

CHAPTER III : RESEARCH METHODOLOGY

3.1 Introduction

This study aims to identify the internal and external arrangements concerning Shariah governance in the co-operative sector. Accordingly, the purpose of this research methodology section is to provide sufficient information about how this study is carried out. In addition, the overall procedure in carrying out the research in this study is also explained in this chapter in detail pertaining to how the research questions and objectives are answered. In this chapter, the appropriate methodology relies on the selected research design. Thus, this chapter carefully considers the source of data used in this study, the sample design, the data collection method and the data analysis of this study.

3.2 Research Objectives

In this section, the research discusses in detail the research objectives as explained in Chapter 1. The detailed research objectives are as follows:

1. *To explore the current practices of Shariah Governance in Islamic Credit Co-operatives.*

Due to the increasing number of co-operatives offering Shariah-based products with multiple underlying Shariah contracts, there is a need to appraise the way each Islamic Credit Co-operative establishes a Shariah Committee. The Shariah Committee plays a critical role in advising and supervising the Islamic Credit Co-operative on Shariah related matters, especially concerning the compliance of Shariah products. In

In addition, previous studies on Islamic banking highlighted that the establishment of a Shariah Committee enhances the stakeholders' value and credibility of Islamic banks, in this case, Islamic Credit Co-operatives. Even though credit co-operatives started to offer Shariah-based products in 1998, it was almost 20 years before SKM, as the regulator in this sector, issued the Guidelines of Shariah Governance for Co-operatives. Therefore, as a step towards the issuance of these guidelines, this study explores the roles and responsibilities of the main organ of Shariah governance in selected Islamic Credit Co-operatives from the perspective of management. Such findings will contribute towards identifying the current state regarding the implementation and adoption of Shariah governance guidelines. This study also signals the urgency for active supervision from a regulator to supervise and monitor the implementation of the Shariah governance guidelines issued by SKM. It constitutes an empirical study of Shariah governance practices in the co-operative sector.

2. *To explore the extent of the Shariah Committee's attributes in Islamic Credit Co-operatives.*

This second objective focuses on exploring the internal arrangement while establishing this function. It also examines the views pertaining to the attributes of the Shariah Committee in Islamic Credit Co-operatives in Malaysia from the perspective of Shariah Committee members. This study examines the credibility of the Shariah Committee in terms of the independence, confidentiality, consistency, competency, transparency and disclosure.

3. *To identify the external arrangement of Shariah governance practices in the Islamic credit co-operative sector.*

The third research objective aims to analyse the supervisory and monitoring roles and the challenges from the regulator's perspective in supervising the Shariah

governance practices in this sector. This study interviews the regulator as a respondent. The regulator is an important entity since it is they who are who crafting this sector through their policies and guidelines. This study also intends to explore the way that SKM manages this responsibility and provide some recommendations to improve its supervision and monitoring. In addition, this study also interviews ANGKASA, an Apex body for this sector, to identify the Shariah governance arrangements made by them.

3.3 Research Questions

To achieve the above objectives, the study identifies the following research questions (RQ) as outlined in Table 3.1 below:

No.	Research Objective	Research Questions
1.	To explore the current practices of Shariah governance in Islamic Credit Co-operatives.	What is the internal arrangement to establish the Shariah Committee function?
		What are the current roles and responsibilities of the main organs of Shariah governance?
2.	To explore the extent of Shariah Committee's Attributes in Islamic Credit Co-operatives.	What is the extent of the Shariah Committee's attributes in Islamic Credit Co-operatives.
3.	To explore the external arrangements of Shariah governance in Islamic Credit Co-operatives.	What are the roles and functions of ANGKASA as an Apex body?
		What is the regulatory approach by the regulator in respect of Shariah governance?

3.3.1 Research Objective 1- The Current Practices of Shariah Governance in Islamic Credit Co-operatives

For the first research objective, this study outlines two research questions. The research examines the extent of the current practice of Shariah governance in Islamic Credit Co-operatives in Malaysia in terms of their internal arrangement to establish a Shariah Committee function and also the current roles and responsibilities of the main organs of Shariah governance. Based on general preliminary observations, this study assumes that Islamic Credit Co-operatives will take different approaches to establish the Shariah Committee function. Therefore, this study looks at the approaches chosen by co-operatives to establish their own Shariah Committee function, either by appointing an in-house Shariah Committee or an external party as a Shariah Committee. In addition, the research also evaluates the current roles and responsibilities of the main organs of Shariah governance in selected co-operatives based on the GP28: Guideline of Shariah Governance for Co-operatives. This study looks at how the Boards of Co-operatives, Shariah Committees, management and Internal Audit Committees govern and ensure the implementation of good Shariah governance based on GP28.

3.3.2 Research Objective 2 – Shariah Committee’s Attributes in Islamic Credit Co-operatives

For this research objective, this study developed one research question, which aims to obtain the opinions of Shariah Committee members concerning their current attributes. The Shariah Committee function comprises four main attributes, namely, independence, confidentiality, competence, and consistency of judgement in the four selected Islamic Credit Co-operatives. Since the Shariah Committee plays a vital role in supervising them on Shariah related matters, it is important to evaluate their

attributes. In view of the above, this study provides a discussion on which attributes are crucial for the Shariah Committee to perform its functions.

3.3.3 Research Objective 3 – The External Arrangements of Shariah Governance in Islamic Credit Co-operatives

For the third research objective, this study outlines two research questions. The first research question evaluates the external arrangements made by ANGKASA as the Apex body in this sector. The second research question evaluates the arrangements made by the SKM as the regulator in this sector. In this case, the study assesses the arrangements in respect of the regulation structure by SKM and its commitment to supervise and monitor the Shariah governance practices in this sector. In addition, this study also looks at the arrangements put in place by ANGKASA and whether these efforts contribute towards a positive improvement to enhance and help co-operatives in respect of Shariah governance. Last but not least, this study also discusses the recommendation to improve Shariah governance practices in Islamic Credit Co-operatives. This recommendation addresses the importance of Shariah governance and highlights the additional efforts that could be made towards the successful implementation of the Shariah governance practices in Islamic Credit Co-operatives.

3.4 Research Design

The research is designed based on systematic inquiry consisting of data gathering, analysis of findings, and drawing a properly supported conclusion (Merriam, 2015). This research is designed using primary data as it attempts to examine the current practices of Shariah governance in Islamic Credit Co-operatives in Malaysia. Therefore,

it is best to approach the samples directly with the person related to Shariah governance practices, such as management and Shariah Committee members. Meanwhile, this study also approached ANGKASA and SKM as the most significant external parties to the Islamic Credit Co-operatives to obtain a holistic perspective concerning the arrangement of Shariah governance in this sector.

According to Sekaran (2003), primary data helps to provide actual and direct data to achieve the research objectives. As there is insufficient research done on the Shariah governance practices, it is best for this study to examine the current practice and perceptions of the respondents to gain an overall picture concerning the practice of Shariah governance in Islamic Credit Co-operatives in Malaysia. Semi-structured interviews are used.

3.4.1 Methodology

In short, this study was conducted using the qualitative research method as most of the data were collected through interviews. 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 (Merriam, 2009). Meanwhile, Zikmund, Babin, Carr, & Griffin (2010) described qualitative research as involving:

“...data that are not characterized by numbers, and instead are textual, visual, or oral; focus is on stories, visual portrayals, meaningful characterization, interpretations, and other expressive description.”

Hence, for the purpose of this study, implementing qualitative research helps the researcher interpret and gain a deeper understanding of the current Shariah governance practices in Islamic credit co-operatives. Thus, this type was chosen and justified for

the following reasons. First, one of the important aspects of this research is to understand the history, nature, and the operational structure of the co-operative sector and the emerging issues. Hence, it involves an extensive review of historical events and documents. Subsequently, in-depth interviews were used to gain a detailed understanding of the nature, and describe the significant events, decisions, situations and practices. This study sought to understand the strategy of how credit Islamic co-operatives responded to the issuance of GP28: A Guideline of Shariah Governance as required by the Malaysia Co-operative Societies Commission.

Second, the ultimate aim of this research was to explore the current practices of the Shariah governance system and the external arrangements consisting of the regulatory structure and other institutions, such as ANGKASA, which play a significant role in respect of Islamic credit co-operatives. Thus, this information is complex and must be acquired from the right resources, and, hence, can only be answered by the co-operatives, the Shariah Committee members, ANGKASA and the regulator in this sector. Third, since this study depends on people's knowledge, understanding, views, interpretations, experiences and interactions to answer the research questions and objectives, conducting in-depth interviews is the most suitable and relevant for this study. Third, according to Zikmund et al. (2010), in-depth interviews provide greater insight into particular individuals, and the respondents are likely to discuss sensitive issues unlike when in a focus group. Consequently, the researcher plays a critical role in encouraging the respondents to talk freely to obtain valuable and high-quality information for the sake of this study.

Last but not least, the interview questions were designed to ensure that the respondents give their perspective and share their ideas based on their own experience, information or views concerning the relevant issues. In summary, the researcher relies

on primary data, which were sought through semi-structured interviews with representatives from Islamic credit co-operatives, Shariah Committees, Shariah Units, ANGKASA and SKM. In addition, secondary data, such as articles, published journals, co-operative documents and annual reports were obtained to support the input from the interviewees. Hence, table 3.1 shows the simplified research methodology used by the researcher while conducting this research:

Research Question	Method	Analysis
1. What is the current practice of Shariah governance in the co-operative sector?	In-depth interviews with semi-structured questions	Manual analysis of semi-structured interviews:
2. What is the internal arrangement for establishing the Shariah Committee function in the co-operative sector?		- Transcribing
3. What is the external arrangement for the Shariah governance practices in the co-operative sector?		- Manual coding - Interpreting - Describing

3.4.2 Exploratory Study

This study examines the current practices of the Shariah governance in Islamic Credit Co-operatives in Malaysia. As Shariah governance is a new area in this sector, the research adopts an exploratory study to obtain a true picture of the way Shariah governance is practised in each Islamic Credit co-operative in Malaysia. After the issuance of the Shariah governance guideline for co-operatives by SKM in 2015, each Islamic Co-operative that offers a Shariah-based product is required to have a Shariah governance system in place.

According to Cooper and Schindler (2006), an exploratory study is the best method when there is a shortage of clear ideas on the subject matter. As no prior

prediction on the relationship between the variables could be met, this research could not develop any hypotheses. Also, primary data are used as the study aims to approach the people and individuals related to the arrangement of Shariah governance practice at the institutional level as well as at the national level.

3.2 Data Collection Methods

Data can be collected in a variety of ways and from different sources (Sekaran, 2003, p.223). The data for this study were collected via semi-structured face-to-face interviews with key personnel involved in the preparation of the annual reports. The following subsections discuss the process of retrieving the data from the annual reports, selecting the sample for the interviews and the interview process.

3.3.1 Study Population and Sample

To date, 87 co-operatives are registered with SKM as Shariah-based co-operatives. These co-operatives perform various functions, such as credit, investment, and banking. They are considered to be Shariah-based co-operatives once they offer Shariah-based products to their members. For this study, the sample consists of four Shariah-based co-operatives with a credit function, known as Islamic Credit Co-operatives. To ensure the findings are unbiased, the selected Islamic Credit Co-operatives have three similar characteristics (see **Appendix 1**):

- i. They are listed in the Index of 100 Co-operatives Best Performance by

- ii. The credit co-operative offers an Islamic credit facility to their members (Co-operative with credit function)
- iii. The co-operatives have instituted a Shariah Committee function for their respective co-operative

Due to the concept of anonymity and confidentiality, as suggested by Wiles et al. (2008), the selected Islamic Credit Co-operatives are not mentioned by their real names. In addition, the information obtained from the interviews are categorised as a primary source. Therefore, it is unethical to reveal the identity of the selected Islamic philanthropic institutions. Regarding the number of samples, there is no pre-defined number when selecting samples (Patton, 1990). However, Perry (1998) suggested taking several samples for better findings. Thus, four Islamic Credit Co-operatives, known as Co-op 1, Co-op 3, Co-op 3 and Co-op 4, were selected as the sample for this study.

Since the study explores the internal Shariah governance practices in these four selected Islamic Credit Co-operative, interviewees from these co-operatives were selected on a purposive sampling basis (Patton, 1990). This requires the selected interviewees to have direct experience and involvement regarding Shariah governance in their co-operatives. Hence, it is useful to obtain the perceptions of the management for research objective 1, since they are one of the main organs of Shariah governance. Management are a vital organ for implementing and ensuring that the day-to-day operations conform to the Shariah principles. In addition, they are also directly engaged with the other main organs; thus, gaining their perception can demonstrate the extent of the roles of the main Shariah organs and how Shariah governance is being practised in Islamic Credit Co-operatives. This study chose the senior officials from the respective co-operatives who engage with all the other main organs for Shariah governance.

For research objective 2, this study also adopted a purposive sampling approach for the group of Shariah Committee members in each selected Islamic Credit Co-operative. However, due to the busy schedule of the respondents and because many serve on the Shariah boards of more than one co-operative, only three Shariah Committee members were willing and relevant to be interviewed. The reason for choosing the Shariah Committee members as the interview respondents is because they are the team who perform an oversight role on any Shariah related matters that might arise from the business operations and activities of the Islamic Credit Co-operatives. Therefore, as a means of supervision, they are expected to have a high degree of independence, confidentiality, competency and also consistency in their judgements. Hence, as the Shariah Committee members are partially involved in the Shariah governance practices and the most crucial external parties to the Islamic Credit Co-operatives, this study evaluates their attributes while performing this oversight role. This study chose three respondents sitting on the Shariah boards of the co-operatives that undertook two different approaches, i.e. appointing an internal Shariah Committee and appointing an external Shariah Committee (ANGKASA). Two Shariah Committee members represent the internal Shariah Committee for Co-op 1 and Co-op 2, and one Shariah Committee member represents the external Shariah Committee (ANGKASA) for Co-op 3 and Co-op 4.

For research objective 3, this research evaluates the external arrangements of Shariah governance in this sector. Therefore, this research adopted purposive sampling to choose only one respected individual as the representative from ANGKASA's Shariah Unit and also SKM's Shariah Unit to explain the current arrangements made by their respective institutions. Therefore, to obtain the most reliable and accurate responses to portray the current arrangement by these institutions the head of

ANGKASA's Shariah Unit and the head of SKM's Shariah Unit were chosen. The head of the unit is the person in a managerial position who coordinates the Shariah governance practice.

Therefore, as suggested by Cooper and Schindler (2006), it is hoped that the samples selected is able to provide the information needed for this research and to enable a conclusion to be drawn for the entire population. Table 3.3 below summarises each research objective with the targeted unit analysis and research instruments for data collection.

Research Objective	Unit of Analysis	Instruments
1. What is the current practice of Shariah governance in the co-operative sector?	Individual: Senior Official and above	Semi-structured Interviews
2. What is the internal arrangement for establishing a Shariah Committee function in the co-operative sector?	Shariah Committee member	
3. What is the external arrangement of Shariah governance practice in the co-operative sector?	Head of Shariah Unit (ANGKASA and SKM)	

3.3.2 Interviews

According to Kumar (2014), an interview is an interaction of any person to person, either face-to-face or otherwise, between two or more individuals with a specific purpose in mind. Interviews can be structured or unstructured, and can be conducted face-to-face, by telephone or online (Sekaran, 2003 and Kumar, 2011). Some other books classified interviews into three types – structured, semi-structured and unstructured (Merriam, 2015) – which are defined as follows:

- a. **Structured interview:** This type of interview is designed to elicit information using a set of predetermined questions that are expected to elicit the respondents' thoughts, opinions, and attitudes about study-related issues. The interviewer is required to ask the interviewee to respond to each question exactly as worded to offer each interviewee approximately the same stimulus so that, ideally, the responses to questions will be comparable.
- b. **Semi-structured interview:** This type of interview involves the implementation of a number of predetermined questions and special topics. The questions are typically asked of each interviewee in a systematic and consistent order, but the interviewer has the freedom to digress or to probe far beyond the answers to their prepared standardised questions.
- c. **Unstructured interview:** This type of interview does not use schedules of questions; hence, the interviewer must develop, adapt and generate questions and follow-up probes appropriate to each given situation and the central purpose of investigation. Normally, interviewers begin with the assumption that they do not know in advance what all the necessary questions are.

Based on the above definitions, it was decided that the most appropriate type of interview to be used in this study for all the research objectives is the semi-structured interview. According to Lebar (2006), semi-structured interviews are appropriate to explain the main domain and factors involved in the research. Semi-structured interviews also allow the interviewees to answer questions in their own words and encourage them to elaborate on their responses. Consistent with this study, the objective of this study can be achieved by interviewing key personnel in the Islamic Credit Co-operatives, Shariah Committee members and the heads of the Shariah Units of

ANGKASA and SKM. The reason for using semi-structured interviews to answer all the research questions in this study is because it allows the researcher to respond to the situation at hand, to the emerging perspective of the respondent, and to new ideas on the topic. It also gives an opportunity to the respondent to express their thinking in a spontaneous way.

3.4.2.1 Organising Interview

Before conducting the personal interviews, this study constructed an interview guideline to direct the interviewees during the interview session. The interview guideline included a list of questions. For this study, four general questions were developed to answer research question number one (RQ1), four general questions to answer research question number two (RQ2), and three general questions to answer research question number three (RQ3). Regarding the interview questions, although all the questions were constructed in English, the interview sessions were conducted in Bahasa Malaysia, as the interviewees were more proficient and expressed their preference accordingly. Thus, all the interview questions were translated into Bahasa Malaysia. All the data collections were in Bahasa Malaysia and were subsequently translated into English for reporting the findings and discussion. The detailed questions in the interview guideline for the research questions can be found in **Appendix 2-5**.

The interviews were conducted face-to-face with the respondent. Gillham (2000) stated that face-to-face interviews are suitable when the interviews require extended responses with prompts and probes. This type of interview is usually used when a small number of people are involved, and is considered to be the most

appropriate approach to gain the respondent's trust when sensitive material is involved. Before organising the interviews, all the respondents were personally contacted to arrange a time and place that was convenient for them. The interview sessions lasted 45 to 60 minutes depending on the length of the response of each respondent. With the permission of the respondents, the interviews were recorded using a digital voice recorder.

3.4 Data Analysis

According to Glesne (2005), data analysis involves organising what we have seen, heard and read so that we can make sense of what we have learned. As discussed in the previous sections, this study collects collected data via interviews. Therefore, the data analysis activity in this study will involved interview transcriptions. Generally, this study will conducted in-depth interviews to answers all the research question. The analysis of the data retrieved from the annual reports will bewas completed prior to the interviews. Subsequently, this the study will conducted interview data analysis of the interviews manually. As the interviews will involved a small number of respondents, thus manual analysis is was deemed more appropriate than software analysis for in respect of costs and time saving.

The responses are were recorded and data is pre-coded to classify the responses. Here, the study uses used thematic analysis to analyses the interview responses. The thematic analysis evaluates the findings based on the majority opinions given by the respondent based on the topic discussed. According to Cooper and Schindler (2006: 449), thematic analysis is "a research technique for the objective, systematic and

quantitative description of the manifest content of communication”. Hence, this study uses thematic analysis as one type of content analysis to appreciate and make sense of the data obtained from the discussion with the interviewees by formulating some themes of reflecting their thinking and responses (Cresswell, 2012). For instance, Cooper and Schindler (2006) added that thematic analysis includes examining the topics within the questions to make the findings more sensible and meaningful.

To analyse the interview data using thematic analysis, the responses are were grouped into a few significant themes to answer all the research objectives. The following Table 3.4 summarises the themes for the interview data analysis according to each research question and the questions asked in the interview session.

Research Objectives	Research Questions	Topics	Interview Questions
Research Objective	Research Question	Topic	Interview Question
1. To explore the internal arrangement of the current practice of Shariah governance in the Islamic Credit Co-operative sector	What are the internal arrangements to establish the Shariah Committee functions?	Method of establishing the Shariah Committee function	Question 2
		The accountability of the Board of the Co-operative	Question 1
	What are the roles and responsibilities of the Shariah Governance main organs?	Advisory and monitoring role of the Shariah Committee	Question 2
		Absence of proper Shariah internal Control	Question 3

2. To examine the attributes of the Shariah Committee in the Credit Co-operative sector	What is the extent of the Shariah Committee Attributes in the Islamic Credit Co-operatives?	Competency of Internal Audit Committee to provide an independent assessment of Shariah compliance	Question 4
		The independence of the Shariah Committee	Question 1
		The confidentiality of the Shariah Committee	Question 2
		The competency of the Shariah Committee	Question 3
3. To explore the external arrangement of Shariah Governance in the Credit Co-operative sector	What is the external arrangement of Shariah governance practices in the co-operative sector?	The consistency of judgement of the Shariah Committee in the Co-operative sector	Question 4
		Arrangement from ANGKASA	Question 1-2

3.5 Conclusion

This chapter discussed in detail the research objectives and questions to be answered by this study. Furthermore, it discussed the research methodology adopted throughout the study. This chapter explained the process of selecting the sample and the method of collecting data as well as the procedure for selecting the interviewees. Finally, this chapter discussed the processes of analysing data to obtain the empirical results of this study. It is hoped that the detailed findings on the current practice of Shariah governance will contribute to improvements in this area. Consequently, it would also boost the confidence of stakeholders concerning the state of conformity of Islamic Credit Co-operatives.