

CHAPTER V :CONCLUSION

5.1 Introduction

The final chapter concludes the overall study findings and provides a discussion on its contribution. The chapter begins by summarising the research findings for each objective in Section 5.2, followed by a discussion on the recommendations for co-operatives, ANGKASA, and SKM in Section 5.3. In addition, Section 5.4 discusses the study limitations, and, finally, this study concludes with suggestions for future research in Section 5.5.

5.2 Summary of Research Findings

This research was inspired by the development of new guidelines for Shariah governance from the regulators of Malaysian Islamic Co-operatives. Although still in the early stages, co-operatives have taken their own initiatives by offering Shariah-based credit schemes since 1998. Since previous studies only focused on the accountability issues of the Boards and management in ensuring the development and performance of co-operatives, this study examines the extent of the roles and responsibilities of the Boards, management and also the Shariah Committee Boards in the four Malaysian Islamic Credit Co-operatives towards Shariah governance in their respective co-operatives. This research is unique, as it compares the current practice with GP28: Shariah Governance for Islamic Co-operatives, issued by the SKM to determine the current gap in the practices among selected Islamic Credit Co-operatives. This study also investigates the Shariah Committee attributes in these selected co-

operatives. The research explores the external arrangements in terms of Shariah governance from the regulator and also the Apex body for this sector. Therefore, the study sought to achieve three research objectives. Each objective being concluded in the following subsections.

5.2.1 The Current Practices of Shariah Governance Among Selected Islamic Credit Co-operatives

The first objective of this research is to explore the current practices of Shariah governance in Malaysian Islamic Credit Co-operatives by identifying the current internal arrangement for establishing Shariah Committee functions. In addition, this research determines the extent of the roles and responsibilities of the main Shariah governance bodies in four selected Islamic Credit Co-operatives. Through general observation, other document findings and interview sessions, this study concludes that the Islamic Credit Co-operatives had already established their own Shariah Committees, either by establishing them internally or by appointing external institutions, prior to the issuance of GP28. Consequently, this arrangement naturally meets the requirements of GP28, which came after the co-operatives own initiatives. However, this study found that in the case of ANGKASA's appointment as the external Shariah Committee by the co-operatives, the practice is still under consideration for approval by the regulators for the authorisation, recognition and capabilities of ANGKASA as an external Shariah Committee.

In addition, even with the issuance of GP28, this study notes these co-operatives have different Shariah governance systems among themselves. These differences are due to the establishment of different Shariah Committee functions by the co-operatives.

In comparison, the co-operatives with the internal Shariah Committee are perceived as having a poor Shariah governance system, while the co-operatives that appointed ANGKASA as their Shariah Committee can be identified as having a moderate Shariah governance system. These differences might be due to the lack of understanding between the main Shariah governance bodies pertaining to their additional roles and responsibilities to ensure that the co-operatives adhere to Shariah principles. Moreover, the lack of understanding might be because of the inadequacy of training and exposure to Shariah governance in respect of the nature of Islamic Credit Co-operatives and the degree of intervention by the regulator to standardise the practice in this sector. Hence, this study concludes that the Boards of the Co-operatives seem to be heavily dependent on the Shariah committee to help them in Shariah related matters. Thus, the Shariah committee's functions are perceived as being an adequate mechanism for governing conformity with Shariah. However, due to the low frequency of Shariah Committee meetings and the absence of an internal Shariah unit to support the Shariah Committee, a serious functional gap in the Shariah Committee's monitoring role is created, especially in respect of the ex-post Shariah supervision.

In comparing with ANGKASA's Shariah Committee, this committee is supported by the Shariah audit functions, even though the audit scope is limited to the assessment of product compliance with the standard operating procedures. However, this assessment could be considered as a positive effort by ANGKASA, which is responsible for ensuring the implementation and execution of products by the co-operatives according to Shariah requirements. This function is important in assisting the Shariah Committee to ensure all Shariah decisions pertaining to a product's conformity are implemented well. Otherwise, Islamic Credit Co-operatives will

consider themselves as conforming with Shariah at all the times, when in fact, there are no activities or assessments to attest to the degree of their conformity. Consequently, Islamic Credit Co-operatives would give a false portrayal to their stakeholders that their operations and activities adhere to Shariah principles. As previous research focused on the limited scope of the Shariah audit in Islamic financial institutions, the findings from this empirical study confirm that the Islamic Credit Co-operatives sector is also facing a similar situation in that Shariah audits are either not conducted at all or audits are conducted with limited scope. Hence, this serious loophole and functional gap have emerged, as argued by Abdul Rahim (2011), and could persist if the main Shariah governance bodies do not appreciate the need to have a proper Shariah audit function to enhance the integrity of Islamic Financial Institutions. In this case, the Islamic Credit Co-operatives themselves.

5.2.2 Shariah Committee Attributes in Islamic Credit Co-Operatives

The second research objective is to examine the Shariah Committee attributes – independence, confidentiality, competence, and consistency of judgement – in the four selected Islamic Credit Co-operatives. To achieve this objective, the study sought views from the Shariah Committee members of these four co-operatives. As discussed above, the co-operatives have undertaken two different approaches in establishing the Shariah Committee functions. From the findings, the study concludes that even though all the members are satisfied with their current attributes, there is still ample room to further discuss these attributes. Many issues have not been solved, especially in terms of the degree of independence of the Shariah Committee in both establishments.

Zulkifli (2014) argued that having a Shariah Committee with the highest degree of independence would enhance the confidence of stakeholders in the credibility of the Shariah Committee in providing an unbiased decision with regards to Shariah-related matters. However, this study found that half of the Shariah Committees in the selected Islamic Credit Co-operatives are facing issues concerning independence. This is due to the presence of members of the Board of the Co-operatives and management on this committee. In addition, the issue of the composition of Shariah Committee members with regard to the minority of members with a Shariah background. This involvement will affect and also threaten the independence of the Shariah Committee to make an unbiased final Shariah decision. On the other hand, this issue is not faced by the ANGKASA's Shariah committee, since it is an external party and also has a good composition in terms of education and experience of their committee members.

These findings also indicate that, even though GP28 is trying to solve this issue, there are several actions concerning governance and enforcement that need to be addressed to ensure a higher degree of independence of the Shariah Committee. This study does not deny the presence of the Boards, management or members from other backgrounds on the Shariah Committee Board. Indeed, their presence also has significance in helping the Shariah Committee provide a wise Shariah opinion or decision. Nevertheless, independent individuals with a Shariah background should be in control, meaning they have the majority voice when deciding on matters relating to the Shariah Committee meeting decisions. Hence, the decision would be an independent Shariah-based decision. Consequently, this would also boost the stakeholders' confidence in the Shariah Committee decisions (Grais & Pellegrini, 2006).

5.2.3 The External Arrangements on Shariah Governance in Co-operative Sector

The third research objective is to explore the sector's current external arrangements on Shariah governance. Thus, this research sought views from SKM as the regulator and ANGKASA as the Apex body in this sector. From previous findings, the study found various gaps in these selected Islamic Credit Co-operatives and concludes that this shortage is linked to the current regulatory passive approach as classified in the previous studies by Zulkifli (2010), and Karim & Azhar (2015). Although there is a Shariah Committee at the institutional level, there is none at the regulatory level, which makes the model of Shariah governance in this sector a decentralised model. According to Hamza (2013), this would give rise to inconsistency and a lack of standardisation of Shariah governance practices. These shortcomings and gaps in the existing current practice of the Shariah governance system are due to the passive approach taken by SKM. On the other hand, ANGKASA is perceived as taking an active approach as the APEX body helps the co-operatives in respect of Shariah governance compared to SKM. For instance, ANGKASA has its own Shariah Committee and encourages co-operatives to appoint ANGKASA as their Shariah Committee. This is an option for the co-operatives to establish a Shariah Committee function.

Overall, these research objective findings indicate that more effort is needed by SKM as the regulator to promote the development of Islamic Credit Co-operatives and strengthen the credibility of SKM and the co-operatives in the eyes of the stakeholders. Perhaps the future efforts of SKM will reconcile these shortcomings and gaps.

5.3 Recommendations

Even though the Malaysian co-operatives have taken the initiative to start offering Shariah-based products since the late 1990s, the practice of good Shariah governance is actually still quite new in this sector, especially concerning the Shariah governance for Islamic Credit Co-operatives. A Shariah governance system would help the Boards of the Co-operatives and management to ensure that all the day-to-day operations comply with the Shariah principles and legal requirements. Also, having the Shariah Committee function and internal Shariah control unit as the mechanism for Islamic Credit Co-operatives, would ensure compliance. The existence of these mechanisms will, in turn, help stakeholders have more confidence in the co-operatives. As for the regulator, it is the duty of the authoritative body to construct comprehensive Shariah governance requirements and a suitable degree of enforcement to avoid co-operatives perfunctory attitude in terms of Shariah governance in their respective co-operative. Otherwise, Islamic Co-operative will be tainted by negative perceptions, which will also affect the perception of Financial Institutions as a whole.

Thus, in order to have better Shariah governance practices in Malaysian Islamic Credit Co-operatives, this study provides the following recommendations and suggestions for consideration:

- i. The core recommendation is the urgent need for active regulatory participation to provide an independent assessment of the Shariah compliance of co-operatives. It is understandable that the passive participation from the regulator is due to the budget shortage from the government on top of the downsizing of SKM's Shariah unit. Therefore, this study recommends the collaboration between SKM and ANGKASA, which could be undertaken in many ways. For

instance, they could establish a higher Shariah Committee, which, later, would be able to formulate the national policy and rulings for this sector. In addition, this collaboration could also be in terms of providing an independent assessment of the co-operatives Shariah compliance. It would be more ideal if SKM gives the authorisation and recognition to ANGKASA for it to conduct regulatory Shariah audits for SKM for the time being, since ANGKASA already conducts audits for the co-operatives applying for a Shariah Compliant Certificate. Personally, I believe this collaboration would not cause harm to SKM or ANGKASA. In fact, both would be able to fulfil their roles of ensuring the development of the co-operative sector in terms of Shariah governance.

- ii. Secondly, it is recommended that the Shariah audit scope of ANGKASA be extended. The current scope of Shariah auditing practices should be extended from the Shariah compliance of products to other areas, such as the co-operative's financial statement. This extension is needed to avoid the misperception of stakeholders that Shariah compliance is only about product conformity. Moreover, this extension is fundamental to portray a convincing image to the co-operatives' stakeholders that the day-to-day activities are Shariah compliant, not only just the products, but throughout the whole organisation. Thus, it is recommended that the audit scope be extended so that the issuance of a Shariah Compliance Certificate represents conformity in all aspects. Moreover, it will be added value for the Islamic Co-operatives that are holding the name of this divine religion.
- iii. Thirdly, the effective date for GP28 was May 2015. Since it has already taken effect, it is the duty of the Islamic Credit Co-operatives to follow the stipulated

guidelines for their own benefit. It is understandable that if the size of the Islamic Credit Co-operatives is small, it may be difficult to fulfil the requirements laid down by the guidelines, especially in establishing a Shariah Committee and having an internal Shariah control unit. For example, some small Islamic Credit Co-operatives are still being managed and controlled by their own boards, not by full-time managers or staff. Hence, the degree of SKM enforcement could be less in these co-operatives. However, for the well-established and big Islamic Credit Co-operatives, which are recognized by SKM as the 100 Best Co-operatives Performance Index, the degree of enforcement could be different. Thus, it is suggested that SKM categorise and classify the Islamic Credit Co-operatives to identify which co-operatives should immediately follow the guidelines in total for a specific period of time. SKM could also impose some light punishment, for example, a small monetary penalty or others, if these co-operatives fail to adhere. Thus, the Boards of Co-operatives and management will be more aware and serious about complying with the guidelines. However, the penalty only serves as a method to educate the co-operatives and to show the serious need for co-operatives to practice a good Shariah governance system and not simply as a punishment.

These are among the suggestions and recommendations that could be made by SKM as the ultimate authority in this sector. However, these recommendations must not be construed as revealing SKM's weaknesses. *In fact, undeniably there are many positive efforts by SKM in respect of Shariah governance for co-operatives.* Hence, these recommendations should be seen as a contribution of this study to improve the confidence of all the stakeholders towards SKM as the regulator and also towards

Islamic Credit Co-operatives. As a result, it will ensure that Islamic Credit Co-operatives in Malaysia are better governed in respect of Shariah governance with respect to the nature of co-operatives.

5.4 Limitations of the Study

This study explored the current arrangement of Shariah governance practice in the co-operative sector in Malaysia. However, a number of limitations need to be considered. The first limitation of this study is the sample type. It is undeniable that this study was restricted to Islamic Co-operatives with credit function. This type of co-operative function is referred to as an Islamic Credit Co-operative for this study. However, there are many other Islamic Co-operatives with other functions, such as consumer, services and banking, which can also be referred to and included as Islamic Co-operatives.

Secondly, another limitation concerns the sample size. This study was unable to choose all Malaysian Islamic Credit Co-operatives of the same size. This is because each institution is different in terms of its organizational size, and, moreover, the time limitation to conduct this study for all Malaysian Islamic Credit Co-operatives is another aspect to be considered. Thus, the number of co-operatives employed in this study may not represent all Malaysian Islamic Credit Co-operatives.

Thirdly, this study uses semi-structured interviews and thus captures the extent of the roles and responsibilities of the main body of Shariah governance. However, this study was conducted from the perspective of the management and excluded the other main bodies, namely, the Board of the Co-operatives, Shariah Committee, and the Internal Audit Committee. Hence, this perspective could be unjust and biased due to the

possible reluctance of the management to express their honest opinion of the other main bodies in order to safeguard their own interest.

Fourth, the attributes of the Shariah Committee were only analysed by inquiring of the Shariah Committee about the degree of attributes that they have. Hence, this may lead to bias concerning the self-assessment. In addition, the limitation also concerns the type of Shariah Committee's scope of attributes. Although all four attributes were discussed and covered in this study; namely, independence, confidentiality, competence, and consistency of judgement, only one out of four attributes, which is the independence attribute, was discussed in detail. Thus, the other three attributes – confidentiality, competence, and consistency of judgement – have yet to be discussed in detail. Thus, the current degree of Shariah Committee attributes may not be able to represent the overall degree of Shariah Committee's attributes in this sector.

Lastly, another scope of limitation for this study was observed while exploring the external arrangement of Shariah governance in this sector. Although the researcher was successful in identifying the external arrangement by SKM and ANGKASA based on the interviews conducted, there are also other factors that might contribute and influence this arrangement. Thus, this study only focused on exploring the arrangement without trying to explain the other factors that might contribute and influence the arrangements in this sector.

5.5 Suggestions for Future Research

Since this study only explored Malaysian Islamic Credit Co-operatives, further research can be done on other types of Islamic Co-operative. Also, it is beneficial for future research to examine the perspectives of other Shariah governance main bodies,

such as the Board of the Co-operatives, Shariah Committee and Internal Audit Committee, concerning the extent of their current roles and responsibilities in governing Shariah-related matters. This will provide a more balanced perspective among all the main bodies that have their own accountability with respect to Shariah governance. Thus, it will provide a significant finding with discussions concerning the perspective from each main body relating to their understanding of their roles and responsibilities. Hence, future research could evaluate the readiness and seriousness of these main bodies to ensure Shariah conformity in their respective co-operatives.

In addition, this study only uses the GP28: Shariah Governance for Co-operatives as a parameter to explore the gap between the current practices and the guideline. Therefore, future research could study the effectiveness and appropriateness of this guideline for co-operatives while implementing good Shariah governance practice. This future research could analyse the perspectives from various stakeholders in Malaysian Islamic Credit Co-operatives. Critical analysis can be undertaken to evaluate compliance with the guideline to monitor its effect several years after its introduction.

In addition, it is also useful to expand this research by considering the most suitable arrangement for co-operatives to establish the Shariah Committee function and practice good Shariah governance within the actual nature of the co-operative by taking into account their organisational capacity and size. This effort would help the regulator to classify the degree of their enforcement.