of Shari'ah.</i>		<i>“we have to maintain Allah’s rights in terms of the rules that He has ordained.” - (Chairman)</i>
2)	Waqif	<i>The waqf purpose is successfully fulfilled.</i>		<i>“(the function of) Majlis is to ensure that the intention of waqif (upon contributing waqf assets) is successfully realized.” – (Waqf Manager)</i>
3)	Beneficiaries	<i>The benefits they are entitled for.</i>		<i>“who use the waqf asset or receive the waqf benefits.” – (Waqf Officer)</i>
4)	SIRCS	<i>The trust in realizing the purpose of waqf as stipulated in waqf deeds.</i>		<i>“it (SIRC) is responsible to ensure that waqf is properly managed as intended by waqif.” – (Property Manager)</i>

#	STAKEHOLDER	THE INTEREST	STAKES/CLAIMS/	QUOTES FROM INTERVIEWS
5)	Sultan	<i>The right to be advised on matters relating to Islamic affairs and to appoint certain members of the councils.</i>		<i>"on top of this SIRC is the Sultan, not the state." – (Accountant)</i>
6)	Nazir khas	<i>The trust in realizing the purpose of waqf as stipulated in waqf deeds on behalf of SIRC.</i>		<i>"the SIRC appointed us (waqf corporation) as special Nazir to manage the waqf shares." – (Executive Officer)</i>
7)	Agent	<i>The trust in promoting waqf and collecting waqf funds from the public.</i>		<i>"this waqf centre is appointed as an agent to collect waqf funds on behalf of the SIRC." – (Finance Manager)</i>
8)	Highest management officials	<i>The authority to make strategic decisions in waqf institution.</i>		<i>"they are the ones who decide the direction of the operation. We have to report to them." – (General Manager)</i>
9)	Fatwa committee	<i>The authority to make decisions on shariah-related issues.</i>		<i>"everything that we do must be reported to the fatwa committee." – (Waqf Officer)</i>
10)	Auditors	<i>Opinions on the waqf institutions' compliance with the reporting requirements.</i>		<i>"we submit these financial statements to the National Audit Department." – (Accountant)</i>
11)	Members	<i>Right to vote and to access information.</i>		<i>"members are entitled to access information regarding the corporation's activity" – (Executive Officer) "decision is made based on polls" – (Chairman)</i>
12)	Special management committee	<i>The cooperation between the SIRC's and other external parties.</i>		<i>"with the bank we establish Joint Management Committee.... The use of funds will be decided by the committee." – (Accountant)</i>
13)	Government	<i>That all projects undertaken are developed based on rules and regulation.</i>		<i>"we are accountable to the state government... report need to be presented to state government." – (Accountant)</i>
14)	Waqf partners	<i>Cooperation in developing waqf properties.</i>		<i>"We collaborate with UDA Holding to develop the properties." – (Executive Officer)</i>
15)	Regulators	<i>The compliance of waqf institutions to the regulations.</i>		<i>"to buy asset, properties, we need to inform MOF." – (Executive Officer)</i>
16)	Consumers	<i>The right to use waqf assets or properties.</i>		<i>"the shop lots near masjids in this state – it is an agreement between the SIRC and the tenants." – (Executive Officer)</i>
17)	Public	<i>The right to information of waqf.</i>		<i>"public want to know how the SIRC manage waqf." – (Accountant)</i>
18)	Academician	<i>Their interest in exploring waqf related issues.</i>		<i>"research done by the academicians, that's also plays an important role in waqf institution." – (Executive Officer)</i>

The identification of all potential waqf stakeholder groups is important to ensure the inclusivity of the process of social and ethical accounting, auditing and reporting (Rasche & Esser, 2006). Inclusivity is one of the stakeholder accountability principles which refers to "actively identifying stakeholders and enabling their participation in establishing an organisation's material sustainability topics and developing a strategic response to them" (AccountAbility, 2018). When it comes to the notion of stakeholder accountability, it is imperative to recognize that organizations face time and resource constraints while engaging with their stakeholders (Rasche & Esser, 2006). This applies to waqf institution as well. These multiple groups of waqf stakeholders indicates the complexity of the

environment that waqf institutions are operating in. Managing such a diversity of stakeholders' needs and interests, however, is a big challenge for these not-for-profit institutions. To address every single need and claim of stakeholders is something which is beyond the capability of any organization including waqf institutions. This is due to the limitations of resources in accommodating the varying stakeholders' needs and claims. Thus, it is important for waqf institutions to effectively and efficiently use their resources by focusing on certain groups of stakeholders that the management attention priority should be given. This issue is addressed in this study through the lens of stakeholder identification and salience model (MAW Model).

7. Fleshing out the MAW Model

The MAW Model introduced by Mitchell et al. (1997) is a popular model to determine the salience level of stakeholders of an organization. As discussed earlier, this level of salience is based on the combinations of three attributes namely power, legitimacy and urgency. Any stakeholders which possess all three attributes are considered salient stakeholders who deserve highest attention from the management. In other words, the management should pay more attention to those stakeholders who possess all three attributes of salience than those who possess only two or one attributes of salience.

Based on the responses in this study, instances of these attributes as perceived by the interviewees have been investigated. The description of identities and stakes of each stakeholder group given by the interviewees have been analysed thematically to determine whether they possess the attributes of power, legitimacy and urgency. As a result, there are various combinations of attributes possession among waqf stakeholders. The following discussion will be presented through the lens of seven typologies of waqf stakeholders as proposed by MAW model. Figure 2 shows the MAW model with the embedded empirical data from this current study.

Stakeholders who possess only one attribute would be classified as either dormant (power only), discretionary (legitimacy only) or demanding (urgency only) stakeholders. There is however, no waqf stakeholder in this study which is classified as dormant stakeholder. As for discretionary stakeholder category, there are five waqf stakeholders who possess only legitimacy attribute that include nazir khas, agent, consumers, waqf partners and academicians. In this study, the public is classified as demanding stakeholders because they possess only the attribute of urgency to claims.



Figure 2 Fleshing out the MAW model

Stakeholders who possess two attributes would be classified as either dominant (power + legitimacy), dependent (legitimacy + urgency) or dangerous (power + urgency) stakeholders. Six groups of waqf stakeholders which include sultan, highest management officials, special management committee, auditors, fatwa committee and regulators; are classified as dominant stakeholders. Beneficiaries are the only dependent stakeholders in this study while dangerous stakeholder is none.

Those stakeholders who possess all three attributes – power, legitimacy and urgency – are referred to as definitive stakeholders. In this study, there are five groups of waqf stakeholders fall under this stakeholder classification which include Allah, waqif, SIRC, government and members. As suggested by MAW model, this category of stakeholders are the ones that should be given the highest priority of the management attention of waqf institutions especially in addressing their respective needs and interests.

8. Conclusion

One of the most important management strategies is engagement with stakeholders. In successfully achieving organizational missions and objectives, an organization may need to properly identify who are its stakeholders and what are their interests towards the organization. As argued by Freeman (1984), these stakeholders may include any group or individual who can affect or is affected by the achievement of the organization's objectives. Being an organization that pursue charity mission, waqf institutions are not exceptional. Managing waqf properties in the environment which involves a wide range of stakeholders is a challenging effort. Different stakeholders may have different stakes and interests with respect to the operation of waqf institutions in Malaysia. Their expectation is to have their needs or

interests well managed by the organizations. Failure to pay attention to these needs is a potential for organizational disaster (Nutt, 1999). However, it may not be possible for waqf institutions to completely satisfy all stakeholders at once, therefore, priority management is an essential strategy to win the games. This study has employed the Stakeholder Identification and Salience Model (MAW model) to determine which stakeholder groups of waqf that managers should give priority in their competing claims. 18 groups of waqf stakeholders have been identified from the empirical interview data. Upon analysing the data through the lens of MAW model, five groups of waqf stakeholders have been identified as the most salient stakeholders that the management of waqf institutions should pay their highest attention while addressing the stakeholders' needs and interests. Even though the other 13 groups of waqf stakeholders may be not considered as salient, their needs and interests should not be totally ignored by the management, as they are still part of the ecosystem of waqf stakeholders. In other words, different engagement strategies should be employed for different level of salience by waqf managers to ensure the sustainability of waqf institutions.

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A Synthesis Review of the Role of Audit Committee on Corporate Governance Variable and Corporate Governance Behaviour: The Power of Political Connections

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Abstract

In this paper, the study summarizes the major studies addressing on the role of audit committees on corporate governance variable, namely audit quality and corporate governance behavior and highlighting the need to consider the power of political connections that potentially affect the role of audit committee in the companies. The question addressed by this paper is how the political connections and audit committee role may influence the corporate governance variables as reflected in audit fees and corporate governance behavior through auditor's assessment process. This is what has been lacking in the literatures. This paper is an attempt to identify the gaps and contribute to the political connections and corporate governance literature by showing the political connection influences on audit committee especially in an economy in which the government has coercive power in the firms. In the different context, the paper provides avenue to potential research to understand firm's agency conflicts between the majority shareholder and the management as well as political connections that providing external resources to the firms affect auditor's decision on audit fees, audit plan and assessment process and audit opinions.

Keywords: Audit Committee, Corporate Governance, Political Connections

1. Introduction

This paper summarises the major studies addressing on the role of audit committees on corporate governance variables, namely audit quality and corporate governance behaviour and highlighting the need to consider the power of political connections that potentially affect the role of audit committee in the companies. The aim of audit committees is to improve organisational governance in all types of organisations, whether they are public listed companies or private companies. Audit committees are known as one type of monitoring mechanism, which aim to provide assurance on financial and compliance issues through increased accountability and the efficient use of resources. Over the past decade, the role of audit committees has become increasingly significant as high profile corporate scandals, such as Enron and WorldCom, have caused chaotic problems for the credibility of corporate governance. The need for more audit committees has been given attention through the combination of legislation and support through best practice guidelines, while in the post-Sarbanes Oxley Act (SOX) era, the key responsibilities of audit committees have the potential to influence operations, strategy and firm performance (Karim et al. 2015). The issues concerning audit committees and corporate governance have been highlighted in many prior studies to improve financial reporting and audit quality (Neal et al. 2009;Cohen et al. 2004;Krishnan and Visvanathan 2007;Peasnell et al. 2000;Turley and Zaman 2007;De Vlaminc and Sarens 2015). The lack of competency among audit committee members may contribute to a company's financial distress (Simpson and Gleason 1999) and hence, the effectiveness of the audit committee is among the key issues in companies in financial distress. In addition, audit committee independence is argued to be negatively associated with the going concern of financially distressed firms (Neal et al. 2009). It is expected, therefore, that good characteristics of audit committees are associated with good company financial performance, which in turn is negatively associated with financial distress. Financial distress can normally be related with those companies

which have government guarantees to support them financially. However, research on the effectiveness of audit committees in relation to the connections with government and politicians is lacking in the literature. Thus, it is warranted to further investigate these issues in the current paper.

2. Political Connections and Audit Committee

As a general definition, political connection is a kind of bonding between the managers' personal connections and those of government officials. While other studies, Gomez and Jomo (1999), Johnson and Mitton (2003) and Abdul Wahab et al. (2009) defined political connections as the firms having an individual who has connections with the key government officials. On the other hand, Faccio et al. (2006a) and Ahmed and Uddin (2018) identified a firm as connected through a minister or head of state when the politician or a close relative (son or daughter) holds the office and is a large shareholder or senior officer. Similarly, political connections also defined as connections with individual who have power in the government (Belkaoui, 2004), through state ownership of enterprises (Bushman et al. 2004 and Nee et al. 2007) and through golden (special) shares held by government (Hanousek et al, 2007 and Rahman et al., 2019).

There are polemical debates in the existing literature with regards to politically connected firms, especially in emerging economies, as there is much evidence which has been extensively documented with regards to the appointment of well-connected individuals to directorships (Faccio et al. 2006; Gomez and Jomo 1997). This is because the rationale behind the appointments of connected individuals is subject to controversy. According to the World Bank (2006), in reference to the emerging economies, a politically connected board should have the necessary authority, competencies and objectivity to carry out its function of monitoring the management. However, according to various authorities, this potentially leads to conflicting goals and thus an increase in the level of complexities. Menozzi et al. (2014) provide evidence that politically connected directors dominate board organisation and performance in network industries as they need to pursue a social mission and be subject to social control.

The question addressed by this paper is how the political connections and audit committee role may influence the corporate governance variables as reflected in audit fees and corporate governance behaviour through auditor's assessment process. This is what has been lacking in the literatures. Prior literature reveals that a number of studies have examined the relationship between political connections and their impact on the improvement of corporate governance. A number of studies examine corporate political connections within a country, Fisman (2001) for the case of Indonesia, Johnson and Mitton (2003) for the case of Malaysia, Ferguson and Voth (2008) and Niessen and Ruenzi (2010) for the case of Germany, and Agrawal and Knoeber (2000) for a sample of outside directors in the United States. A review of the literature reveals that a number of prior studies that have examined the relationship between political connections and their impact on the development of a firm's performance have extended to examination of the quality of accounting information (Ball et al. 2003; Chaney et al. 2011), of corporate bailouts for politically-connected firms (Faccio et al. 2006), of the performance of connected firms (Johnson and Mitton 2003; Leuz and Oberholzergee 2006), of political favouritism in relation to access to finance (Faccio et al. 2006; Mian and Khwaja 2004) and of the value of such connections (Fisman 2001). In addition, the current paper is consistent with (Chizema et al. 2015), which investigated the impact of politically connected directors despite their being more sophisticated and successful in gaining board seats. A politically connected board has at least one director who is a former politician, including being a Member of Parliament, a minister or any other senior government appointee, or an officer in a state owned enterprise (Faccio et al. 2006).

Of particular interest related to politically connected firms, other than having the traditional agency cost, they also have to bear the costs of catering to the interests of the political party/entity to which they are affiliated (Micco et al., 2007). The risk is that to preserve and serve this political relationship, members of the management who produce financial reports may manage earnings to serve the interests of their political allies at the expense of other stakeholders, such as the shareholders and creditors. This consideration is likely to affect an auditor's perception of a connected firm's business risk. Hence, the

suggestion by Gul (2006) that political connections affect audit fees: politically connected firms seemed to be associated with higher audit risks and consequently were charged higher audit fees (Tee et al., 2017).

In expanding operational definition used by Faccio et al. (2006a) which is 'a politically connected board has at least one director who is a former politician, including being a Member of Parliament, a minister or any other senior government appointee, or an officer in a state owned enterprises', the study taken into account audit committee members who are senior government officer (SGO) and politician (POL) as main variables to explore the impacts of corporate governance variables and corporate governance behaviour. Audit committees are now a common feature of corporate governance in many countries. Widely promoted since the publication of the Cadbury Report (1992), audit committees are now expected, and in some cases required, to exercise oversight over financial reporting and auditing. Research on audit committees suggest that independence, expertise and meeting frequency are important determinants of their effectiveness and that their connections with management and stakeholders can affect their monitoring role. A potentially important aspect that can affect audit committee monitoring behaviour is inclusion of members on audit committees who are politicians or senior government officers. Therefore, it provides avenue for future research to conduct study in examining the power of political connections on audit committee in corporate governance variables and corporate governance behaviour.

3. Corporate Governance Variables: Audit Quality

Audit effort is one of the alternatives for measuring audit quality, which is known as something unobservable and intangible. Due to its complex nature, prior researchers have tried to find various measurements to represent audit quality, such as audit opinion (Fan and Wong 2001; DeFond et al. 2000; Chen et al. 2001), auditor size (DeAngelo 1981); Big Eight/ non Big Eight firms (Palmrose 1986) and also audit fees (O'Sullivan 2000). The Big Four audit firms are among the identifiable brand names of audit firms, which imply brand reputation and better audit quality. This has been elaborated further by Clarkson and Simunic (1994), explaining that audit quality and auditor quality become synonymous. However, with contradictory findings, Balsam et al. (2003) argue that auditor quality is inherently unobservable and no single auditor characteristic can be a proxy for it. It is understandable that the auditor potentially detects any material error that is directly linked to audit effort through amount of time, scope, coverage and resources. Caramanis and Lennox (2008) tested the effect of audit effort in terms of hours worked on audits in Greece. However, this approach is difficult to apply due to the unavailability of large datasets of audit hours. A more common proxy for audit effort is linked to the amount of audit fees paid. If the level of conflict is high between management and owners, then there may be greater demand for audits to be of high quality (Watkins et al. 2004). Consequently, this suggests that more effort may be expended and more costs (audit fees) may be incurred by the firm in ensuring this high quality audit (Simunic 1980; Craswell et al. 1995; Ferguson and Stokes 2002). Moreover, O'Sullivan (2000) found an association between audit fees and audit quality, whereby low audit fees must cause low quality, and Palmrose (1986) provided evidence that high quality auditors charge high audit fees. Therefore, it is more accurate to study audit quality through audit effort, which is indicated by audit fees that may provide a very useful and comprehensive understanding of audit quality.

There are several arguments for the use of audit fees as proxy to measure audit effort. Prior studies suggest that higher audit fees are associated with greater audit effort (Simunic 1980; Palmrose 1986; Craswell et al. 1995; Ferguson and Stokes 2002). According to Craswell et al. (1995), the development of the reputation of an auditor's brand name and industry specialisation consumes a higher cost and thus results in higher audit fees. The evidence shows that clients are willing to pay a premium fee on these auditors' reputations in order to have a better quality of service. In the same vein, Palmrose (1986) noted that the Big Eight auditors charged higher audit fees for two reasons: they indicate (1) higher audit quality or (2) monopoly pricing. The finding suggested that the Big Eight auditors were consistent as providers of higher quality of audit after the audit fees variable was substituted by audit hours. Craswell et al. (1995) and Ferguson and Stokes (2002) claim that the brand name of industry specialist auditors earns additional fee premiums over non-specialist brand name auditors, which

indicates a higher audit quality differentiation among them. However, the present paper notes the limitation that audit fees are an imperfect measure of audit quality. Audit fees are also not necessarily an accurate indicator for audit effort as the appropriate measure for audit effort is the number of audit hours. However, Deis and Giroux (1996) provide some empirical evidence that audit fees and audit hours are significantly related to audit quality in their analysis of three important attributes: audit fees, audit hours and audit quality. Hence, it seems reasonable that more audit hours will lead to higher audit fees and promote a higher audit quality.

3.1 The Role of Audit Committees in Maintaining Audit Quality through Audit Fees

Audit quality is not something that can be directly examined, and it is difficult to measure. There are many prior studies that have used different measures in quantifying audit quality. High quality auditors are more likely to be able to detect issues that arise within firms, such as accounting irregularities and financial misstatements, and will issue opinions in a relevant manner. The current paper uses audit fees as the determinant of audit quality. This is because one of the current motivations is for research to largely investigate the roles of boards and audit committees in their financial oversight responsibilities. This has also been emphasised through regulatory bodies, as in July 2002 following the securities commission (SEC) requiring audit committees to be responsible for the audit fees paid to the auditors. Thus, this paper is distinctive from prior literature by investigating politically connected audit committees and how this may influence the level of audit fees.

There are numerous studies relating to audit fees and how they tend to vary with complexity, size, governance and riskiness (Gul and Tsui 2001; Hay et al. 2008). Haniffa et al. (2006) and Tsui et al. (2001) assumed that better corporate governance would reduce audit effort since there would be less need for inherent control. Audit effort refers to the audit fee which, in the current literature on auditing, is supported by the theory of supply and demand. Audit fees are a significant part of monitoring costs, since the auditor needs to ensure that the board of directors is fulfilling the shareholders' interests (Haniffa et al. 2006). In other words, a strict control and governance environment will reduce the auditor's assessment and the extent of audit procedures, which will reduce the audit fees. In contrast, the demand for better corporate governance will require the auditor to play its role efficiently by better auditing and internal control. This will demand good governance by higher quality of audit services and higher audit costs. This is supported by Carcello et al. (2002), Abbott et al. (2003), Fan and Wong (2005) and Goodwin-Stewart and Kent (2006). Prior literature has investigated in relation to independent boards, including audit committees, and has found that they demand greater audit effort (Carcello et al. 2002; Zailailah et al. 2006). Furthermore, independent directors need to protect their reputation by improving the level of monitoring, thus leading to better financial performance. Empirical evidence in Abbott et al. (2003) refers to audit committee effectiveness by assuming that audit committee independence and expertise has a positive association with audit fees. Given the significant value of the relationship between politics and business, it is important to examine how audit fees are influenced by audit committee characteristics. To date, there is no study which has directly assessed the political connections with audit fees in relation to audit committee effectiveness and corporate governance mechanisms.

3.2 The gap on Politically Connected Audit Committee and Audit Fees

Prior studies of Bedard and Johnstone (2004) demonstrated supply side audit risk model to posit theoretical relationships between political connections, corporate governance practises and audit fees. In which the situation is where the auditors take the corporate governance practises and the influence of political connections of the client firm into account and exert more (less) effort and hence charge more (less) fees depending upon they perceive the risk. In contrast to this supply side or risk based perspective, several studies have adopted a demand side perspective that argues a stronger corporate governance practises and strong political influences and audit fees may be positively related. Thus, more independent directors on the board or audit committee and stronger political connections may demand higher quality audits that lead to greater audit effort and higher audit fees. However it can be seen from the evidence that is based on this demand side argument is somehow cause to problems. The

current paper proposes to the future research to use different variables and types of corporate governance practises in which comes from varying regulatory environments. As a main focus of this paper is on the influence of political connections and audit committee, thus the limitations of the demand side arguments are even more pronounced given that audit committee have becoming emerged as reliable mechanism to improve corporate governance.

Ideally, a demand side perspective argues that stronger corporate governance practices and strong political influences may demand a higher quality of audit, leading to a greater audit effort and higher audit fees. These demand side theories contend that there is a positive relationship between corporate governance and audit fees (Goodwin-Stewart and Kent 2006). Audit committees that have politicians and or senior government officers, as members are likely to be associated with higher audit fees. First, the demand for higher audit effort is likely to stem from the audit committee members being keen to protect their reputation and demonstrate their oversight of financial reporting and auditing (Habib et al., 2018). Members of audit committees who are politicians or who are senior government officers may raise issues with external auditors during their meetings, which may in turn affect the audit scope and be reflected in higher audit fees. Second, audit fees are also affected by assessment of audit risk (Choi et al., 2008; Gul, 2006; Simunic et al., 2008). From the perspective of auditors, corporate governance guidelines and auditing standards require auditors to assess the tone at the top as part of the audit planning process. Auditors' evaluation of risk is likely to take into consideration the strength of corporate governance in a firm as well as any political connections of members, and in turn auditors may exert more effort and hence charge more fees if they perceive the risk as high. Auditors are expected to exercise more audit effort to investigate any accounting irregularities if management incentive to misreport are perceived to be high. This additional effort is likely to be reflected in higher audit fees. This is consistent with the view that auditors may charge extra fees to clients with a higher risk (Dye 1993; Bedard and Johnstone, 2004). Therefore, this paper suggest based on demand perspectives that politically connected audit committee through senior government officer (SGO) and politician (POL) are positive and significance with the level of audit fees.

4. Corporate Governance Behaviour: Auditor's Assessment Process

This paper enhances our understanding of the obscure side of the work of auditors – the leeway they have in performing their duties. This aspect remains almost unexplored by researchers, because it is difficult to have access to both external auditors and internal auditors, and because their work remains confidential for strategic reasons (Neu et al. 2013). This is necessary because role conflicts are at the core of their practices in planning the scope and plan of an audit (Vinten and Van Peursem 2005; Norman et al. 2010) and may have an impact on the roles that they ultimately play within the organisation (Roussy 2013). The paper tries to further explore to what extent political connections may influence the auditor's assessment process and what they are confronted with in their practice throughout the audit process. Nor do we know how they manage themselves when such conflicts happen. This paper is highlighting the gap in the literature on the relationship political connections with audit committee and audited managers, because conflicts arise between all these organizational actors. Moreover, this paper is illustrating how political connections may influence the auditor's coping behaviour and affect their ability to perform their governance duty. There has been a lack of academic research on how politically connected companies may affect audit quality or the audit assessment process. The political connections of firms may potentially lead to an increase in complexity of the auditor's assessment process. There are many factors that auditors must consider, such as personnel policies and procedures, the board's profile and background, and corporate governance information of the firm (Messier Jr and Austen 2000). Prior research by Agrawal and Knoeber (2012) has shown that larger political donations are associated with poorer corporate governance and that donations are indicative of agency problems within a firm. The study specifically found that firms with larger boards, and CEOs who also chair the board, are associated with larger donations. Thus, these political donations may potentially increase the auditor's assessment process.

Auditors are required to make independent judgements about financial statements from an ethical perspective. Given the complexities of human nature and the involvement of political connections, it

can be ethically difficult for the auditor to conduct the assessment process. A review of the audit literature has revealed that there are not many studies that have examined how auditors conduct their assessment process when political connections are involved. The auditor's assessment process may potentially involve the audit plan, audit scope and procedures, ethical action or aspects of behaviour in how the auditor responds to ethical situations. For instance, Falk et al. (2000), using an experimental approach, found that when auditors were faced with the prospect of losing a client, they were more likely to compromise their independent judgement. Similarly, Ponemon and Gabhart (1990) found that auditors with low moral development appeared to be more willing to underreport time. These studies therefore show that contextual factors (client pressure) may influence auditors' ethical actions. There are also studies on the factors that may influence auditors in conducting the audit process for such instances (Shafer et al. 2001; DeZoort and Lord 1997; Thorne and Hartwick 2001; Trompeter 1994). The factors that are mentioned in these studies are individual characteristics, internal factors in firms, client company factors and regulatory factors. The present paper thus tries to establish if political connections can be among the contextual factors that may influence the auditor's assessment process.

4.1 The gap of Politically Connected Audit Committees and Auditor Assessment Process

Auditors and their politically connected clients often encounter situations in which professional standards allow for different judgements related to accounting matters. For instance, it may be argued that both parties generally benefit from a strong, long term relationship with the other, in which auditors might gain valuable client specific knowledge that may aid them to conduct their audit effectively, and clients avoid the costs associated with switching auditors. Therefore, it is in both parties' interests to resolve, through discussion and negotiation, whenever possible, when they have a dispute. According to Johnstone and Muzatko (2002), it is very important for both the auditor and the client's management to have negotiations in order to present a representationally faithful view of the client's financial status. Due to political power and pressure, it can be assumed that in the process of expressing an opinion on the client's financial statements, a certain amount of conflict between the auditor and the client's management could possibly arise. According to Gibbins et al. (2000), during the resolution process, the client's management is likely to attempt to persuade the auditor to accept its own position. The influence of political connections may have an effect on the auditor's assessment process, as it builds upon the basis of the client's sources of power. Thus, Murnighan and Bazerman (1990) point out when negotiating with the client, the auditor is faced with incentives to cooperate and incentives to compete. Strong corporate governance is needed in a company's structure in order to assist the auditor to resist the political power that can pressure them in planning their audit (Ahmed and Uddin, 2018). A corporate governance structure is an institutional mechanism applied at the level of every company to provide assurance to third parties that an auditor's integrity and independence are being preserved. This includes board of directors and audit committee involvement in establishing and maintaining the auditor client relationship in overseeing the conduct of an audit. Appropriately, a stronger governance mechanism should provide a neutral and a well-informed buffer to the auditor and management, even though political connections exist. The interactions investigated in the present paper show how political connections have become a contextual factor affecting the auditor's assessment process through audit disputes, audit negotiations, the ability of the auditor to withstand political pressure and the strategy of re-engineering their audit scope and plan.

Most of the previous studies were concerned with how political connections may have effects on audit fees and financial reporting quality (Tee et al., 2017), so there is much room for the notion that more research needs to be carried out on how the auditor's assessment process may be potentially adversely affected by such connections. Thus, additional evidence can be provided on this issue in order to reduce the frequency of conflicts in the audit context as well as to manage the phenomenon in a constructive manner which, in turn, could benefit all parties with a stake in ensuring effective corporate governance.

5. Discussion and Concluding Remarks

This paper has reviewed prior studies that have provided an understanding of the concept of audit committee, political connections, audit fees and auditor's assessment process. The audit committee have

been widely studied but there is still limited evidence on the concept of audit committee who are politically connected and the measurement of political connections has been recognised in prior studies through 1) political ties or connections between the company and politicians or individual have power in government agencies or ministry; 2) the presence of politicians on boards; 3) government shares owned of the company. From the earlier discussion, it can be seen that much work has investigated the relationship between audit committees and the external auditors. There are lacking studies exploring the impact of politically connected audit committee with audit fees and from prior literatures of the audit committees and audit fees the findings are mixed. The prior findings show both positive and negative impacts depending on both the jurisdiction and time period being studied. On the other hand, it is importance to see prior literatures on how the auditor conduct the audit assessment process and it is believed that political connections may potentially affect the way audit being conducted. It is very importance to see the role of corporate governance as a control mechanism and how auditor can maintain their credibility in conducting the audit. This paper is an attempt to identify the gaps and contribute to the political connections and corporate governance literature by showing the political connection influences on audit committee especially in an economy in which the government has coercive power²⁵ in the firms. Most prior research examines the impact direct political connections of shareholder itself. However, by demonstrating that public companies benefited the political connections with their audit committee, this paper suggests that political connections are playing a greater role in audit fees and auditor's assessment process than previously documented. This paper proposes some new points to the emerging literatures by examining how political connections affect the audit committee effectiveness and corporate governance as a whole. In the different context, the paper provides avenue to potential research to understand firm's agency conflicts between the majority shareholder and the management as well as political connections that providing external resources to the firms affect auditor's decision on audit fees, audit plan and assessment process and audit opinions. Analysing audit fees allow the researcher to use this quantifiable measure to capture the quality of corporate governance mechanism in the firms. In addition, further investigation on the corporate governance and political behaviour provide in depth explanation for the researcher to understand the role of audit committee as a whole.

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²⁵ Coercive power is the authority or power that is dependent on fear, suppression of free will, and/or use of punishment or threat, for its existence.

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The 2008 Financial Crisis: Debt Financing and Its Determinants of Shariah Approved Firms in Malaysia

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Abstract

The issue of high reliance on debt has raised major concern since it has created several downfalls of large US's corporation such as Enron (2001) and Lehman Brothers (2008) and the 2009 Greek Depression. In Malaysia, statistic shows that after the 2008 global financial crisis, its average corporate debt-to-GDP increased tremendously—from 75.60% (2009) to 94.10% (2015). This figure is alarming as financial crises in many emerging countries have been preceded by rapid growth in the debt level of the countries. It becomes more interesting as the Securities Commission of Malaysia in the year 2013 has revised the Shariah screening methodology that requires listed firms to comply with 33% debt ratio benchmark if they are to be classified as Shariah-approved stocks. In fact, the debt ratio benchmark is consistent with The Prophet Muhammad's word—one third is enough. Thus, this paper aims to assess the factor that influences the debt level of the Shariah-approved firms listed in Malaysia, pre and post the 2008 financial crisis. Total debt as measured by debt ratio will become a dependent variable. Several firms and industry characteristics are chosen as the explanatory variables—firm's profit, firm's growth, asset tangibility, firm's size, bankruptcy risk, non-debt tax shields (NDTS) and Herfindahl-Hirschman Index (HHI). The study will adopt a standard panel data analysis—pooled OLS, random effect model (REM) and fixed-effect model (FEM). The output from this study will provide additional understanding of the variation of the factor that may influence debt financing and its determinants for the pre and post of the 2008 financial crisis period. It will also provide more insights into how Shariah approved firms specifically in Malaysia craft their capital structure strategy. As compared to the previous study, this study largely contributes in terms of the sampling selection in which a firm must be consistently being Shariah approved during the period of analysis from 2000 to 2014.

Keywords: Shariah approved firm, debt determinants, financial crisis, capital structure, Islamic finance

1. Introduction

Debt requires a long-term financial commitment from a firm. As such, any number of uncertainties during the financing period may affect a firm's ability to keep its commitments. Uncertainty can be caused by numerous factors, including the economy, industry, politics, poor management and other unforeseen conditions. Thus, firms must plan wisely to manage their debt commitment, as failure to manage this issue can easily result in bankruptcy.

Statistically, prior to the 2008 global financial crisis, the Malaysian corporate sector had an average corporate debt-to-gross domestic product (GDP) ratio of around 75.60%, as tabulated in Figure 1.1. However, during the period of 2009 to 2015, the average corporate debt-to-GDP increased tremendously, to 94.10%. In 2015, the growth of the total debt of non-financial corporations stood at 104.80%, almost double (+13.20%) that of the previous year. This is mainly due to the weaker ringgit, which increased external debt obligations in ringgit-equivalent terms (Central Bank of Malaysia, 2015).

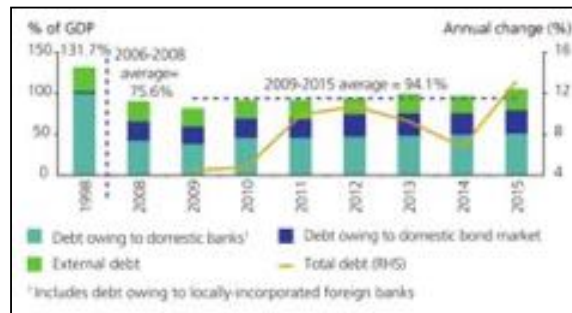


Figure 0: Malaysia's Corporate Debt-to-GDP Ratio
Source: Central Bank of Malaysia (2015)

On a larger scale, in comparison to other emerging countries, the growth of Malaysian corporate debt-to-GDP ratio growth is considered low—less than 5% over the period of 2007 to 2014. However, other emerging countries such as China and Turkey experienced a growth of more than 20% in their corporate debt-to-GDP ratio during the same period, as illustrated in Figure 1.2. For the record, on average, emerging countries' corporate debt-to-GDP ratio has grown by 26%, from about \$4 trillion in 2004 to more than \$18 trillion in 2014 (International Monetary Fund, 2015).

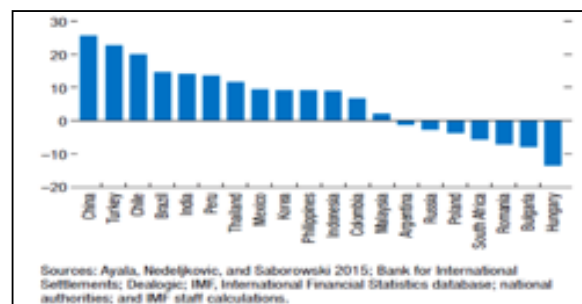


Figure 2: Corporate Debt-to-GDP Ratio in Emerging Economies
Source: International Monetary Fund (2015)

This figure is alarming, as we know that the downfall of large U.S. corporations such as Enron in 2001 and Lehman Brothers in 2008 was caused by debt. These increasing trends have raised further concerns, as financial crises in many emerging countries have been preceded by rapid growth in debt level (International Monetary Fund, 2015). Thus, research that examines firms' debt determinants and how debt affects firm performance is needed to prevent history from repeating itself, at least for firms in Malaysia.

2. Underlying Theories of Capital Structure

The modern capital structure theories came into existence after the seminal works of Modigliani and Miller (1958) of a well-known capital structure irrelevance theory of MM I and MM II. The MM theorem assumes that in a perfect capital market, the value of the firm is independence from any form of capital structure. The MM also assumes similar business risks among firms operating in a similar business environment and firms are also assumed to pay no tax with zero transaction cost.

The above argument has initiated debates among researchers where the firm value being independence from the capital structure may encourage 100% debt to maximize their shareholder profit. This may lead to higher bankruptcy risk should there be default in loan repayment. Researchers also argue that in reality, the economy is operating in an imperfect capital market and the value of firms are determined

not only by looking at debt and equity but also the consideration of other factors too such as taxes, transaction costs, bankruptcy costs, agency conflicts, adverse selection, lack of separation between financing and operations, time-varying financial market opportunities, and investor clientele effect (Frank and Goyal, 2008). Arguments and counter-arguments raised from the MM theory have led to the development of other capital structure theories such as the trade-off theory (TOT), the pecking order theory (POT) and the agency theory.

The trade-off theory (TOT)

The original TOT was derived from the MM theorem of Modigliani and Miller (1958) and Modigliani and Miller (1963). The TOT is basically looking at the cost and benefit of debt. By opting for debt, firms can reap the tax shield advantage that comes with debt employment, where the higher the level of debt employed the bigger tax shield it will enjoy. Firms are expecting lower tax liability and thus increase the after-tax cash flow or profit. In other words, firms prefer high debt financing to reap the tax shield advantage.

The pecking order theory (POT)

The early development of the POT begins with the study of Donaldson (1961) on the financing practices of a sample of large corporations. This then drives Myers and Majluf (1984) and Myers (1984) to extend further and introduce the POT. The POT is basically hierarchical financing with internal financing being the first option of financing as compared to external financing.

The POT is derived from the asymmetric information problem. The managers of a firm are believed to have more information and access to the real value of the firms' asset and growth opportunity in comparison to the shareholder. As such, in the event of the stock price being overvalued, the firms will issue new stock to raise capital as the issuance of new stock transfers the value from new investors to the existing shareholders of the firms. On the other hand, when the stock is undervalued, the firms would opt for debt instead of issuing new equity in order to minimize the bargain handed to new investors.

However, the POT does not always hold true to explain the firm's preferences in choosing their financing mode. Leary and Roberts (2010) share evidence of firms violating the hierarchy of either by issuing external securities when internal resources are sufficient or issuing equity in place of debt. Vasilou, Eriotis and Daskalakis (2009) suggest that even with a significant difference between a number of firms that preferred retained earnings and firms that preferred long-term debt or the issuance of new stocks, the ordering of debt and equity is not determined, thus the POT influence is not significant. In addition to that, the methodological weaknesses during the analysis may also lead to inappropriate conclusions.

The agency theory

The agency theory initiated by Jensen and Meckling (1976) is an extension to the earlier work of Fama and Miller (1972). Agency conflict may occur between the stockholders and the managers and between the stockholders and the debt holders. There have been arguments proposed by previous literature regarding the linkages between the agency conflict and the capital structure choice like the high bargaining power of debt holders (Yu, 2012), the human capital protection (Fama, 1980) and to avoid pressure from the interest payment (Jensen, 1986).

3. Economic Determinants And Debt Level

Prior evidence has demonstrated that a firm's capital structure is influenced not only by firm-specific characteristics and industry characteristics only but also influenced by the macroeconomic condition of the country (Lemma & Negash, 2013; Joeveer, 2013). Further, Jong, Kabir and Nguyen, (2008) concluded that country determinants do have the sizeable explanatory power that should not be

neglected in a capital structure study that can also be measured by economic development indicators. Growth in gross national product (GNP) per capita, prime lending rate, financial liberalisation, the efficiency of financial markets, creditors' rights and law and order enforcement indicators are some examples of economic development factors benchmarked by researchers such as Mahmud (2003) and Mahmud, Herani, Rajar and Farooqi (2009). It is also important to note that the effects of macroeconomic variables on a firm's debt level vary in most cases with capital structure measurement variables (Bokpin, 2009).

With regards to the 2008 financial crisis, prior literature such as by Proença, Laureano and Laureano (2014) proved that there is a positive relationship between debt and the 2008 global financial crisis in a sample of Portuguese small and medium enterprises (SMEs). Their outcome further suggests that after the financial crisis, firms showed a downward tendency of debt ratio level. In contrast, Balios, Daskalakis, Eriotis, & Vasiliou (2016) demonstrated that the 2008 global financial crisis may not have changed debt levels of small and medium SMEs in Greece, which continued to show higher debt ratios during the economic crisis.

Due to the fact that the 2008 financial crisis is always considered as the most serious financial crisis since the 1930s Great Depression, the study thus keen to examine how the 2008 financial crisis may affect the firm's decision in determining their firm's capital structure strategy. The analysis, however, will focus only on the perspective of Shariah approved firms in Malaysia.

4. Research Methodology

This study covers a 15-year period of analysis from 2000 to 2014. The sample of the study is the Shariah approved firms from various sectors in the Main Market of Bursa Malaysia. Further, the firms also must consistently Shariah approved firms during that period in order to be included in the analysis. The study adopts a purposive sampling technique and some criteria and assumptions have been adopted accordingly during the selection process. Consistent with the research objective, the study develops econometric models using panel linear regression method that includes the pooled OLS, random effect model (REM) and fixed effect model (FEM).

$$Y_{it} = \beta_0 + \beta_1 \text{PROF}_{it} + \beta_2 \text{GROW}_{it} + \beta_3 \text{TANG}_{it} + \beta_4 \text{SIZE}_{it} + \beta_5 \text{ZSCORE}_{it} + \beta_6 \text{NDTS}_{it} + \beta_7 \text{HH}_t + \varepsilon_{it}$$

The dependent variable proxies by debt ratio (DR). While several firms and industry characteristics are chosen that serves as the explanatory variables—firm's profit (PROF), asset tangibility (TANG), firm's growth (GROW), firm's size (SIZE), bankruptcy risk (ZSCORE), non-debt tax shield (NDTS) and Herfindahl-Hirschman Index (HH). All raw data are downloaded accordingly from the Datastream database. The same econometrics model will be extended to the sub-sample analysis of the pre (2000-2007) and the post (2009-2014) of the 2008 financial crisis in order to identify the variation of the debt determinants between those periods.

Details of the variables selected in this study are as in Table 1.

Table 1: Variables measurement

	What to measure	How to measure
<i>Dependent Variables (Y)</i>		
Debt ratio	Firm's total debt	$\frac{\text{Firm's total debt}}{\text{Firm's total asset}}$
<i>Explanatory Variables (Xs)</i>		
Profitability	Firm's net profit margin	$\frac{\text{Firm's operating income}}{\text{Firm's total asset}}$
Growth	Firm's growth opportunities	Annual percentage change in total assets
Tangibility	Firm's asset structure	$\frac{\text{Firm's fixed asset}}{\text{Firm's total asset}}$
Size	Firm's size	Log of sales
Z-score	Bankruptcy risk	$3.3(\text{EBIT}/\text{total assets}) + 1.0(\text{sales}/\text{total assets}) + 1.4(\text{retained earnings}/\text{total assets}) + 1.2(\text{working capital}/\text{total assets}) + 0.6(\text{MV of equity}/\text{total liabilities})$
Non-debt tax shield (NDTS)	Alternatives to tax shields as provided by debt financing	$\frac{\text{Annual depreciation expenses}}{\text{Firm's total asset}}$
Herfindahl-Hirschman Index (HH Index)	Industry concentration	Sum of the squares of the market shares of firms within a given industry

5. Results and Analysis

5.1 Descriptive analysis

From the descriptive analysis results in Table 2, it can be concluded that the debt level of the Shariah approved firms in Malaysia, before the 2008 financial crisis is slightly higher—on average of 20.35%, as compared 17.25% after the 2008 financial crisis. However, interestingly, the average profitability of the Shariah approved firms after the 2008 financial crisis is higher—4.66% as compared to before the 2008 financial crisis—3.87%. Shariah approved firms grew slower after the 2008 financial crisis—6.68% as compared to prior to the crisis of 9.75%. The asset tangibility of the Shariah approved firm is also slightly lower of 37.22% after the 2008 financial crisis occurred, as compared to 44.00% prior to the crisis.

Table 2: Descriptive results

	Before 2008 financial crisis					After 2008 financial crisis				
	Mean	Min	Max	Std Dev	Obs.	Mean	Min	Max	Std Dev	Obs.
DR	0.2035	0.0000	0.6977	0.1522	1664	0.1725	0.0000	0.6485	0.1306	1378
PROF	0.0387	-0.4216	0.3558	0.0725	1664	0.0466	-0.3131	0.4474	0.0770	1378
GROW	0.0975	-0.7462	12.2007	0.4919	1664	0.0668	-0.6618	4.0332	0.2085	1378
TANG	0.4400	0.0000	0.9800	0.1973	1664	0.3722	0.0010	0.9508	0.1956	1378
SIZE	5.2317	3.3096	7.3677	0.5646	1664	5.3854	3.0539	7.6776	0.6732	1378
Z-SCORE	1.2284	-3.1806	4.7572	0.9184	1664	1.3850	-3.1282	4.8737	1.0317	1378
NDTS	0.0310	0.0000	0.1443	0.0211	1664	0.0250	0.0000	0.1558	0.0202	1378
HH	0.0834	0.0350	0.2700	0.0434	1664	0.0739	0.0433	0.2099	0.0321	1378

5.2 Panel regression analysis

A standard procedure of panel data analysis has been performed—pooled OLS, random effect model (REM) and fixed-effect model (FEM) and proper tests also has been conducted to identify the best model that fit our data—Breusch Pagan Lagrangian Multiplier (BPLM) test and Hausman test. At the end of the analysis, it is confirmed that the FEM is the best model as proven its validity by the F-statistics results. A diagnostic check on FEM was also conducted to identify whether the model suffers from multicollinearity, heteroskedasticity and autocorrelation problems. From the results, the model suffers heteroskedasticity and autocorrelation problems as evidenced by the modified Wald test and Wooldridge test. However, from VIF result, no multicollinearity problem exists in the model. Since FEM suffers heteroskedasticity and autocorrelation problems, a fixed effect robust cluster model was performed as suggested by Hoechle, (2007) to overcome these problems where the standard error is adjusted to be robust to heteroskedasticity and clustered at the firm level.

As mentioned earlier in the research methodology part, the paper will then discuss the panel regression results at pooled sample first to get some overview of factor that affects debt level of the Shariah approved firms in Malaysia. It will then continue with the discussion on the panel regression results for sub-sample analysis to identify the variation of the factor that affects the debt level of the Shariah approved firms in Malaysia during pre and post the 2008 financial crisis.

At the pooled sample, the study found that all determinants are robust evidence to determine the debt level of the Shariah-approved firms in Malaysia over the period of 2000 to 2014 except for the profitability and asset tangibility. The panel regression results for the pooled sample is as Table 3. Thus, this indicates that, on average, Shariah approved firms did not consider profitability and asset tangibility as part of important elements in determining either they should take up debt or not. The Shariah approved firms may consider other factors such as firm's growth level, firm's size, bankruptcy risk, NDTs as well as industry concentration in determining their capital structure strategy.

Asset tangibility is a critical component for Shariah approved firms in determining the level of debt they may assume. Shariah approved firms must ensure that their debt level is less than their tangible assets (Ahmed, 2007). Thus, in order to assume a higher debt level, Shariah approved firms must also have higher asset tangibility. This insignificant result further hints that, regardless of asset tangibility as well as profitability level, Shariah approved firms can get financing from financial institutions.

Table 3: Panel regression results (Pooled sample)

Variables	(1) OLS	(2) RE	(3) FE	(4) FE ROBUST	VIF
Constant	-0.1483*** (0.0207)	-0.3508*** (0.0342)	-0.4583*** (0.0397)	-0.4583*** (0.0798)	-
PROF	-0.1251*** (0.0417)	0.0746** (0.0336)	0.0978*** (0.0341)	0.0978 (0.0651)	0.5014
GROW	0.0145** (0.0057)	0.0088** (0.0036)	0.0087** (0.0036)	0.0087* (0.0047)	0.9676
TANG	-0.0026 (0.0135)	0.0299** (0.0131)	0.0386*** (0.0136)	0.0386 (0.0274)	0.67840
SIZE	0.0807*** (0.0042)	0.1140*** (0.0063)	0.1316*** (0.0073)	0.1316*** (0.0157)	0.7120
Z-SCORE	-0.0712*** (0.0036)	-0.0917*** (0.0039)	-0.0965*** (0.0041)	-0.0965*** (0.0103)	0.3963
NDTS	1.0490*** (0.1209)	0.8625*** (0.1268)	0.8339*** (0.1328)	0.8339*** (0.2706)	0.7619
HH	-0.2733*** (0.0585)	0.1885** (0.0853)	0.4035*** (0.0962)	0.4035** (0.1844)	0.9347
BPLM	7755.70***		-	-	
Hausman	-	48.13***		-	
Wald test	-	67238.61***		-	

Wooldridge	-	239.624***	-	-
Rsquare	0.2313	0.2005	0.1806	0.1806
F-stat	-	24.45***	-	-
Observations	3,270	3,270	3,270	3,270

Note.

- 1) ***, **, * denote significance at 1%, 5% and 10% level, respectively; the numbers in parentheses are the t-statistics.
- 2) The Wald test statistics test for group-wise heteroskedasticity in the fixed effect regression model where the H0: all coefficients = 0.
- 3) The Wooldridge test statistics test for autocorrelation problems in the panel data where the H0: no first-order autocorrelation.
- 4) Fixed effect robust cluster is where the standard error is adjusted to be robust to heteroskedasticity and clustered at the firm level

5.3 Sub-sample panel regression analysis: Pre and post the 2008 financial crisis

For sub-sample pre and post the 2008 financial crisis, the study adopts FEM as this is the best model as the earlier pooled sample analysis. From below-said Table 4, there is clear evidence that factor that affects the debt level of the Shariah approved firms in Malaysia varies during the pre and post of the 2008 financial crisis. Three factors that found varies between the two periods are GROW, TANG and HH. Firm's growth level is found matter in determining firm's debt level after the 2008 financial crisis. This finding suggests that after the 2008 financial crisis, firms consider their current firm's growth before deciding how much debt they want to take—which is they do not consider growth level is important prior to the 2008 financial crisis. The same goes for the HH variable that used to measure industry concentration. While, as for TANG, asset tangibility is found as an important factor that the firms consider in their capital structure strategy before the 2008 financial crisis. However, asset tangibility is not important given its insignificant result for the period after the 2008 financial crisis.

Table 4: Panel regression results (Sub-sample)

Variables	Pre 2008 financial crisis	Post 2008 financial crisis
Constant	-0.6605*** (0.0644)	-0.5902*** (0.0685)
PROF	0.1044** (0.0471)	0.2442*** (0.0484)
GROW	0.0011 (0.0036)	0.0197** (0.0090)
TANG	0.0604*** (0.0213)	-0.0246 (0.0207)
SIZE	0.1778*** (0.0120)	0.1726*** (0.0130)
Z-SCORE	-0.1041*** (0.0062)	-0.1104*** (0.0067)
NDTS	0.4646** (0.2135)	0.5211*** (0.1941)
HH	0.1981 (0.1337)	-0.4154* (0.2206)
Observations	1,664	1,378
Number of firms	235	238
R-squared	0.1689	0.1948

Note.

- 1) ***, **, * denote significance at 1%, 5% and 10% level, respectively; the numbers in parentheses are the t-statistics.

Nevertheless, as for the remaining factor—PROF, SIZE, Z-SCORE and NDTS, all these factors are found important in determining how much debt that the firms should take up regardless before or after

the 2008 financial crisis occurred. This to conclude that the Shariah approved firms consider firms profitability level, size, bankruptcy risk and non-debt tax shields in crafting and designing their capital structure strategy regardless of the economic event specifically the 2008 financial crisis.

Out of seven firms and industry determinants that being understudied, five variables are found significant in determining Shariah approved firm's debt level in Malaysia before the 2008 financial crisis—PROG, TANG, SIZE, ZSCORE and NDTS. Unlike for sub-sample of post 2008 financial crisis, all factor is found significant in determining Shariah approved firm's debt level except for the asset tangibility. This to prove that certain variables affect the debt level of the Shariah approved firms in Malaysia differently based on the certain economic pressure which may lead to the variation of the results at the end of the analysis. The finding is consistent with Hundal, Sandstrom and Uskumbayeva (2018) who also conclude that several determinants affect capital structure differently in different sub-periods in a case of Nordic countries taking financial crisis in the year 2007-2008 as their main subject of analysis.

6. Conclusions

The study investigates either the 2008 financial crisis give effect to the Shariah approved in Malaysia in determining their capital structure for the period of 2000 to 2014. Consistent Shariah approved firms from various industry listed on Bursa Malaysia were selected and to achieve its objective, the study employs a panel regression model for further investigation. The firms' sample is further divided into pre and post the 2008 financial crisis.

The analysis using FEM at pooled sample confirmed that all selected variables are significant to determine the debt level of the Shariah approved firms in Malaysia during year 2000 to 2014. However, due to heteroscedasticity and autocorrelation problems in the FEM, the study performed FE robust cluster model accordingly. Certain variables, however, such as firm's profitability level and asset tangibility are found not robust determinants.

As the study extends the analysis into sub-sample analysis given different period, which is pre and post the 2008 financial crisis, there is strong evidence that certain factor may affect the firm's capital structure decision differently during the pre and post 2008 financial crisis specifically. This to include factors such as firm's growth, asset tangibility and industry concentration. While for the remaining factor that being studied—profitability, size, bankruptcy risk and non-debt tax shield (NDTS), all of them are found matter in determining firm's debt level regardless of occurrence of the 2008 financial crisis.

Further, before the 2008 financial crisis, firm's growth and industry concentration are considered as not important factors to determine debt level of the firms but after the crisis, firm's growth and industry concentration is matter in determine how much debt to take by the firms. Unlike asset tangibility, it is important variable that being considered by the firms before the 2008 financial crisis. However, asset tangibility is insignificant factor after the crisis. This finding thus concludes that the occurrence of the financial crisis in the year 2008 did change how the top management of the Shariah approved firms decide on how much debt level should they take. As for the policymakers or authority in a county, this finding proved the importance of having a strong and stable economic policy to ensure the stability of the economy in a country. This is because any wrong economic policy imposed may impact how firm strategies their capital structure strategy based on the current economic condition.

For future research, further investigation using more sophisticated econometric model coupled with the latest financial data of the firms are encouraged as it may derive a more informative output. A longer period of analysis that incorporates another financial crisis such as 1997 Asian financial crisis may also provide deeper understanding of how Shariah approved firms in Malaysia strategize their capital structure during the economic crisis.

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Review of Literature in the Performance and Flow of Mutual Fund Family

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Abstract

The aim of the study to review the previous studies about mutual fund families; especially about performance and flows of the fund families. Previous studies focus on the study of performance and flow at the individual fund level, so studies at the fund family level are relatively few. Hence, this study aims to fill that gap by providing a framework to assess fund families. Fund families act as financial intermediaries offering a variety of mutual funds under a common brand name and via common marketing and distribution channels. The important determinants of family performance are the family characteristics such as family size and number of the fund in the family, as well the selectivity and timing skills of family managers, where fund families prefer to allocate highly skilled managers to less efficient funds. Moreover, the important determinant of family flow is the existence of star fund in their funds, where provide a good signal for investors about the family and then attract more investors.

Keywords: Fund family, Islamic fund, Family flow, Family performance, Star family, Theoretical framework

1. Introduction

A group of the funds is managed by one “Asset Management Company (AMC)” called the fund family, these fund families act as financial intermediaries offering a variety of mutual funds under a common brand name and via common marketing and distribution channels, which increases the importance of fund families that the most mutual funds are members of fund families (Bani Atta & Marzuki, 2019). There are good reasons for this. First, a family structure brings economies of scale to the distribution, servicing, and promotion of funds. Second, compared to stand-alone funds, a family has greater flexibility in reallocating its human and other resources in response to market opportunities. Third, a family’s reputation can help to reassure investors about the selection and monitoring of investment managers (Cici et al. 2018).

Fund families are pivotal to mobilize, channel and optimally allocate the savings of both individuals and institutional investors by investing in a variety of financial instruments. The fund family manages a sizeable number of funds with different strategies, then, the overall performance at the family level is a different matter altogether. Hence, analyzing the performance of funds without studying the role of the fund family may bias the results because families can influence performance and investment decisions (Gaspar & Massa, 2006; Ritter & Zhang, 2007; Nazir & Nawaz, 2010; Hau & Lai, 2016). The funds cannot be treated as though they were stand-alone entities because could there are the spillover effect between funds in a family, that means if the good performance by a fund enhances cash inflow to other funds in the family as well, such spillovers may be generated if, for instance, fund families actively publicize the performance of their best performing funds to promote visibility and, thereby, attract greater cash inflow. Which led previous studies to focus on the role of these stellar funds in influencing the inflows of both family flows and other funds within the same family (Nanda et al. 2003; Joo & Park, 2011; Adrianto et al. 2019).

2. The Importance of a Theoretical Framework

A theoretical framework is a fundamental component of research that Specify the quality and scope of investigations. More specifically, a theory is “a set of interrelated constructs, definitions, and propositions that presents a systematic view of phenomena by specifying relations among variables, with the purpose of explaining and predicting phenomena” (Kerlinger, 1986, p. 9). Theory gives

researchers a framework for making sense of their observations by providing an overarching structure to their studies. By the use of a theoretical framework, data that might initially seem immaterial or unrelated may be identified, explained, or related to other data in meaningful ways (Yamauchi et al. 2017).

Theory helps determine the phenomenon being studied, it illuminates the data set and helps focus attention on specific events or activities relevant to the research. When researchers ignore using theory to appraise their research, they risk the possibility of failing to raise and examine theoretically grounded questions and may generate findings of a narrow or limited value, for this reason, researchers must be cautious when using theory, as while it may illuminate particular areas, other aspects may be ignored (Agar, 1980).

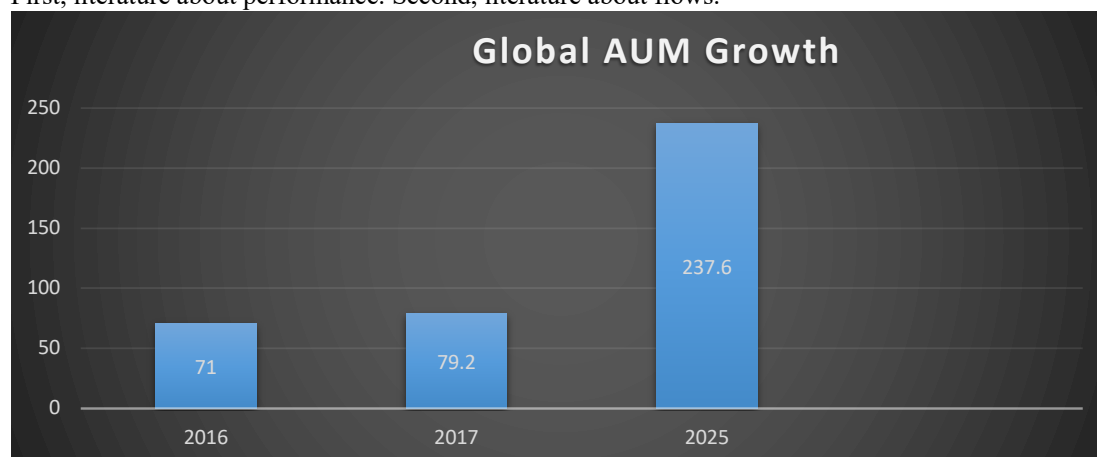
American Educational Research Association standards for reporting research report that one of the criteria for judging the merits of educational research is grounding in a theoretical framework (Aera, 2006). This, as part of the problem formation, shows how the research is connected to previous work. Consistent with this perspective, the National Research Council (2002) suggested that one of the six guiding principles of scientifically based research in education is “to link research to the relevant theory” (Eisenhart & De- Haan, 2005, p. 3).

3. Purpose

This study investigates the theories and conceptual frameworks that researchers have used to describe and explain the fund families performance and flows, to create a snapshot of the theoretical frameworks used. Although many researchers have described their theoretical approaches, little has been written about the fund families’ level, which most of these studies focus on the individual fund level.

4. Literature Review

One of the most striking features of the mutual funds' industry is the prevalence of the fund family organization. Virtually all mutual funds are affiliated with the fund family (Gaspar & Massa 2006). Around \$79.2 trillion are AUM of the mutual fund industry in various financial markets which is one of the basic investment vehicles in many countries across the world (Aleemi et al. 2019). This value can represent the fund families, as mentioned above, most of the mutual funds belong to the fund families. The growth rate of global AUM has increased in recent years and is expected to continue to grow. The Global Asset Management report (2018) shows the AUM grow by 12% in 2017 compared by 2016, also the report expected the AUM increases triple by 2025. Prompting researchers and academics to focus on the fund family. Then, can classification the previous studies into two sections. First, literature about performance. Second, literature about flows.



Source: The Global Assets Management Report (2018).

Fig. 1. Growth of Global Asset under Management (AUM)

4.1 Literature about performance

This section of literature describes the role of the fund family in influencing a family and fund's attributes. A fund family encompasses a wide range of funds to attract investors with different investment objectives and thus offers an opportunity for investors to diversify investments across funds within the family. The managers of a fund family share resources and information, such as research and development (R&D) and technology. There is a growing body of literature that examines the role of fund families in determining the attributes of their fund members.

Massa, (2003) investigates the role of fund families in determining the competition between funds in the industry, through either fund or category proliferation strategies. The heterogeneity of funds is related to competition between funds across families and within a family. By using a comprehensive data set of 18,616 US mutual funds from 1992 to 2000, he finds that category proliferation strategy in fund families is positively related to fund differentiation. However, there is no relationship between fund-category proliferation and fund performance, suggesting the independence of a fund from its peer funds within the family. Khorana & Servaes, (1999) suggest further explanations about the role of fund families in determining their strategy to issue new funds. Based on a sample of 1163 new funds from 1979 to 1992, they find those fund families with higher excess returns are more likely to open new funds, indicating those fund families tend to enhance their reputation by having funds with higher positive returns before expanding their range of funds. Issuing new funds are also related to the family's size and family experience where large funds and experienced families are more likely to issue new funds than small and less experienced families.

Guedj & Papastaikoudi, (2004) examine whether mutual fund families affect the performance of the funds they manage, for the period from 1990 to 2002 in the USA. The results show that there exists persistence of performance of funds inside their respective families. This persistent excess performance is related to the number of funds in the family which interpret as a measure of the latitude the family has in allocating resources unevenly between its funds. This is consistent with the view that fund families allocate resources in proportion to fund performance and not fund needs. Gasper & Massa (2006) investigate whether mutual fund families strategically transfer performance across member funds to favor those more likely to increase overall family profits. The sample of this study focuses on the USA fund market for the period from 1991 to 2001. The results show that the "high family value" funds (i.e., high fees or high past performers) over perform at the expense of "low value" funds. The results also highlight how the family organization prevalent in the mutual fund industry generates distortions in delegated asset management.

Clare et al (2014), use a large and long sample of US and European mutual funds, to examine the strategic and competitive behaviors among family funds and whether this affects performance persistence and risk-taking for the period from January 1999 to December 2009. The results do not find evidence of stronger performance persistence among family funds versus non-family funds, in addition, results find some significant differences in the future performance of portfolios of family and non-family funds formed on the basis of past performance. The results also show strong evidence that a fund's mid-year ranking within its family and within its sector affects its risk-taking over the remainder of the year.

Fang et al. (2014) examine the role of fund families in coordinating their fund managers by investigating the association between market efficiency and managerial placement strategies. Based on a sample of 1,869 mutual funds in the United States from 1991 to 2010, the study finds that fund families prefer to allocate highly skilled managers to less efficient funds, the idea being that these managers are more likely to turn around the funds so that higher abnormal returns can be generated. This finding suggests that fund managers are not free from interventions by fund families, and these interventions seem to aid in improving the overall value of the family rather than maximizing the value of their investors' investment. Cici et al., (2018), examines how the efficiency of trading desks operated by mutual fund families affects portfolio performance and investment behavior of affiliated funds, using specific fund family to all actively managed US domestic equity funds that belong to that family for the period from 2000 to 2013. The results conclude, by operating more efficient trading desks that help reduce trading costs, fund families improve the performance of their funds significantly and also enable their funds to trade more and hold less liquid portfolios. Iqbal et al. (2019) examine the effects of fund sizes—mainly the induction of new funds and the increase in existing funds, managed by fund family on their AUM

for the mutual fund industry of Pakistan. For the period between July 2009 to July 2016. The main findings suggests that both existing and new fund size are having a positive and significant impact on AUM and also the growth of the fund is strongly associated with Family growth. Table 1 show the summary of these literature.

Table 1. Summary of literature about performance

Author	Country and period	Objective	Results
Massa (2003)	USA (1992-2002).	Investigates the role of fund families in determining the competition between funds in the industry.	The independence of a fund from its peer funds within the family.
Khorana & Servaes (1999)	USA (1979-1992).	Explanation the role of fund families in determining their strategy to issue new funds.	Fund families with higher excess returns and large family are more likely to open new funds.
Guedj & Papastaikoudi, (2004)	USA (1999-2002).	examine whether mutual fund families affect the performance of the funds they manage	Exists persistence of performance of funds inside their respective families. Fund families allocate resources in proportion to fund performance and not fund needs.
Gasber et al. (2006)	USA (1991-2001)	Investigate whether mutual fund families strategically transfer performance across member funds.	The “high family value” funds over perform at the expense of “low value” funds.
Clare et al. (2014)	USA and European market (1999-2009)	examine the strategic and competitive behaviors among family funds and whether this affects performance persistence and risk-taking	The results do not find evidence of stronger performance persistence among family funds versus non-family funds, in addition, results find some significant differences in the future performance of portfolios of family and non-family funds formed on the basis of past performance.
Fang et al. (2014)	USA (1991-2010)	Examine the role of fund families in coordinating their fund managers.	Fund families prefer to allocate highly skilled managers to less efficient funds
Cici et al. (2018)	USA (2000-2013)	Examines how the efficiency of trading desks operated by mutual fund families affects portfolio performance and investment behavior of affiliated funds.	Fund families with efficient trading desks help their fund to improve performance, and more trade.
Iqbal et al. (2019)	Pakistan (2009-2016)	Examine the effects of fund sizes managed by a fund family on their AUM for	Both existing and new fund size are having a positive and significant impact on AUM and

the mutual fund industry of Pakistan, and assessed whether Fund Family growth has any effect on individual fund.	also the growth of the fund is strongly associated with Family growth.
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4.2 Fund flows

As a mention above, the funds cannot be treated as though they were stand-alone entities because could there are the spillover effect between funds in a family, that means if the good performance by a fund enhances cash inflow to other funds in the family, such spillovers may be generated if, for instance, fund families actively publicize the performance of their best performing funds to promote visibility and, thereby, attract greater cash inflow. Which led previous studies to focus on the role of these stellar funds in influencing the inflows of both family flows and other funds within the same family.

Sirri & Tufano, (1998) study the cash flows of a sample of 690 US open-end equity funds from 288 fund families during the period from 1971 to 1990 and conclude that investors benefit from investing in larger fund families due mainly to the lower search costs. Large fund families receive media attention more often than small families, resulting in lower search costs paid by investors in analyzing large families. They also report a positive effect of funds with high performance on the inflows of peer funds in the family.

Nanda et al., (2003), who find evidence of a spillover effect on cash flows to non-star performers in families with star funds. They define star performing funds as funds in the top five percent of FF adjusted returns. Studying a sample of 141,663 fund-year observations over the period 1992 – 1998, they find that flows to fund families with at least one-star fund are substantially higher than flows to fund families without a star fund. Further, top performing funds positively contribute to their own flows and to those of their sibling funds. The flow growth of non-star funds that have star siblings is, on average, 37 percent higher than that of non-star funds without a star sibling. However, there is no evidence of similar spillovers from low ranking funds, for example, poor performers do not negatively affect the cash flows of their peer funds within the family. Understanding the spillover effect in fund families is crucial to determining how to proportionally treat individual funds within a family. Consistent with these findings, Khorana & Tufano, (2005), find that the presence of a star fund in a family has a positive effect on the family's market share. Other spillover effects have been documented by Zhao, (2004), who finds evidence that fund families that signal superior performance by closing a star fund to new investments enjoy higher cash inflows into the rest of the family.

Verbeek & Huij, (2007), investigates the presence of spillover effects of marketing in mutual fund families in the USA fund market, over the period 1992 to 2003. The results find that funds with high marketing expenses generate spillovers, and enhance cash inflows to family members with low marketing expenses. In particular, low-marketing funds that are operated by a family with high marketing expenses have substantially larger inflows after positive returns than otherwise similar funds operated by a family with low marketing expenses, while they have smaller outflows after negative returns. They interpret the spillovers is that they are a by-product of individual fund marketing whereby the entire family is made more visible to investors.

Khorana & Servaes, (2012), find the existence of a stellar fund performer provides a positive signal to investors about the reputation of a fund family. New flows are found to travel not only to the star fund itself but also to peer funds in the family. They report that star funds positively affect the market share of the fund family, as demonstrated by an increase in the ratio of assets professionally managed by the family with a star performer to total assets of the mutual fund industry. A star-performing fund can contribute to an average increase in the market share of its family by 42 percent. While a fund's Morningstar rating increases from the 25th to the 75th percentile, its family increases its market share by 34 percent. The results are robust when they use Morningstar ratings to proxy performance. Another motivation to enhance the performance of particular member funds is to achieve a good rating for the family. Ratings issued by reputational institutions such as Morningstar make it easier for investors to analyze the reputation of fund families.

Later studies have investigated the benefits of having star performing funds in fund families. Most of these studies report that having star performers attracts higher cash flows to the family through a

significant increase in inflows to the star performing funds, as well as through a spillover in the increased flows from those star performers to sibling funds. One such study is Joo & Park, (2011), investigates the contribution of star funds to fund families in the Korean fund market for the period from 2001 to 2009. The results of this study find that star fund family that feature either star funds or higher relative holdings of star funds attract more new investment than non-star fund families. The results also show the existence of a spillover effect from star funds to non-star funds that helps non-star funds and newly launched funds in the family to raise fresh capital. The results also support the smart-money effect at the fund-family level as investors put more money into high star fund holding ratio families. Furthermore, there exists a persistency in star fund holdings for high star fund holding ratio families. Another study on SRI families, Adrianto et al., (2019), investigate spillovers in cash flow to SRI funds within the fund family due to the existence of a star (poor) performing peer SRI fund. Using a sample of USA SRI funds for the period from 2000 to 2012. The results of this study found a positive spillover effect from having a star SRI fund on the monthly cash flow of their SRI siblings. However, the reverse is not found in the presence of a poor SRI performer. Table 2 shows the summary of these literatures.

Table 2. Summary of Literature about Flows

Author	Country and period	Objective	Results
Sirri & Tufano, (1998)	USA (1971-1990).	Studies the flows of funds into and out of equity mutual funds in the families.	Investors benefit from investing in larger fund families due mainly to the lower search costs. A positive effect of funds with high performance on the inflows of peer funds in the family.
Nanda et al. (2003)	USA (1992-1998).	Examine the extent to which a fund's cash flows are affected by the stellar performance of other funds in its family — and consequences of such spillovers.	Find that flows to fund families with at least one-star fund are substantially higher than flows to fund families without a star fund, top performing funds positively contribute to their own flows and to those of their sibling funds
Huij & Verbeek, (2007)	USA (1992-2003).	Investigates the presence of spillover effects of marketing in mutual fund families in the USA fund market.	Find that funds with high marketing expenses generate spillovers, and enhance cash inflows to family members with low marketing expenses.
Khorana & Servaes (2011)	USA (1976-2009)	Examines competition and investor behavior in the mutual fund industry.	Find the existence of a stellar fund performer provides a positive signal to investors about the reputation of a fund family. New flows are direct not only to the star fund itself but also to poor fund in the family.
Park & Joo, (2011)	Korean fund market (2001-2009)	Investigates the contribution of star funds to fund families.	Find that star fund family that feature either star funds or higher relative holdings of star funds attract more new investment than non-star fund families. Existence of a spillover effect from star funds to non-star funds that helps non-star funds and newly launched funds in the family to raise fresh capital, support the smart-money effect at the fund-

		family level as investors put more money into high star fund holding ratio families.
Fajri et al. (2019)	USA (2000-2012)	Investigate spillovers in cash flow to SRI funds within the fund family due to the existence of a star (poor) performing peer SRI fund. Find a positive spillover effect from having a star SRI fund on the monthly cash flow of their SRI siblings. However, the reverse is not found in the presence of a poor SRI performer.

5. Proposed Framework

This study review finance literature related to the fund families to provide useful ways to evaluate fund families performance and flows. In particular, explaining the effect of historical return, timing and selection skills on fund family performance. In addition, the contribution of star funds to fund families. This study contributes by focuses on the fund family level rather than the individual fund level. This study also contributes by focuses on fund families included at least one Islamic fund in their funds, due to lack of studies focusing on Islamic fund families.

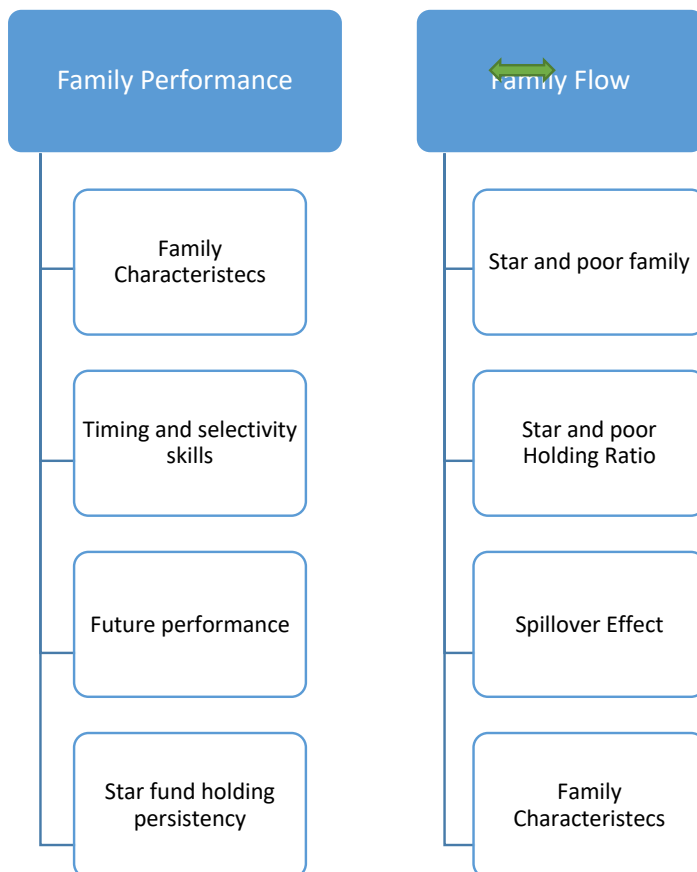


Fig. 2. Conceptual Model

6. Conclusion

The study proposes a conceptual framework to test the fund family performance and flow. The study at the fund family level is the novel contribution of the studies as it has a few previously been applied to the study of the mutual funds' industry. The sample is the Islamic fund families is a further also novel contribution of the study. The model fit will be confirmed after the collection of the research data and analysis. This study is important as it offers potential investors a better understanding of the fund family and factors affecting their performance and flows. Further, families' managers will be able to appropriately price their services and identify relevant factors that affect family performance. Future research may include other countries and include other variables maybe affect the fund family performance and flow such as country characteristics.

7. Recommendation

Due to the lack of studies on fund families, this study recommends the importance of paying attention to fund families because most investment funds operate under the umbrella of fund families. In addition, this study recommends testing the fund families' characteristics and their effect on the mutual fund industry, where fund families also offer additional benefits to both investors and managers. Second, due to most of the previous studies focus on the European markets like the USA fund market and Korean fund market, this study recommends the researchers to paying attention to the Middle East and East Asia markets like Saudi Arabia, Malaysia, and Indonesia.

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Corporate Social Responsibility in Islamic Banks from Perspectives of Maqasid Shariah

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Abstract

CSR has over the past few decades greatly evolved both in concept and practice mostly due to the dynamics of an ever-changing society. There are various theories that have been adopted to underpin CSR practices within the realm of conventional literature. However, there are insufficiency of conventional CSR theories to underpin CSR practices of Islamic banks due to the lack of focus on the prioritization of the socio objectives of Islamic banks based on *Syariah*. Since they have been established with a clear mandate to operate within the strict principles of *Syariah*, Islamic banks are expected to undertake CSR policies and practices in accordance with these principles fulfilling the Maqasid of *Syariah* (objective of *Syariah*). The rationale behind the establishment of Islamic Banks are based on the perceptions that its practices are conducted in accordance with the strict values and principles of *Syariah*. In line with this premise, the Corporate Social Responsibility (CSR) policies and practices of Islamic Banks should be underpinned by Islamic laws and principles as revealed in the *Quran* and the *Sunnah*. This research aims to postulate a pragmatic CSR framework through which Islamic banks can formulate their CSR policies and practices based on Maqasid *Syariah*. This study integrates the objectives of *Syariah* (Maqasid al-*Syariah*) in order to propose a conceptual framework that would serve to guide CSR policies and practices of Islamic banks and to prioritize their CSR policies and practices based on the values as set out in *Syariah*.

Keywords: CSR, Maqasid *Syariah*, Islamic Banks

1. Introduction

CSR has over the past few decades greatly evolved both in concept and practice mostly due to the dynamics of an ever-changing society. There are various theories that have been adopted to underpin CSR practices within the realm of conventional literature. Among them are Social Contract (Gray, Owen, & Maunders, 1988), Political Economy Theory (Guthrie & Parker, 1990), Legitimacy Theory (Deegan, 2002; O'Dwyer, 2002; Villers & Staden, 2006), Stakeholders Theory (Smith, et al., 2005; Thompson & Zakaria, 2004), Institutional Theory (Clemens & Douglas, 2006; Rahaman, et al., 2004; Othman et al., 2011) and Resource-based Perspective (Branco & Rodrigues, 2006; Hasseldine, et al., 2005; Russo & Fouts, 1997; Toms, 2002). However, these conventional theories do not provide enough guidance for CSR practices, from the perspective of Maqasid *Syariah* for Islamic banks to formulate their CSR policies and practices in accordance with Islamic law and principles. The fundamental issue of the insufficiency of conventional CSR theories to underpin CSR practices of Islamic banks due to the lack of focus on the prioritization of the socio objectives of Islamic banks based on *Syariah*. Since they have been established with a clear mandate to operate within the strict principles of *Syariah*, Islamic banks are expected to undertake CSR policies and practices in accordance with these principles.

The rationale behind the establishment of Islamic Banks are based on the perceptions that its practices are conducted in accordance with the strict values and principles of *Syariah*. In line with this premise, the Corporate Social Responsibility (CSR) policies and practices of Islamic Banks should be

underpinned by Islamic laws and principles as revealed in the *Quran* and the *Sunnah*. Drawing on the doctrine of *Maqasid Syariah* (objective of *Syariah*), this study proposes an *Maqasid Syariah* CSR conceptual framework that will align the CSR policies and practices of Islamic banks with the principles and values of Islam. This study provides a structured approach to CSR policies and practices for Islamic banks to ensure full compliance with Islamic principles and fulfill the *Maqasid Syariah*.

Since Islamic banks operate their businesses based on the principles of *Syariah*, their CSR policies and practices should be derived from Islamic laws and principles as revealed in the *Quran* and the *Sunnah* in order to gain legitimacy (Farook, 2007). Therefore, Islamic banks which claim to act within the principles of *Syariah* should be clear about their CSR in relation to society and fulfilling the *Maqasid Syariah*. The existing CSR framework which was developed in the context of the general CSR concept was formulated without giving due consideration to the concept of *Maqasid Syariah*. This research aims to postulate a pragmatic CSR framework through which Islamic banks can formulate their CSR policies and practices based on *Maqasid Syariah*.

This study integrates the objectives of *Syariah* (*Maqasid al-Syariah*) in order to propose a conceptual framework that would serve to guide CSR policies and practices of Islamic banks and to prioritize their CSR policies and practices based on the values as set out in *Syariah*. The main objectives of this paper are to conceptually discuss the relation between CSR and *Maqasid*, then to examine the importance of *Maqasid Syariah* in CSR practice of Islamic banks in Malaysia

2. Literature Review

CSR from the Islamic point of view represents one's accountability to God (*Allah*), it's also comprehends one's accountability to society Maliah (2000) and therefore it can be construed as promoting social justice and social responsibility. A firm which are operating in Islamic surroundings is expected to fulfil the *Maqasid Syariah* (objective of *Syariah*) and conscious of the impact of community activities (Abdullah & Furqani, 2012; Rosly, 2010). *Maqasid Syariah* or the objectives of *Syariah* is the foundation for the *Syariah* rules and regulations; it provides the knowledge, understanding and justification for the principles of *Syariah* (Dusuki, 2009). According to Mohammad & Shahwan, (2013) CSR and *Maqasid Syariah* are interrelated, its constitute all the elements to human nature (*fitrah*) and it's also stresses on the five main basic needs of human being namely as protection of life (*Al-Hayah*), protection of religion (*Ad-Deen*), protection of mind (*Al-Aql*), protection of wealth (*Al-Mal*) and protection of dignity (*Al-Muruah*). The main aim of *Maqasid Syariah* is to benefit and protect the Muslims, discipline and structure the living of the Muslims according to the Islamic teachings as pronounced in the *Quran* and *Hadith*.

From general point of view, the corporate social responsibility (CSR) can be defined as a concerned about the way in which companies meet the obligation both to their employees and community (Luan, 2005). Whereas, in the Islamic point of view, the CSR can be described as a relation of leader (*Khalifah*) in fulfils its obligation to the God (*Allah*) and to the community. Therefore, social role is an important element for Islamic banks, where prior research (Amin, Rahman, Jr, & Hwa, 2011; Farag et al., 2014) described Islamic banks as banks having a social face towards the community. This role is mainly a reflection of the importance of upholding the Islamic principles upon which these banks operate and how they address these social issues (Maali et al., 2003). Hence, the bank needs to disclose all related information regarding its social activities to the public. Hence, the communities are expecting an enhancement in transparency, greater involvement in solving social issues and improved ethical behavior from the Islamic banks.

Where, the *Maqasid Syariah*, defined as a system of ethics and values covering all aspects of life (e.g., personal, social, political, economic, and intellectual) with its unchanging bearings as well as its major means of adjusting to change, cannot be separated or isolated from Islam's basic beliefs, values, and objectives (see Dusuki and Abdullah, 2007). It reflects the holistic view of Islam, which is a complete and integrated code of conduct encompassing all aspects of life, be they individual or social, both in this world and the Hereafter.

Maqasid Syariah are principles that provide answers to the above questions and similar questions about the Islamic law. *Maqasid Syariah* include the wisdoms behind rulings, such as 'enhancing social welfare,' which is one of the wisdoms behind charity, and 'developing consciousness of God,' which

is one of the wisdoms behind fasting. Maqasid Syariah are also good ends that the laws aim to achieve by blocking, or opening, certain means. Thus, the Maqasid Syariah 'preserving people's minds and souls' explain the total and strict Islamic ban on alcohol and intoxicants. Maqasid Syariah are also the group of divine intents and moral concepts upon which the Islamic law is based, such as, justice, human dignity, free will, magnanimity, facilitation, and social cooperation. Thus, they represent the link between the Islamic law and today's notions of human rights, development, and civility.

Al-Ghazali has categorized the objectives into two primary categories; the *deeni* (related to faith) and the *dunyawi* (related to this material world). The *dunyawi* objectives are further divided into four sub categories, which are all individually meant to serve the single *deeni* aspiration. The four *dunyawi* subcategories comprise of protection of nafs (life), 'aql (intellect), nasl (posterity) and maal (wealth). Chapra (2000) defines Maqasid al-Syariah as follows:

"The objective of the Syariah is to promote the well-being of all mankind, which lies in safeguarding their faith (deen), their life (nafs), their mind ('aql), their posterity (nasl) and their wealth (maal). Whatever ensures the safeguard of these five serves public interest and is desirable"(Chapra, 2000, p.118).

Ibn 'Ashur had defined Syariah objectives as "the observed meanings and wisdom in every Syariah rulings or most of them, whereby their observations prove that they are not specific to a type of Syariah rulings," (Ibn 'Ashur, 1978).

Since the first establishment of Islamic banks in Malaysia in 1983, there is a limited study discuss regarding the fulfillment of Islamic banks and its fulfillment towards Maqasid Syariah. Prior study tends to focus on the conducting CSR study using general benchmark which focus on the corporate governance, ethics and so on, there is limited research conducted using Maqasid Syariah as a benchmark. The establishment of Islamic banks was based on the foundation that this firms will conduct their businesses and fulfil the social objectives in accordance with the values and principles of Syariah. In order to fulfil their social obligations to society, therefore CSR policies and practices should be developed in line with Maqasid Syariah and principles as revealed in the Quran and the Sunnah as a check and balance to ensure the firms are fulfilling the objective of Syariah. This study draws on the principles of Maqasid al-Syariah to develop an Islamic CSR framework to provide guidance for Islamic organizations to formulate and priorities their CSR policies and practices based on Islamic principles. This segregation of CSR practices based on the different levels of protection in order to preserve faith, life, intellect, posterity and wealth offers an integration of Islamic principles and values, as shrined within the Quran and the Sunnah, with the business strategies and philosophies of Islamic organizations.

3. Islamic Ethical Principles in CSR

CSR has over the past few decades greatly evolved both in concept and practice mostly due to the dynamics of an ever-changing society. There are various theories that have been adopted to underpin CSR practices within the realm of conventional literature. Among them are Social Contract (Gray, Owen, & Maunders, 1988), Political Economy Theory (Guthrie & Parker, 1990), Legitimacy Theory (Deegan, 2002; O'Dwyer, 2002; Villers & Staden, 2006), Stakeholders Theory (Smith, et al., 2005; Thompson & Zakaria, 2004), Institutional Theory (Clemens & Douglas, 2006; Raha man, et al., 2004; Othman et al., 2011) and Resource-based Perspective (Branco & Rodrigues, 2006; Hasseldine, et al., 2005; Russo & Fouts, 1997; Toms, 2002).

However, these conventional theories do not provide enough guidance for CSR practices, from the perspective of Maqasid al-Syariah and Maslahah for Islamic organizations to formulate their CSR policies and practices in accordance with Islamic law and principles. The fundamental issue of the insufficiency of conventional CSR theories to underpin CSR practices of Islamic organizations is due to the lack of focus on the prioritization of the socio objectives of Islamic organizations based on Syariah. Since they have been established with a clear mandate to operate within the strict principles of Syariah, Islamic organizations are expected to undertake CSR policies and practices in accordance with these principles.

In contrast to the Western theories such as legitimacy, agency and stakeholder theory, the Islamic view of CSR takes a rather holistic approach. It offers a holistic spiritual view based on the teachings of the *Quran* and the *Sunnah* which provide a better philosophical framework for managers in performing

their duties as a vicegerent. In fact, the moral and ethical principles derived from divine revelations are more enduring, eternal, and absolute (Ahmad, 2002 ;Ahmad, 2003b), thus it may serve as better guidelines for Islamic banks when exercising their business and social responsibilities towards its stakeholders or shareholders.

Islamic ethical principles provide a broader framework for CSR. In terms of responsibility and accountability, Muslims believe that they will be accounted for whatever they do in this world and hereafter. Thus, it requires that every deed and word in this world must be in line with the Islamic teachings. The importance of accountability to the man's life also has been manifested by the Prophet Muhammad (PBUH) as *"Narrated by 'Abdullah bin 'Umar:: Allah's Apostle said, "Surely! Every one of you is a guardian and is responsible for his charges: The Imam (ruler) of the people is a guardian and is responsible for his subjects; a man is the guardian of his family (household) and is responsible for his subjects; a woman is the guardian of her husband's home and of his children and is responsible for them; and the slave of a man is a guardian of his master's property and is responsible for it. Surely, every one of you is a guardian and responsible for his charges."* (Shahih Bukhari: Volume 9,:252).

The influence of Islam on business practices are well documented in the Holy *Quran* and *Sunnah*. Islamic business values such as benevolence, socio-economic justice, human well-being, public interest can consider as the core of CSR principle in Islam. Islamic financial Institutions (IFIs) such as Islamic banks are considered as having an ethical identity and they have different social and economic objectives since the foundation of their business is based on *Islamic* principles (Ali Aribi & Gopinath Arun, 2012; Haniffa & Hudaib, 2007; Maali, Casson, & Napier, 2006). Within the range of *Syariah* (Islamic law), Islamic banks are expected to be guided by an Islamic economic worldview, which is based on the principle of social justice and the wellbeing of society (Wajdi Dusuki, 2008). Thus, Islamic banks obligated to give a full commitment towards promoting social justice among the society (Hassan & Latiff, 2009).

According to (Farook (2007) "any notion that IFIs or any other institution that claims to be Islamic, should be socially responsible and must derive its justification from Islamic law and principles, as contained within the Qur'an and the Sunnah of the Prophet Muhammad (P.B.U.H)". This obligation has been clearly stated in the Holy Quran and Hadith as guidance to all Muslims to be practice. Table 3.1 lists an example of Islamic ethical principle in CSR from Holy Quran and Hadith. Then the discussions of, Islamic principles in CSR such as the concept of *Syariah*, *khalifah*, transparency and accountability.

4. The Maqasid Al Syariah and CSR

In Islam, the *Syariah* or 'Islamic Law' is the foundational basis in understanding CSR. The concept of the *Syariah* in Islam consists of ethics and values covering all aspects of life (e.g. personal, social, political, economic, and intellectual). Dusuki and Abdullah (2007a) stated that the concept of the *Syariah* reflects the holistic view of Islam, which is a complete and integrated code of life, it is encompassing all aspects of life, either individual or social, both in this world and the hereafter. Zinkin (2007) stated that the *Syariah* is not just a legal, but it also functions as moral framework. It differs from secular laws, where laws and ethics may differ.

To understand the *Syariah*, one needs to comprehend its objectives, which allow flexibility, dynamism, and creativity in social policy. According to Imam al-Ghazzali:

The objective of the *Syariah* is to promote the well-being of all mankind, which lies in safeguarding their faith (din), their human self (nafs), their intellect ('aql), their posterity (nasl) and their wealth (mal). Whatever ensures the safeguard of these five serves public interest and is desirable.

Al-Shatibi approves of al-Ghazzali's list and sequence, thereby indicating that they are the most preferable in terms of their harmony with the *Syariah*'s essence.¹⁹ Generally, the *Syariah* is predicated on benefiting the individual and the community, and its laws are designed to protect these benefits and facilitate the improvement and perfection of human life in this world. This perfection corresponds to the purposes of the Hereafter. In other words, each of its five worldly purposes (viz., preserving faith, life, posterity, intellect, and wealth) is meant to serve the single religious purpose of the Hereafter.

The *Syariah*'s uppermost objectives rest within the concepts of compassion and guidance, which seek to establish justice, eliminate prejudice, and alleviate hardship by promoting cooperation and mutual support within the family and society at large. Both concepts are manifested by realizing the public

interest that Islamic scholars have generally considered to be the Syariah's all-pervasive value and objective that is, for all intents and purposes, synonymous with compassion. Maslahah sometimes connotes the same meaning as maqasid, and scholars have used these two terms almost interchangeably. To shed more light on our discussion, especially about the maqasid's goal of preserving the public good, the following section elaborates on the maslahah, an important tool that upholds the Syariah.

Syariah has grown within the guidelines set by the objective (Maqasid Al-Syariah) which aims to promote the well-being of mankind. According to Al-Ghazali cited in Dusuki and Abdullah (2007a, p. 31), "The main objective of the Syariah is to promote the well-being of all mankind, which lies in safeguarding their religion (din), their human-self (nafs), their intellect (aql), their family (nasl) and their wealth (mal)".

For example, to achieve the Maqasid of Syariah in protecting wealth, Islamic banks provide an alternative of a conventional banks which based on interest that give a negative impact on the distribution of income and fairness in economic (Basah 2012). Not just focus of elimination of interest in transactions, the activities of Islamic banks also should be in line with the objective of the Syariah and they must be more concern on the CSR issues as widely practice by conventional bank.

Dusuki and Abdullah (2007a) also stated that the concept of Syariah has three implications of the concept of corporate social responsibility. First, in Islam, corporate social responsibility is an initiative of the religious and moral based on the belief that the corporation should be good despite the financial impact. Based on this concept, business is not driven by profit maximisation alone, but with the pursuit of ultimate happiness in this world and in the hereafter. Second, the guidelines set out by the Islamic principles of bring out a balance between individual rights and duties, responsibilities towards other people and between personal interest and altruism.

Finally, the concept of reward is developed to incorporating within its reward in this world and the Hereafter. This provides a strong motivation and self-propelling motivation, without denying a person's instinct for personal gain. The principles above act as guidelines and a value added of Islamic banks in the financial industry. The Syariah acts as an internal control over Islamic banks alongside secular legislation. It supposed to act as internal controls which make Islamic banks more sensitive towards CSR issue than the conventional banks.

5. Methodology

The study will conceptually study on the concept and principles of Maqasid Syariah and the principles of CSR using library research method. to get clear understanding on the relationship between CSR and Maqasid Syariah.

6. Conclusion

As a conclusion the discussion on Maqasid Syariah and CSR assumes a broader and more holistic significance to Muslim workers, managers, corporations, customers, and society. Islamic concept of CSR involves a broader meaning, to embracing taqwa (Allah-consciousness) by which corporations (as groups of individuals) assume their roles and responsibilities as servants and vicegerents of Allah in all situations. By doing so, they make themselves ultimately responsible to Allah, the ultimate "Owner" of their very selves and the resources that they utilize and manage. This responsibility is, in fact, a function of the intrinsic quality of each Muslim's life as a trust from Allah.

For a religious Muslims, concern for others and the surrounding environments are deeply adorned in the five pillars of Islam. In fact, each Muslim is considered a social being who cannot isolate themselves or ignore their role and responsibility to society or another human being in any way, even if for worship. According to Abu Hurayrah: "One of the Prophet's Companions passed a valley where a freshwater spring ran. He liked the valley and said: "How I would like to isolate myself from other people to worship Allah! I will not do so before asking permission from the Messenger of Allah (peace be upon him)." The man told the Prophet of his wish, and the Prophet replied: "Do not do it. Your striving for the path of Allah is better than praying in your house for seventy years." (Narrated by Tirmidhi and al-Hakim.)

Thus, CSR is a moral and religious initiative based on the belief that a corporation should be “good” despite the financial consequences. This is not to suggest that Islam opposes making a profit. Rather, it is seen as a necessary condition, though not the sole purpose, of a corporation’s existence. Invoking the Syariah and employing a *taqwa* based business paradigm imply that the entrepreneur is no longer driven by profit maximization alone, but by the pursuit of ultimate happiness in this life and in the Hereafter. In other words, the corporation has acknowledged its social and moral responsibility for the well-being of others (e.g., consumers, employees, shareholders, and local communities). Islamic guidance, enshrined by its principle of justice, brings about a balance between individuals’ rights and their duties and responsibilities toward others, and between self-interest and altruism. Islam recognizes self-interest as a natural motivating force in all human life; however, it must be linked to the overall concepts of goodness and justice.

In fact, Islam lays down a moral framework for effort by spelling out values and non-values, as well as what is and is not desirable from a moral, spiritual, and social perspective. The concept of reward is also broadened by incorporating within it reward in this world and in the Hereafter. This provides a strong and self-propelling motivation for good and just behavior, without denying one’s instinct for personal gain. Hence, moderation and concern for the needs of others, along with one’s own, become an integral part of the Islamic perspective of CSR. Therefore, social responsibility is not solely a duty of the government, it is a duty of all members of the community, including corporations, particularly the better-off ones. Thus, individuals and corporations are encouraged to sacrifice, give up, and spend their wealth on the poor and the needy while expecting their reward only from Allah. This sense of duty, responsibility, and spirit of sacrifice, which Islam nurtures, helps remove self-centeredness and covetousness and promotes compassion, caring, cooperation, and harmony among people.

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Funeral Management from Shafi'i School of Thought: Analysis on Cost Efficiency

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Abstract

Islam promotes the principles of efficiency and effectiveness which are synonym to the quality and commitment in terms of managing resources in life. Especially when it comes to special practice of ibadah (ibadah al-khusus) and special obligation (fardhu ain or fardhu kifayah). This is the way how Islam consistently from thousands of years ago appreciate the limited resources and this is how Islam clarify the sustainable factors from its divine teaching of Quran and Sunnah. The Creator says in the Qur'an: It is He who has appointed you viceroys in the earth that He may try you in what He has given you (Surah 6:165). O children of Adam! eat and drink: but waste not by excess, for Allah loves not the wasters (Surah 7:31). The limited resources -that given by Allah- reflect its own price tags and accountability in our world life and surely be questionable in Hereafter. According to Ammar (2005) there are many more verses of the holy Qur'an are establishing the Islamic injunctions towards the sustenance of the resources for the betterment of the globe for all. Besides, the cost of funeral management relatively different depends on peoples' customs and local culture factor. This paper is going to elaborate the Shafi'ite's views of basic principles and minimum requirements on funeral management matters that leading to financial impact and cost reflection. This study also will going through the origin of customs and also revisiting classical opinion of Shafi'ites scholar especially Ibn Hajar al-Haithami and Imam Ramli as the preponderator (Murajjih al-Mazhab) in Shafi'i school of thought that has been practiced in Malaysia.

Keywords: Funeral Management, Shariah, Islamic Finance, Public Finance

Introduction

Islam can be defined as a way of life where Islam regulates the entire human life on all levels (Basharat, 2019). Islam literally means surrendering or total submission to the Almighty God. The primary sources of Islamic Jurisprudence are as the following with the sequence order : the Holy Quran (the sacred words of Allah to mankind); Sunnah (all tradition and practices of the Prophet); Ijma' (legal consensus); and Qiyas (analogical reasoning). Therefore, the Muslim life from the cradle to the grave, are being compassed by all these sources including local customs as soon as parallel to the Shariah.

Death is a normal but inevitable matter that ends the life cycle of every creatures, proving that Allah is the Most Almighty. As Allah says in the Quran :

Every soul shall have a taste of death; and only on the Day of Resurrection shall you be paid your full recompense. Only he who is saved far from the Fire and admitted to Paradise, he indeed is successful. The life of this world is only the enjoyment of deception (a deceiving thing) [Surat Al-Imraan, verse 185].

The Prophet (SAW) said : "Always remember the destroyer of pleasures (i.e. death)". Islam promotes the followers to find quality of life; meaning not to pay excessive and extreme attention on the prayer mattress and avoiding social participation and contribution, managing wealth and having family. It is stated clearly in Islam that enjoying life is not forbidden, but it must be guided and parametered by certain limits.

Later, following after death occurrence is funeral process. This process are differed from one region to another region based on their local culture and customs. Islam not prohibit customs as soon as there are no contradiction with the Shariah and the four mazahib legal opinion.

Islam based on the Sunnah, prepares us with a full method of manual what to do when facing a situation of dying person (istihdhar) or a deceased body (janazah) especially the role of those who attend at the moment of dying until the group that responsible to manage the janazah from the early stage of receiving

the deceased body from hospital/the authority that validate the death until the burial process settled. The Prophet (SAW) said:

Whoever attends the Janazah until it is finished, will earn a Qirat, and who ever stays until the burial, will earn two Qirats. Someone asked: What a Qirat means? The Prophet answered "It means rewards as big as a great mountain" (Bukhari & Muslim as cited in Baianonie, 2000).

According to Muhammad az-Zuhayli (2011), Muslim need to bury the deceased as soon as possible right after the death validation. But this urgency must come along with mercy to the body and fulfill all the rights. It neither not to shorten nor too rush. The Prophet (SAW) said: "There are three things that need to do as soon as possible: prayers, janazah, a widow when there is suitable for her. (Ahmad & Tirmidzi as cited in al-Majmu' by an-Nawawi)

Besides, an autopsy procedure or embalmment may be done if there are necessity that reach the stage and fulfill the definition of dharuriyyah. There are four (4) stages of Islamic practice in funeral management immediately after death which are: washing, shrouding, prayer and burial (Baianonie, 2000). According to al-Baijuri (2004), there are four obligations that imposed related to the body or deceased management –in order- : bathe, shrouding, pray and bury. While al-Bugha (2010) stated the fours things mentioned earlier are communal obligation (Wajib Kifa'iy) based on consensus (al-Ijma'). Abi Syuja' (2004) made an addition to the obligations where the fifth is to carry the body. But al-Baijuri came later and clarified that carrying (al-haml) janazah is just a way or means (wasilah) that include in burying process.

Problem Statement

In certain countries like United Kingdom and Africa, issue of funeral poverty raised the concern among people and regulators. The increasing trends in costs cause unaffordable to hire the funeral. The variables of cost increasing is differed but mainly related to the beliefs, as well as to much innovation and competition to serve the best and honor to the deceased.

Fortunately in Islam, the cost of funeral remains low as scholars emphasized the philosophy and spirit of funeral. Death could not be avoided and each everyone is equal regardless of status, wealthy and etc. Therefore, Muslim has to honour the deceased as honour the life without any extreme action that could differentiate them.

However, the cost of funeral management might differed from one region to another because there are several of local and tradition customs that finally reflect to the total expenditure in terms of materials used and management costs.

Methodology and Limitation

This paper employs a qualitative method by analyzing relevant literature to understand the issues of subject matter. A few visits and interview sessions are done to evaluate the reliability of the issues in Malaysian context. It is interesting to note that the action has been taken by the community due to traditional and local customs based on Islamic jurisprudence Shafi'i school of thought. The respondents are the mosque, private funeral management operators, and regulators from Islamic councils, individuals and groups that involved in funeral management.

Shafi'i school of thought is amongst accepted school in Islamic jurisprudence and mostly practiced in Asean countries, Yemen and north Africa. This paper will focus and only limited to Asean countries specifically in Malaysia and Singapore.

Analysis

The analysis focus on the four responsibility of managing funeral and the view of scholars in any items that reflect cost and expenses.

A. Washing the deceased

Muhammad az-Zuhayli highlighted that the first group of persons that attend the washing process are the priority group in line to do the funeral prayer. Therefore the washing process is preferable to be done the closest family member. This opinion is parallel to Ibn Hajar al-Haithami and Imam Ramli. This obligation classified as communal obligation (*fardh kifayah*) which means it is obligatory on the community in a certain area, and the duty will only be lifted or calculated upon completion of some commitment of the community that fulfilling such responsibilities. The obligation of washing the deceased derived from the command of the Prophet during the tragedy of a man who died as a fall from a camel, the called upon to bathe his body. The saying was narrated by Ibn Abbas ;

“Wash him with with water mixture with *sadr* (jujube) leaves, and shroud him with two pieces of clothes.

Funeral management in Muslim world especially in Malaysia can be defined as a holistic process to handle someone who is dead, according to the Islamic Law and local customs. According to Muhammad Yusri Yusof (2017), in this context of discussion of washing the deceased, local custom underlined several things that being needed through out the process such as incense, *sintok* or *beluru* root (*entada spiralis*), *sadr* or *jujube* leaves (*ziziphus spina-christi* or *ziziphus Mauritania*), rose water, *cerana* and camphor are used based on their locality and region. In the meanwhile, Ibn Hajar al-Haithami mentioned that shrouding clothes should be the new one, and Imam Ramli have different opinion that saying used clothes or blankets are preferred because living persons are much needed to have it.

Based on the interview sessions with several funeral management operators in Malaysia and Singapore, it is found that they refer to the original text related to the death and illness which are originated from Holy Quran and Sunnah such as recitation (*ruqyah*), reciting *surah Yasin* and *surah ar-Ra'd*. Majority of them also using various type of hadith that are related to the practice such as *talqin*, *tahlil* and *tahlil* feast. In this focus of discussion, the Prophet said :

“It is not lawful for woman who believe in Allah and the day of Hereafter to mourn for a deceased more than three days, but for her husband, four month and ten days.” (Narrated by Bukhari).

The operators are also doing massage the joints and softened with coconut oil, palm oil or olive oil. This oiling method of practice helps them to facilitate body management during wash. Some place also use frankincense to remove unwanted smell of the body. During this process, the deceased body must be covered by a piece of thin and colored cloth (in Malaysia known as *batik lepas*). The purpose is to make sure that the covered obligation (*aurat*) is covered totally, and his/her honor being treated as same as alive. Even the washers are prohibited to touch the sensitive parts of the body without wearing gloves. Shafiites' scholars agreed on the three days period of condolence as mentioned by the Prophet. In accordance to that, local customs include the customs of having *tahlil* feast along that period which is not a legal must and needs. Moreover in some location it can be forty days and hundred days feast that surely reflect to the cost of funeral. Ibn Hajar al-Haithami stated that condolence (*ta'ziah*) is for three days starting after the burial process, while Imam Ramli stated it begin right after the death. (Umar Ba'alawi, 2010).

In this early stage, Islamic Religious Department of Kuala Lumpur (JAWI) in their guideline book of funeral management stated that the flow is going on this following processes : closing the body's eyes, removing facial dirts and filths found in body, bathing starts the top right side of the body and followed by the left side. Later, the last pour of the bath will be the mixture of *jujube* leaves and camphor water. During this washing, Shaikh Muhammad Arshad al-Banjari (1995) suggested to use wooden plank to avoid water splash. Traditionally the dirt removal and cleaning are using *sintok* root as the alternative of man-made soap. But today the function of *sintok* and *beluru* replaced by soap as it is more economic

and easy to get especially in urban area. The last step of washing is ablution. Before starts shrouding process, the ablution need to be dried with a clean dry towel.

B. Shrouding the deceased (kafn)

Shrouding (kafn) can be defined as wrapping the whole body with fabric material that is compulsory and obligation. Imam Ramli said that in shrouding process there are two rights: right of Allah and right of the deceased. Therefore, it cannot be undone although there are will (wasiyyah) from the deceased saying not to shroud his/her body. For men three pieces odd white clothes needed. It should be longer than the body and each cloth should be relatively two yards long. However, two pices are considered as sufficient for men based on hadith Ibn Abbas :

“Wash him with water mixture with sadr (bidara) leaves, and shroud him with two pieces of clothes.”

While for men the three pieces are the Izar or Sirwal (bottom half garment), the Qamis (top half garment), and the Lafafah (full piece covering the entire body) (Baianonie, 2000). In some regions, the male body will be shrouded in a robe and imamah (turban) while the female is dressed in prayer cloth as the outer layer of shroud. The Prophet himself shrouded with three pieces of white Yemeni cotton clothes as narrated from Aishah :

“The Mesengger of Allah (SAW) was shrouded in three pieces of white Yemeni cotton clothes, without top half garment and without turban”. (Narrated by Bukhari).

In context of women deceased, five pieces of white clothes are needed that are longer than the body. Each piece relatively two yards long. Two or three pieces are sufficient for women if five are not available. The five pieces are the Izar, Qamis, Lafafah, Sadri which is chest piece in one yard measurement relatively, and Hijab which is scarf piece as the head cover that implicate one and a half to two yards needed (Ekpo, 2016). In local tradition, people often add rose or scented water, sandalwood and camphor before the last layer of shroud. The purpose is just to make sure that the body not gives unpleasant smell before the burial process take place.

C. Funeral Prayer

The funeral prayer or solat janazah is preferred to be performed in congregation (jamaah) as part of social obligation, asking forgiveness and as a prayer for the one who returned to his/her Creator. Funeral prayer is encouraged to be performed in spacious and open space however it can be done in the mosque after compulsory prayers to ensure as many attendees as can. It may even to be done at the grave yard compound. The Prophet (SAW) said that if Muslim deceased and come forty pious Muslim praying for him, surely Allah will fulfilled their prayers. Besides that, the number of people attended the funeral prayers brings big reward to the deceased as well.

Having the tahlil feast as a local custom itself supposedly not be burden on the family members. During the three days of condolence period, Islam teach us to say ta'ziah, give advice to be patient, and not giving burden to them with unnecessary things. In the other hands, the tahlil feast and ceremonial cost supposedly to be bear by the community through the khairat funeral fund, donation (sadaqah), and volunteer team. According to M. Firrdaus M. S., (2010), khairat funeral fund adopt takaful concept to lighten the financial burden of family members.

D. Funeral process

Human beings are respected creation of the Almighty God whether alive or dead. Therefore burying the deceased is the manifestation of the honor. Accompanying the deceased is very recommended and encouraged by the Prophet as He says : “Visit the sick and walk with the body, it will remind you of the hereafter”. Music, mourning and crying exaggeratedly is prohibited in Islam. It is recommended to walk along on foot to keep behind of those who are carrying the body (Baianonie, 2000). The reward of prayer and accompanying the body until the funeral is finished is explained in a hadith. The Prophet said: “Whoever attends the Janazah until it is finished, will earn a Qirat, and who ever stays until the burial, will earn two Qirats. Someone asked: What a Qirat means? The Prophet answered “It means rewards as big as a great mountain” (Bukhari & Muslim as cited in Baianonie, 2000).

The minimum depth of the cemetery hole basically decided in order to prevent it from being dug by wild beasts and to cover the stench of the body. In normal practice, the depth of the cemetery is higher than the average height of the people of the particular community. It is recommended to dig wider and deeper depends on the necessity, as mentioned by the Prophet, narrated from 'Asim : "The Prophet told the grave digger : broaden the dig for the head part and the leg side." (Narrated by Abu Daud & Baihaqi).

Wahbah az-Zuhayli (2011) suggested that the relative depth intended is four zira' and half (6.75 feet). Besides it is preferable to widen the grave opening with additional measure of one zira' (1.5 feet) and one shibr (18 inches). The deceased is encouraged to be buried in the locality in which he lived and died, avoiding to transfer the deceased from a place to another (Baianonie, 2000) that will delay the funeral which is contradict to the Shariah instruction, besides it will clearly involve unneeded additional cost. In contrary, when one died in Makkah or Madinah, the deceased is preferred to be buried there based on Imam Ramli opinion. According to Zulkifli (2018), unnecessary transfer to another country is prohibited, as Imam Ramli statement in Nihayatul Muhtaj. In contrast, Ibn Hajar as recorded in Tuhfatul Muhtaj; it abominable (makruh) because there are no specific evidence that manifest the prohibition.

There are two types of graves which are Lahd and Shiq. The Lahd is the better of the two options. Lahd can be defined as a concave hollow that dug into the wall of the grave which facing prayer direction (Qiblah). The hollow should be deep and wide enough to place the body (Stacey, 2012). Secondly, Shiq means usual grave that consist a rectangle hole on the floor where the body is placed covered by wooden plank to protect from grime. This option is being practice widely in the developed country with centralized-government handled-cemeteries system such as Singapore. Burying the body with the coffin is not allowed, unless if there are necessity (dharurah) or special requirement or rules that must be followed in certain country. This indicate Islam practices of funeral management is the simplest as soon as we stick to the minimum requirements according to schools point of view. It is permissible to put a stone or something as the identification to the grave. However, Muslims are not allowed to cement the grave or to put construction on top of it, unless if there are needs to protect the grave from natural disaster like flood, wild beast, looting and immoral activities (Ekpo, 2016). It is also not permissible to write something on the grave especially the holy verses of Quran according to Ibn Hajar and Imam Ramli, fearing of being dumped or to be sit on, or being dirty when the grave transfer process takes place. Besides, Islam forbid from turning a grave itself into a mosque. Hence, the grave yard compound is not applicable to the prohibition because the main point is to prevent unlawful acts.

Conclusion

The cost of funeral management are different from one region to another because there are various of local and tradition customs that finally reflect to the total expenditure in terms of materials used and management costs. Not all of the customs are derived totally from the local tradition that also known as innovation (bid'ah). Some of them are originated from the wisdom of the past pious scholars and recorded in classical texts. Some of them comes from discussions and contradictions (ikhtilafat) of the past scholars such as Imam Ramli and Ibn Hajar al-Haithami, the two preponderator (Murajjih al-Mazhab) in Shafi'i school of thought that has been practiced in Malaysia.

Besides, our traditional practice of past eras committed funeral management totally as social obligation and collective responsibilities. But when the time changes, there come new approaches that commercialize the needs. The problem appear when this matter of over commercialize going to manipulate the 'local customs' to gain as much profit as can. At the end Muslims will facing a new issue of sustainability of funeral-related resources and excessive subscription of service providers. For an example, certain operators include the cost of tahlil feast, gifts to peoples that attend tahlil and funeral prayer.

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Talent and Manpower Competency and Readiness in Fintech for Islamic Banking and Finance Program

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Abstract

Islamic finance is one of the fastest-growing segments of global emerging markets. However, the market is far below its potential. Over the last two decades, the total volume of Islamic financial assets has grown by 15-20% a year. Islamic finance assets are projected to grow to US\$3.2 trillion by 2020, with Islamic banking reaching US\$2.6 trillion. The growing popularity of Islamic banking and finance and its increasing global outreach has led to a considerable undersupply of talent in the sector. It is estimated that there is a shortfall of between 8,000 and 10,000 people in core Islamic finance fields, plus more in peripheral sectors such as law and regulatory affairs, financial technology, insurance and others. FinTech is a broad term covering businesses that are very different in nature. While they all use technology to deliver cheaper, faster and more user-friendly services, they differ in the type of technology they utilize such as blockchain, artificial intelligence and mobile phones. Intrinsically disruptive, FinTech is seen by many Shariah compliant financial institutions as a risk more than an opportunity. The aim of this article is to evaluate responses from the instructor and students of Islamic banking and finance program in terms of their understanding and readiness on FinTech. The methodology of research in this article is through qualitative method based on interviews from selected instructors and students in the program of Islamic banking and finance. The general finding shows that most of the instructor and students not yet ready with this new technology development in the Islamic banking and finance program. A lot more action need to be taken to ensure that Islamic banking and finance program is equipped with courses that could enhance understanding and development of talent and manpower competency on this advance technology in the Islamic finance industry.

Keywords: Islamic Banking, Islamic Finance, Talent, Manpower, Competency, FinTech

1. Introduction

The Fourth Industrial Revolution (Industry 4.0) is the notion of an industrial revolution that will alter the way we live, work and interact with one another, including how we utilize and deploy highly disruptive technologies such as artificial intelligence, robotics and blockchain technologies. This impact is clearly evident in the banking and financial industry. Disruptive technologies force virtually all industries to fundamentally revise their business models or even define new ones. The challenge for Islamic financial institutions now is to put in place a flexible and robust business model that is relevant and efficient, while keeping intact the sanctity of Shariah governance and Shariah compliance within the changing landscape of banking and financial technologies, and the increasingly loud call-out for banks to be more ethical and value-based. This transformation of the work environment will change the job profiles and therefore requires employees to be outfitted with a wide range of competencies. FinTech development could make Islamic finance more competitive by attracting more customers, increasing efficiency, reducing costs and offering a wider range of products, helping the sector against conventional finance without compromising on profit margins. In fact, recent research from EY has found that financial technologies that comply with Islamic or Shariah law could help attract 150 million of new banking customers in the next three years. Investment in FinTech has grown rapidly and this investment is beginning to translate into greater adoption, although most banks are still proceeding cautiously.

The fact is, competing to attract Islamic funds among institutions and/or nations will eventually lead to competing for the best brains – those who are equipped with the right knowledge and experience to conduct businesses in the conventional settings as well as under the Islamic financial services environment. Such expertise is rare because one who is competent in the conventional business is often not sufficiently exposed to the Islamic Law or Shariah and vice versa. Acute shortage of human capital

in Islamic finance is currently recognized as the factor that could stifle the expansion of Islamic finance industry in the future. Thus, developing high quality manpower is one of the major challenges of today's Islamic financial services industry (Ernst and Young, 2007).

Lately, having the relevant people in the right positions as to ensure the successful of business, can be clearly seen in the conventional financial institutions. Accordingly, the Islamic financial institutions should also learn how to appreciate the importance of human capital in order to become competitive in the rapid development of today's financial market. The performance of each institution basically relies on their employee competitiveness and productivity (McCauley and Wakefield, 2006).

2. Literature review

2.1 Human Capital and Organization Development

Undoubtedly in current competitive business environment, people play an important role in the survival of any business organizations. Human resources or human capital are now seen as one of the major contributors to competitiveness and human resource dimension should be taken into account before embarking decisions and implementing new corporate strategy (Morrow, 2001). For many, sidelining this important element invite disaster to which not only losing competitiveness, but as well crippling the process of production. Therefore, human resources or capital may be regarded as the most valuable asset of any enterprises. As continuation to confirm the relevancy of company's human resources or human capital; skills, knowledge, commitment and motivation are the prime factors that require encouragements and enhancements. In this context, they need to be developed and therefore, continuous training plays an important role (Vermeulen & Crous, 2000).

General Accounting Office (GAO, 2002) defines human capital as people and people are assets whose value can be enhanced through investment. Similar to all other investments, the goal is to maximize value while managing risk. Investment in people is not limited to providing training and development, but encompass rewards and benefits offered to employees. As cited by Fong & Yorston (2003) the term human capital is first used by Nobel Laureate, Theodore w. Schultz, in the 1961 American Economic Review Journal titled, 'Investment in Human Capital'. The term is now most frequently used to refer to a combination of skills, experience and knowledge. From the human capital perspective, employees are viewed as capital resource that requires investment (Ramayah et al, 2004). According to Chartered Institute of Personnel and Development (CIPD, 2007) human capital is knowledge, skills, abilities and capacity possessed by people in an organization in order to develop and innovate.

2.2 Talent Management

Talent is referred to a person's value or innate abilities (Michaels, Hardfield-Jones and Axelrod, 2001) who works in an organization. The high performing talents at Islamic financial institutions are purposely targeted as the most important resources in the Malaysian financial industry. Talent is seen as a scarce resource (Silzer and Dowell, 2010) in most organizations which the same goes to Islamic financial institutions in Malaysia (Bank Negara Malaysia, 2012). Barney (1991) suggests that, a company will gain competitive advantage when they develop "resources that are valuable, rare and hard to imitate" and some talents is not easily replaceable. This is consistent with Collins' (2001) idea that; having the right people first before having the right strategies and it is undeniable for the Malaysian Islamic financial industry. There is no single definition of talent management (Aston & Morton, 2005). Byham (2001), Heinen and O'Neill (2004), Hilton (2000) define talent management as a collection of typical human resource department practices, functions, and activities such as recruitment, selection, development and succession management. The talent management process provides benefits to employees, managers and the organizations (Michaels, Hardfield-Jones and Axelrod, 2001 and Silzer and Dowell, 2010). Silzer and Dowell (2010) also suggested the talent management process through reactive, pragmatic, comprehensive, aligned and strategic stage. The growing demand for talent throughout the world and the shortage of talent has made talent management a major strategic challenge in organizations (Silzer and Dowell, 2010). The organizations must know how to attract, develop

and retain their talent through the effectiveness of talent management practices (Michaels, Hardfield-Jones and Axelrod, 2001; Ashton and Morton, 2005; Silzer and Dowell, 2010).

Talent management has received a remarkable interest among practitioners and academicians since introduction of the phrase 'War of Talent' in 1997 by McKinley consultants (Colling & Mellahi 2009). However, from the previous academic literature, there is no universal definition accepted by talent management (Cappelli & Keller, 2014). There are colossal differences in characterizing tm Likewise researchers what's more associations from shifted commercial enterprises have coined their conceptualizations (Gallardo-Gallardo et al., 2013). Moreover, most of the talent management studies are theoretical and exploratory nature.

Talents are known as highly potential employees displaying ability, engagement, and aspiration to succeed in top and high management. Importantly, conceptualization is from different perspectives. Talent management is a process which starts with creating talent pools to monitor and manage high potential employee's careers within the company and employees in these pools should have the potential to be promoted to role of senior management (Saim, 2017). The definition of talent management is the concept generally used to emphasize the strategic importance of strong human resource practices in organizations (Maamari & Alameh, 2016).

In the competitive business environment, people play an important role in the survival of any organizations (Morrow, 2001). Giving less attention to this issue will bring disaster to the organization. Thus, human capital can be considered as the most valuable asset of any organization. Skills, knowledge, commitment and motivation are the main components that require enhancements for human capital. In this regard, they need to be developed and continuous training plays a paramount role for talent development (Vermeulen & Crous, 2000).

Human capital is defined as people and people are assets whose value can be enhanced through investment. The goal of any investment is to maximize value while managing risk. Investment in people is not limited to provide training and development but encompass rewards offered to employees (General Accounting Office, 2002). From the human capital perspective, employees are viewed as capital resource that requires investment (Ramayah et al., 2004). Aziz (2007) defined human capital as incorporation of human intellect, labor, workforce and human strengths in the form of employees, customers, business partners and competitors. Quality human capital provides for competent workforce that ensure competency of the employee.

The current global competitiveness requires a creation of new knowledge for ease communication with employees. Improving product and service quality may require empowerment of responsibility to lower levels employees (Horwitz, 1999). According to Reed & Vakola (2006), organizations' abilities to change are paramount for survival. The capacity of change is associated with organizational learning since organizations have to learn from past experiences (Berge et al., 2002).

According to Institute of Islamic Banking and Insurance (1999) one of the primary objective of trainings in Islamic banking is building the knowledge and human resource skills base that enhances competency of personnel serving in this sector with genuine realization on the serious need to undertake morality and professionalism into account in all business dealings. However, in undertaking many training initiatives; the important factor to be considered is the focus areas of training. In the case of Islamic Banking, training is not just involving matters on operational factors, products knowledge or other soft skills, but most importantly are the knowledge on Shariah. Shariah knowledge is the fundamental and imperative prerequisite prior to embarkment of Islamic banking activities that creates differentiation of conventional banking. Gait & Worthington (2008) confirms the quintessential of Shariah knowledge by defining Islamic finance or banking as financial service or product that is principally implemented in compliance to the main tenets of Shariah.

3. Research methodology

In this study, qualitative method has been used through personal in-depth interview. The interviews have been conducted with students and instructors in the program of Islamic banking and finance. This study also employs documentary review in order to strength the general findings in this research. A total number of twenty students and two instructors are voluntarily participated in this study. The

information generated from the face to face in-depth semi structure interview conducted with the aim of obtaining primary data for the study was transcribed and analyzed. The advantages of using interview method in this study, among others are useful to obtain detailed information about personal feelings, perceptions and opinions, they allow more detailed questions to be asked, respondents' own words are recorded, and ambiguities can be clarified and incomplete answers can be followed up. Thus, these advantages will give benefits for this study (Raymond Opdenakker, 2006).

Interviews play a crucial role for the robustness of this study. Thus, the purpose of interview is to get other people's perspectives and how they render meanings on events of interest or the process of getting information out of their thinking (Marginson, D. E. W. 2004). The process of getting inside interviewees thought has the potential to offer a greater understanding and readiness towards FinTech in the program of Islamic banking and finance. Therefore, interview is considered as a conversation with purpose of acquiring knowledge from interviewees (O'Dwyer, B. 2004). In this research, a semi-structured interview is employed to flesh out the theory underpinning the holistic understanding and application of FinTech in the field of Islamic banking and finance.

4. Results and findings

The result of this study has been divided into two perspectives namely from the perspective of student and from the perspective of instructor.

4.1 From the Perspective of Student:

4.1.1 Application of FinTech in Islamic banking and finance

According to the respondents, FinTech refers to the usage of new technology in the banking and financial services. It is invention of technology that seeks to improve and automate the delivery and services offered by banking and financial services. Furthermore, the respondents are in the opinion that FinTech could help banks and financial institutions to attract more customer, increase and improve efficiency, and reduce cost in doing business. Furthermore, the advancement in FinTech will help the banks and financial institutions to become more competitive. Examples of application of FinTech are e-wallet, online banking and mobile banking.

4.1.2 Participation in course, seminar or talk related to FinTech

Majority of the respondents have not attended any courses, seminar or talk related to FinTech. Respondents which have attended courses, seminar or talk on FinTech, the topic covered during the discussion is related to bitcoin.

4.1.3 Course embedded topic(s) related to FinTech

Majority of the respondents replied that their course instructor have not embedded any topic related to FinTech in their subject. Only small number of respondents responded that the course instructor have discussed the issue of FinTech very briefly.

4.1.4 Talent and manpower competency in FinTech for Islamic banking and finance course

There are several criteria that the respondents view to be important for talent and manpower competency in teaching FinTech for Islamic banking and finance course. First criterion is related to the knowledge of the manpower. The person should know and have adequate experience in discussing about FinTech. Perhaps, a person who is good in ICT, those who pursue computer-related studies and Islamic banking and finance practitioner could fit the first criteria. In addition, a person who has passion to continuously searching knowledge related to FinTech is also considerable. Another important criterion for manpower is the person should be creative, innovative and can easily adapt to new technology. This is important because of the nature of technology and financial services which are moving very fast.

4.2 From the Perspective of Instructor:

4.2.1 Understanding on FinTech in Islamic banking and finance

R1: Financial technology, nowadays better known under the term 'FinTech', describes a business that aims at providing financial services by making use of software and modern technology. Today, FinTech companies directly compete with Islamic banks in most areas of the financial sector to sell financial services and solutions to customers. Mostly due to regulatory reasons and their internal structures, Islamic banks still struggle to keep up with FinTech start-ups in terms of innovation speed. FinTech's have realized early that financial services of all kinds including money transfer, lending, investing, payments, need to seamlessly integrate in the lives of the tech-savvy and sophisticated customers of today to stay relevant in a world where business and private life become increasingly digitalized.

Especially millennials (people born between approx. the early 80s and late 90s) and the following generations prefer quick and easy banking services over walking to a branch, appointments with bank consultants and lengthy processes setting up accounts or putting together a portfolio (as two of hundreds of examples where mobile and digital banking services allow for a more frictionless and stress-free process).

R2: FinTech is a technology that being used to simplify the transaction of banking and finance to enhance efficiency.

4.2.2 Readiness in FinTech for teaching and learning

R1: Since there is a limitation of budget, I am learning about FinTech through reading and learning from Fintech forum available online.

R2: Read a lot of articles about FinTech and be well-verse on current issues pertaining to FinTech.

4.2.3 Embed topics in FinTech in course/subject

R1: Yes, I always focus on the benefit of technology in enhance entrepreneurship ecosystem.

R2: Yes I have. The respondent has demonstrated to students how advances of technology can expose the bank to whole new area of risk. In addition, the respondent also highlighted to the students that there are pros and cons on the application of FinTech. As an example, possible trick and fraud can be committed by bank's customer by using the advancement of FinTech.

4.2.4 Talent and manpower competency in FinTech for Islamic banking and finance course instructor

R1: We in faculty need more exposure from FinTech player and industrial who deal with the growth of FinTech in Islamic banking and finance, not just theory but practical point of view.

R2: Have passion and interest in FinTech area, Basic idea on technical know-how on FinTech, Well-verse on current issues pertaining to FinTech.

From the above results, it can be inferred that from the perspective of the students, most of the respondents are aware of the FinTech development and they were able to give specific examples of related application of FinTech in the banking and finance sector. Majority of the respondents have not attended any courses, seminar or talk related to FinTech, shows that there still a lack of interest among the students to understand the FinTech thoroughly. In addition, in terms of the discussion of FinTech contents in the program of Islamic banking and finance, there are still limited number of instructors who are embedded the content of FinTech in this field. Besides, in terms of talent and manpower competency in FinTech, there are many criteria need to be equipped among the instructors in making sure they are ready with this development, which are the enhancement of knowledge among the instructor and he/she should be creative, innovative and can easily adapt to new technology changes.

From the perspective of the instructor, generally, they can understand the definition and application of FinTech as applied in the Islamic banking and finance industry quite well. But, in terms of their readiness in FinTech for teaching and learning, they depended much on the self-reading on the FinTech without participating in the related FinTech training and courses. They have embedded the topic of FinTech in their courses of Islamic banking and finance shows that they have made an initial progress in their teaching in line with the development of FinTech. In terms of the talent and manpower competency in FinTech, they argued that the instructor needs to have passion and interest in FinTech area, equipped with basic idea on technical know-how on FinTech as well as well-verse on current issues pertaining to FinTech.

5. Conclusion

Overall, the industry is expected to benefit from the development of FinTech by making transactions quicker, easier, more secured, traceable and transparent. The evolution of FinTech through biometric technologies, big data and predictive analytics will play a key role, enabling financial service providers to generate deeper insights into customers' requests and needs. A lot more initiatives need to be taken either by the students and the instructors to enhance their understanding and readiness to the FinTech in the field of Islamic banking and finance. This is very crucial in order to move concurrently with the fast development of FinTech in the industry and in making sure the graduates produced by the higher education institutions are ready with the need of the Islamic finance industry and able to make fast development with regards to the FinTech talent and manpower competency.

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Consequences of Environmental Management Accounting (EMA): The Theory Behind

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Abstract

The need for Environmental Management Accounting (EMA) can be associated with the major problems of environmental degradation that lead to other concerns, such as legitimacy and competitive issues. EMA is seen as a management accounting innovation whose consequence is a boost to corporate performance. EMA can benefit the competitive position of a firm by directing the attention of its managers towards potential cost reduction or potential areas for differentiation. EMA can also help firms gain resource productivity and process efficiency, which will result in the reduction of waste and improved financial profitability of the firm. In other words, EMA practically improves both the environmental and the economic performance of a firm. However, despite all these success stories, many firms are still reluctant to take a more proactive approach to EMA, perhaps due to a perceived lack of evidence that the benefits exceed the costs of pursuing these initiatives. The findings so far may also not be generalisable since they are based on descriptive statistics rather than rigorous hypothesis testing. There has been little empirical evidence regarding the impact of EMA on the business success of the firm. This is due to prior EMA studies that have made limited use of theory that attempts to explain the consequences of the practice. Most research has focused on descriptive work and researchers seem to be unwilling to move beyond action-based case studies in further develop the framework of EMA practice and firm performance. This has raised a concern on the need for theoretical explanation on the consequences of EMA. As it is important to gauge the effects of EMA on firm performance, this study provides a discussion of how EMA could help companies in Malaysia to enhance both their economic and environmental performance, and by this to encourage firms to put EMA in practice for their sustainable growth.

1.0 Introduction

Despite the increased concerns of the community on environmental issues, companies still fail to actively engage in environmental management (Christ & Burritt, 2013; Gadenne & Zaman, 2002) because they are uninformed about their environmental impacts and the costs to the company and lack an efficient system to provide relevant information (Ditz, Ranganathan & Banks, 1995; Gale, 2006b; Russell, Skalak & Miller, 1994). Potentially, management accounting facilitates firms' recognition of and appropriate response to environmental issues. However, it has not only failed to address environmental issues but also inhibited changes by focusing on performance measures that maintain the *status quo* and discourage experimentation (Atkinson et al., 1997; Baines & Langfield-Smith, 2003). Conventional systems, especially the costing and investment appraisal system, has failed to support new technologies and has significantly handicapped their implementation (Askarany, Smith & Yazdifar, 2007; Bruggeman & Slagmulder, 1995; Doorasamy & Garbharran, 2015). Management and accounting information systems can respond to environmental responsibilities by providing adequate support for information needs and decision making (Dillard, Brown & Marshall, 2005). The traditional management accounting system particularly could be modified to incorporate environment-related information to support managers' needs and to aid companies to design environmentally preferable processes, products and services that will lead to improved environmental performance and business success (USEPA, 1995). Environmental Management Accounting (EMA) is seen as a management accounting innovation whose consequence is a boost to corporate performance. EMA can benefit the competitive position of a firm by directing the attention of its managers towards potential cost reduction or potential areas for differentiation. EMA can also help firms gain resource productivity and process efficiency, which will result in the reduction of waste and improved financial profitability of the firm. In other words, EMA practically improves both the environmental and the economic performance of a firm.

2.0 Literature Review

This section will look at previous research on EMA, focusing on how EMA could be linked to a business performance of a firm. The first section will present some thoughts on the importance of EMA system to be associated with other management accounting tools to enhance both corporate's environmental performance and economic performance. This is followed by discussion on several theoretical perspectives that might explain the link between EMA and business performance.

2.1 Consequences of EMA

Up to date, there have been many studies focusing on particular EMA methods and the consequences of having them applied in business. This section will discuss how EMA can be linked to environmental management processes and it will present some selected practical cases on the application of various EMA tools in various settings.

The implementation of EMA is expected to enhance the quality of decision making, and plays a significant role in supporting the application of green technologies such as Cleaner Production (CP) (Staniskis & Stasiskiene, 2006; Willshurmst & Frost, 2001). In order to make decisions to invest in green technologies, companies have to look at the cost of production, processes, products and activities from an environmental perspective. However, this requires procedures and a framework beyond what is currently being offered by a conventional management accounting system. The current system does not take into consideration the environmental-related information while calculating for investment projects' inflow and outflow, which may distort the overall decision process (Russel et al., 1994). Such constraints produce inaccurate costing on which companies base their operational decisions, making new technologies unattractive to be invested in because their costs and benefits are not apparent (Gale, 2006b; Staniskis & Stasiskiene, 2006). This is very detrimental to companies, since technologies such as CP signal efficient production. CP which reduces pollution at the source by means of cleaner products and cleaner production methods are superior to end-of-pipe technologies (Schaltegger, Burritt, Bennett & Jasch, 2008; Frondel et al., 2007). In contrast to a traditional accounting system, the EMA approach is able to demonstrate the real potential of each investment alternative and further justify the application of green technologies. A study by USEPA (1995) on 29 companies in the highly polluting organic chemical industry found that chemical plants which applied some type of environmental cost accounting programme have an average of three times as many pollution prevention (P2) projects as plants with no environmental cost accounting system. This has led to 1.6 million pounds of waste being reduced for each P2 project, which is equal to an average savings of \$3.49 for every dollar spent (USEPA, 1995). The use of EMA information in investment appraisal also assists companies to decide wisely on alternatives that further lead to an improved firm performance (Burritt et al., 2009; Deegan, 2003a). A more recent study by Schaltegger, Viere and Zvezdov (2012) adds evidence on the suitability of EMA to support CP in developing countries. Based on case study of Sai Gon Beer in Vietnam, the authors describe how EMA application improves the existing environmental management systems by breaking down the physical inputs and outputs to production steps and supply processes, which this has led to the identification of several alternatives for improvement.

EMA is also a practical tool for Environmental Management System (EMS) implementation; by planning, implementing and evaluating the response of the business towards environmental concerns, accountants can help companies to successfully implement EMS. Basically, EMS involves a formal system and database that integrate procedures and processes for personnel training, monitoring, summarising and reporting environmental performance information to internal and external stakeholders of the firm (Melnik, Sroufe & Calantone, 2003). Its purpose is to develop, implement, manage, coordinate and monitor corporate environmental activities to achieve legal and regulatory compliance and to reduce waste (Sayre, 1996). The growth of EMS has been rapid ever since the introduction of ISO 14001 in 1996 (Iraldo, Testa & Frey, 2009). ISO 14001 is a certified EMS that provides a third-party guarantee of a company's environmental excellence, and indicates that the company is actively committing itself to improving its environmental performance (Iraldo et al., 2009). The scheme is becoming a dominant international standard for assessing environmental management processes and may grant an advantaged position to organisations. Companies that wish to remain competitive in the industry are employing EMS, as indicated by the increasing number of ISO 14001 certified firms around the globe (ISO, 2008). However, in order to develop EMS and get it certified, a

procedural improvement at the firm level is needed since EMS demands more and better record keeping and documentation to lead to an improved control (Morrow & Rondinelli, 2002). Complete information is necessary to monitor progress towards objectives and quantify improvements once companies have set their environmental goals. The integration of a cost accounting system into the environmental information system has been the key for companies' quantification of the real costs and benefits of environmental programmes (Gadenne & Zaman, 2002; Russel et al., 1994), and EMA supports the compilation and analysis of relevant environmental information required by EMS. Utilization of EMA tools for investment appraisal, costing systems, budgets and performance measures facilitate the reinforcement, maintenance and provision of a more sound EMS (Albelda, 2011; Perez, Ruiz & Fenech, 2007).

Much of the literature revolves around the use of EMA as a tool for environmental management, the majority of studies using a case study approach to examine the implementation of various EMA tools in various types of organisations. Among the studies are Onishi, Kokubu and Nakajima (2008), who conducted research on Tanabe Seiyaku Co. Limited, a pharmaceutical company in Japan. Their study focused on the technological aspects of Material Flow Cost Accounting (MFCA), that is, what has been the company's practice, and discusses how this practice can be continuously employed. This study is among a number that demonstrate the successful use of EMA in mitigating environmental impact and providing greater economic efficiency to companies practising it. The authors find that there are two important requirements for MFCA to be continued. First, MFCA cannot be used as a stand-alone technique, but should be combined with other management control techniques and with management control systems such as Enterprise Resource Planning (ERP), so that all material flow cost data can be incorporated into the financial information system. This is consistent with the recommendation of Fakoya and Van Der Poll (2013) to integrate the ERP database systems with MFCA. The integration will allow companies to generate waste information that is essential to support their waste-reduction decisions. Second, it is important for companies to introduce performance evaluation based on MFCA, and this evaluation should be monitored and discussed frequently within in the company through staff meetings and performance reviews. Other research studies that make MFCA as primary focus include Hyrslova, Palasek and Vagner (2011) and Schmidt and Nakajima (2013). Both studies proved that MFCA method improves the traditional accounting systems by identifying the cost of material losses. This has contributed to the development of new technologies towards a more effective production and positive environmental performance.

EMA also been considered a holistic approach for evaluating the environmental implications of products and processes, and presents accountants and managers with a focus for long-term assessment of costs associated with products, rather than short-term operating costs (Parker, 2000). Together with LCA and LCC, EMA helps to provide a means for identifying and evaluating environmental burdens in the various stages of a product's full life cycle²⁶, beginning with raw material acquisition, through the manufacturing process, transportation and distribution, product use and reuse, and finally to product recycling and disposal by consumers (Kreuze & Newell, 1994). This "cradle-to-grave" approach enables the firm to recognize the sources of pollution and determine the opportunities for minimizing environmental damage at any point of product stages (Hunkeler & Huang, 1996). All descriptions of EMA as discussed above show that the practice leads to improved procedures and strategies for environmental performance consistent with the recommendation of NRBV. This helps to identify opportunities in the accounting system to build the business case for change.

²⁶ A full product life cycle consisting of manufacturing, use and recycling stage, with each of these stages carries environmental loads which contribute to environmental effects such as smoke, greenhouse effect, waste etc. (Nagel, 2003).

Table 2.1 Available case studies addressing EMA tools for management

Management accounting tools	Specific tools	Practical studies example
Past oriented tool		
a) Costing analysis	Identification of environmental costs	Jasch (2009), Gale (2006a and 2006b), IFAC (2005)
	Material, energy and water flow balances (physical)/ cost	Schmidt and Nakajima (2013), Fakoya and van der Poll (2013), Hyrslova et al.(2011), Onishi, Kokubu and Nakajima (2008), IFAC (2005)
	Full Cost Accounting	USEPA
b) Performance management	Environmental performance evaluation, indicators and benchmarking	Burritt and Saka (2006), IFAC (2005)
c) External reporting	Monetary and physical environmental disclosure	IFAC (2005)
Future oriented tool		
a) Budgeting and investment appraisal	Environmental investment appraisal	Burritt, Herziq and Tadeo (2009), Staniskis and Staskiene (2006), IFAC (2005)
b) Performance management	Cost-benefit analysis (cost saving calculation and benefit of project)	Koefoed (2008)
c) Others	Design and implementation of: Cleaner production	Schaltegger et al. (2012), Koefoed (2008), Burritt, Herziq and Tadeo (2009), Staniskis and Staskiene (2006)
	Supply chain management.	IFAC (2005)

Table 2.2 Studies on EMA adoption in various countries

Authors	Topics and method
2002 Reyes	<ul style="list-style-type: none"> Case study in the Philippines Discusses EMA's promotion by Philippines Institute of Certified Public Accountants (PICPA)
2003 Thy	<ul style="list-style-type: none"> Case study in Denmark Discusses the evaluation of Green Accounts requirement introduced by the government
2003 Burritt, Schaltegger, Kokubu and Wagner	<ul style="list-style-type: none"> Survey of listed companies in Australia, Japan and Germany Focuses on the use of EMA for assessment of environmental performance measure and staff appraisal Similarities and differences between countries are examined
2003 Jasch	<ul style="list-style-type: none"> Case study in Austria, discussing identification of environmental cost through EMA
2004 Xiaomei	<ul style="list-style-type: none"> Case study in China

	<ul style="list-style-type: none"> • Discusses governmental efforts on EMA and problems of EMA implementation
2005 Venturelli and Pilisi	<ul style="list-style-type: none"> • Case study of pilot implementation of EMA in small medium sized companies (SMEs) in Italy
2005 Lee, Jung and Kim	<ul style="list-style-type: none"> • Case study based on pilot project in Korea
2005 Scavone	<ul style="list-style-type: none"> • Case study on pilot project in Argentina • Focuses on CP in combination with EMA
2005 Hyršlova and Hajek	<ul style="list-style-type: none"> • Qualitative study based on interviews with companies registered in EMAS program in the Czech Republic • Discusses the state of preparedness of enterprises to implement EMA
2006 Jasch	<ul style="list-style-type: none"> • Case study and company workshops within the Styrian automobile cluster in Austria • Discusses how to do environmental management cost assessment
2006 Gale	<ul style="list-style-type: none"> • Case study at a paper mill site in Australia • Discusses EMA framework applied on annual financial reports
2006 Burritt and Saka	<ul style="list-style-type: none"> • Case study in Japan, looking at EMA and eco-efficiency
2009 Burritt et al.	<ul style="list-style-type: none"> • Case study at a rice mill company in Philippines • Focuses on EMA for CP
2011 Hyršlova et al.	<ul style="list-style-type: none"> • Case study at a ceramic manufacturing company in Czech Republic • Focus on MFCA
2012 Schaltegger et al.	<ul style="list-style-type: none"> • Case study at beer brewer company in Vietnam • Focuses on EMA for CP
2013 Fakoya and van der Poll	<ul style="list-style-type: none"> • Case study at brewer company in South Africa • Focus on the integration of ERP and MFCA
2013 Schmidt and Nakajima	<ul style="list-style-type: none"> • Case study at manufacturing companies in Japan • Focus on MFCA

All the mentioned studies in Table 2.1 and 2.2 clearly indicate that the systematic application of EMA methodology provides a better record of cost, acts as a catalyst in promoting environmental management activities and is becoming an integral part of any successful environmental management system. Many of these studies are prescriptive in nature, most employing a case study approach. The samples used in each study are limited; so too are the settings in which the studies are conducted. The focus of tools is diverse, with the consequences, problems and challenges being viewed through a limited number of companies. Thus, further research should be conducted on EMA with a wider scope with consistent focus, so that results can be generalised sufficiently to be representative of EMA implementation.

2.2 Theoretical perspective of EMA and environmental performance

Even though the motivations for corporate environmental management, such as environmental policy, environmental innovation or other environmental activities may serve several objectives (for example, to increase firm value, to adhere to a code of ethics or to reduce business risks (Reinhardt, 2000), environmental performance should be the first and genuine focus of such efforts (Figge & Hahn, 2012; Prajogo, Tang & Lai, 2012). Reinhardt (2000) suggests that corporate environmental management promotes organisational learning by allowing the firm to obtain more factual information about the environmental impacts of particular processes, understanding customers' and regulators' attitudes towards the environment, or resolving how to put an environmental management system in place so that it can support continuous learning. This argument is consistent with the suggestion of Porter and van der Linde (1995), who assert that any innovation in response to environmental regulation will make organisations better equipped to deal with pollution once it occurs, including the processing of toxic

materials and emissions and the reduction of the amount of toxic or harmful material generated (or converted into saleable forms), and how to improve secondary treatment. It simultaneously improves the affected products/processes (Porter & van der Linde, 1995). The potential role of EMA in improving a firm's environmental performance may be explained through the perspective of Natural-Resource-Base-View (NRBV). NRBV takes the perspective that valuable, costly-to-copy firm resources and capabilities are the key sources of sustainable competitive advantage (Hart, 1995, p.986).

NRBV suggests that environmental benefits are realized first, before a firm can expect to gain other economic benefits (Prajogo et al., 2012). There are three interconnected strategies recommended by NRBV: pollution prevention, product stewardship and sustainable development. These strategies, which focus on waste and emission reduction and the development of new technologies, help the firm to produce a set of unique routines and procedures in environmental management that cannot be easily replicated by other firms, which in turn is a source of the firm's competitive advantage (Hart, 1995; Prajogo et al., 2012). NRBV proposes that competitive advantage and strategy is derived from firm's capability to facilitate environmental activities (Hart, 1995). Therefore, the integration of an EMA system with other management tools may provide procedures and continuous improvements as suggested by NRBV, greatly supporting environmental management and an excellent strategy for improving environmental performance. The previous section has explained the use of EMA with various tools like CP, MFCA and others which helps the firms to measure in monetary terms different environmental impacts identified in organisations and promotes positive change within environmental initiatives. EMA captures the true costs of waste and pollution in current processes and led firms to carry out good environmental practices such as pollution prevention, waste minimization, recycling and re-using of waste resources as a new product (Mohr-Swart, Coetzee & Blignaut, 2008). This is all parallel with the concept brought by the NRBV.

2.3 Theoretical perspective of EMA and economic performance

There has been debate on the issue of whether initiatives to improve corporate environmental performance will or will not have an impact on the firm's economic performance. Previous studies that investigate the matter have provided inconclusive results so far, with some scholars finding a positive relationship between environmental and economic performance, and others finding a negative result (Horvathova, 2010). The mixed results can be attributed to two underpinning positions, namely "traditionalist" and "revisionist".

The first type of result, which claims that improving environmental performance will not increase the financial performance of a firm (negative relationship), is consistent with what Wagner, Phu, Azomahou and Wehrmeyer (2002) term the "traditionalist" view of environmental activities. According to this view, the consequence of environmental management activities is increased production costs, which reduces the firm's profitability. Supporters of this view believe that environmental management involves a trade-off between the environment and economic performance, where the cost of prevention or cleanup is assumed to lead to higher prices and reduced competitiveness (Porter & van der Linde, 1995a). With such an understanding, rational managers will try to minimize and delay environmental costs as much as possible, thus hindering implementation of any innovations. Studies such as those by Wagner and Schaltegger (2004), Wagner et al. (2002) and Jaggi and Freedman (1992) found a negative relationship between environmental and economic performance, with all concluding that environmental efforts of the firm will not lead to a win-win outcome for their business. This conventional view remains prevalent among most managers (Burritt, 2004; Feldman, Soyka & Ameer, 1996).

However, Porter and van der Linde (1995a) challenge the traditionalist view that posits a negative relationship between a firm's environmental management and economic performance and forward an argument they call a "revisionist" view. These authors, who based their claim on the reasoning of innovation offsets, argue that firms that innovate to meet regulation requirements can actually offset their spending on environmental activities by allowing the companies to better use their inputs, create better products or improved product yields. Such enhanced resource productivity is said to make companies more competitive (Porter & van der Linde, 1995a). Moreover, the source of competitiveness at the industry level has been shifting towards superior productivity either in terms of lower costs than rivals or the ability to offer products with superior value that justify a premium price. In this way they rationalize firms' innovative effort (Porter & van der Linde, 1995b). Studies that found

a positive relationship between environmental performance and economic performance; Klassen and McLaughlin (1996), Hart and Ahuja (1996) and King and Lenox (2001) all proved that it really “pays to be green”. A more recent study by Burnett and Hansen (2008) and Al-Tuwaijri, Christensen and Hughes (2004) confirms that proactive environmental management will result in reduced pollution and help the firm to reap economic benefits. Al-Tuwaijri et al. (2004) also suggest that good environmental performance is associated with more extensive use and disclosure of pollution measures. The positive relationship between environmental and economic performance has even been found in the context of the banking industry, which is deemed a sector that has less environmental impact (Simpson & Kohers, 2002).

Adding to the claim of the revisionists, there are other views that justify the notion of the positive impact of environmental management on economic performance. According to Klassen and MacLaughlin (1996), the relationship between the two can be explained through both market (revenue) and cost pathways. On the revenue side, customers demonstrate their preferences for environmentally oriented companies who make efforts to minimize the negative environmental impacts of their products and processes, recycling post-consumer waste, and establishing environmental management systems. This is particularly true as societies are increasingly concerned about the natural environment, with many recent studies showing that customers are willing to pay more for products that are environmentally safe (Dawkins & Lewis, 2003; Maignan, 2001; Mohr, Webb & Harris., 2001). Consequently, environmentally responsible companies are in a strong position to expand their markets or displace competitors that fail to promote strong environmental performance. On the cost side, firms that invest heavily in environmental management systems and safeguards can potentially experience cost savings which include a lower cost structure, the avoidance of future environmental spills, crises and liabilities. They can also experience greater productivity due to reduced energy and material consumption, materials waste and inefficient processes (Klassen & McLaughlin, 1996). Pollution is a form of economic waste, with any scrap, harmful substances or energy discharged into the environment being an incomplete, inefficient and ineffective use of resources (Porter & van der Linde, 1995a). At the same time, such resources involve a high cost in relation to handling, storage, and disposal by the firms (Jasch, 2009). Therefore, any reduction in pollution can actually increase the economic efficiency of the firm (Burnett, 2008; King & Lenox, 2002; Porter & van der Linde, 1995a).

From another point of view, environmental performance can reduce the business’s overall risk (Crowther & Martinez, 2007; Feldman et al., 1996). Feldman et al. (1996) found that firms who improve their environmental management systems experienced an improvement in actual environmental performance which further led to an increase in the stock price by as much as five percent. Thus, the authors believe that environmentally sound corporations can improve their environmental risk profile, and the signalling of such performance can reduce the firm’s systematic risk (Beta). However, the authors emphasize that in order to achieve this outcome, environmental management should be approached systematically, with the objectives clearly defined and a formal strategy developed. The findings of a more recent study by Najjar and Anfimiadou (2012) were consistent with the results of others, supporting the argument that eco-efficient activities are valued by shareholders and that firm having environmental policies have higher market values than those lacking environmental strategies.

A further view that relates firm economic performance to the natural environment is the Natural- Resource-Based-View (Hart, 1995). As discussed in the previous section, NRBV provides a theory of competitive advantage based on firms’ commitment to environmental challenge (Hart, 1995). Firms’ capabilities in facilitating environmentally sustainable economic activity are said to lead the firm to have sustained competitive advantages such as lower production costs, long-term profit and the pre-empting of competitors (Hart, 1995). Prajogo et al. (2012), who subscribe to NRBV, empirically prove that the adoption of EMS affects the economic welfare of the firm. Clarkson, Li, Richardson and Vasvari (2011), who conducted a longitudinal analysis in the four most polluting industries in US, found that firms’ improvement of environmental performance in a prior period will lead to improved financial performance in the subsequent period. The study also points out that proactive environmental strategy cannot be easily mimicked by others, thus providing a sustained competitive advantage to a particular firm. Nishitani (2011) and Nishitani and Kokubu (2012) suggest that EMS implementation increases Japanese firms’ economic condition through an increase in demand and improvement in productivity. In addition to this, environmentally concerned companies can build their reputation and good corporate image, which are considered important intangible resources for competitive advantage (Chang, 2011;

Orsato, 2006; Russo & Fouts, 1997). Russo and Fouts (1997), who developed a model based on this view, found that improved environmental performance can enhance a firm's pro-environment reputation, which is an inimitable resource that further enhances the firm's profitability. Orsato (2006) found a consistent result, as his study shows that the acknowledgement of environmental efforts such as EMS certification has now become a "license for the firm to operate" in the industry as it influences the firm's image and will eventually affect the buying behaviour of consumers.

3.0 Conclusion and Suggestion for Future Research

Prior EMA studies have made limited use of theory that attempts to explain EMA adoption. Most research has focused on descriptive and conceptual work (Christ & Burritt, 2014; Contrafatto, 2014). Most of the research done in this area involves case studies that measure both direct and indirect innovation (EMA) benefits. Thus, the data we have about the consequences are rather "soft", making it difficult for us to generalize about these consequences (Rogers, 2003). According to Christ and Burritt (2014, p.11), researchers seem to be unwilling to move beyond action-based case studies in further developing EMA. The authors raise a concern on the need for theoretical explanation and the use of survey, interview and statistical research methods to supplement case studies. Therefore, this paper intends to examine the theory that lies behind the assumptions of EMA consequences. All sections of this paper discussed on the importance of EMA and how it can be linked to business performance. We have also discussed on some theory that may underpinning the causal relationship between the two namely, the NRBV, traditionalist view and revisionist view, which has been absent or been limitedly discussed by the previous literature. By this, it is hoped that future research could considers all these perspectives and develop index of business performance that includes both economic and environmental performance of a firm and test them so that we can have imperical proofs on the consquences of EMA implementation.

Besides this, the second gap has been identified in relation to the adverse consequences of EMA. Despite all the success stories, many firms are still reluctant to take a more proactive approach to EMA, perhaps due to a perceived lack of evidence that the benefits exceed the costs of pursuing these initiatives. The findings so far may not be generalisable since they are based on descriptive statistics rather than rigorous hypothesis testing. In addition to that, the mixed results on the relationship between environmental and economic performance, as well as the low adoption rate of EMA reported in previous literature, raises concerns about the associated benefits of EMA use. This indicates that applying EMA is not without problems or challenges. Some studies show that problems might appear and prevent EMA to function at maximum performance. Some companies that have implemented EMA methodologies even discontinue implementing them (Kumpulainen & Poohjola, 2008). EMA was found not to be value-adding for some adopters, and behavioural constraints have obstructed the smooth operation of the practice (Chang & Deegan, 2008; Gale, 2006a; Kumpulainen & Pohjola, 2008). These problems and challenges reported by a few companies having a pilot EMA project in their organisation indirectly tells us that EMA implementation may also lead to unintended consequences and the method itself might have weaknesses that we do not realize, and which are worthwhile to be examined. As according to Rogers (2003), the consequences are not one-dimensional, but can take many forms: desirable versus undesirable, direct versus indirect and anticipated versus unanticipated. Change agents generally do not anticipate negative consequences and often assume that the adoption of a given innovation will produce mainly beneficial results for adopters (Abrahamson, 1991; Rogers, 2003). Realizing this, and with a paucity in the diffusion literature focusing on this area (Rogers, 2003), future research should also extend the investigation to identify both positive and negative consequences of EMA implementation, together with the problems and challenges.

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