A Shari'ah-Compliant Framework for Value Creation: A Case Study of the State Islamic Religious Council

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ABSTRACT

This study developed a Shari'ah-compliant framework for evaluating and reporting value creation within the State Islamic Religious Council (SIRC) in Malaysia. The framework integrated conventional metrics with Islamic ethical principles, addressing the unique needs of Islamic organizations such as the SIRC. Employing qualitative research, including document analysis and in-depth interviews with key stakeholders, the study identified gaps in current practices, such as limited Shari'ah integration and lack of standardized guidelines. The proposed framework emphasizes a holistic approach to value creation, encompassing financial, social, and environmental dimensions aligned with the Maqasid al-Shari'ah. It includes a robust Shari'ah governance structure, enhanced stakeholder engagement, and transparent reporting mechanisms. By incorporating these elements, the framework aims to improve the transparency, accountability, and alignment with Islamic values of SIRC, thereby enhancing its effectiveness in serving the Muslim community in Malaysia. The findings contribute to the broader discourse on Islamic governance, offering practical recommendations for Islamic organizations.

Keywords: Shari'ah compliant, value creation, Islamic governance, State Islamic Religious Council

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INTRODUCTION

Value creation within organizations is a multifaceted concept encompassing financial, social, and environmental dimensions. It extends beyond mere financial gains to include social contributions and environmental sustainability (De Martino, 2021; Kullak, Baker & Woratschek, 2021). For Islamic organizations governed by Shari'ah principles, value creation must also align with Islamic ethical and moral guidelines, emphasizing justice, equity, and the overall well-being of the community (Hanic & Smolo, 2023). This necessitates a unique approach to evaluating and reporting value creation efforts.

In Malaysia, the administration of Islamic affairs is outlined in the 9th Schedule of the Federal Constitution, which grants states jurisdiction over personal laws, the creation of offences, inheritance distribution, the establishment and procedures of the Syariah Court, and the determination of matters related to Islamic principles (Ali Mohamed & Ahmad, 2021; Mokhtar, 2023).While the Federal Constitution allows states to manage Islamic affairs, it does not prevent the Federal government from enacting laws on other Islamic matters, such as banking and Islamic education.

Key federal institutions involved in managing Islamic matters in Malaysia include the Conference of Rulers, the National Council of Islamic Affairs, and the National Fatwa Council. The Department of Islamic Development (JAKIM), under the Prime Minister's Department, serves as the secretariat for both the National Council of Islamic Affairs and the National Fatwa Council. Additionally, the Prime Minister's Department oversees the Syariah Judiciary Department of Malaysia (JKSM) and the Department of Awqaf, Zakat, and Hajj of Malaysia (JAWHAR). The Attorney General's Chambers (AGC) also plays a crucial role in drafting legislation related to Islamic affairs (Chiroma, Arifin, Ansari & Abdullah, 2014; Shuaib, 2018).

As indicated in Table 1, the Conference of Rulers is at the top of the Islamic administration hierarchy, with constitutional empowerment. To aid in managing Islamic affairs, the Conference of Rulers has established two auxiliary bodies: the National Council of Islamic Affairs, which includes the Chief Ministers of the states, and the National Fatwa Committee, composed of state Muftis. Both councils also include additional members appointed by the Conference of Rulers.

Table 1: Administration of Islamic Matters in Malaysia

Conference of Rulers National Council of Islamic Affairs National Fatwa Committee	
Federal Islamic Religious Department under the PMO	**State Islamic Religious Council (SIRC)**
Department of Islamic Development Malaysia (JAKIM)	Islamic Religious Department
Shariah Judiciary Department of Malaysia (JKSM)	Department of Islamic Judiciary
Department of Awqaf, Zakat dan Haj (JAWHAR)	Department of Mufti

The State Islamic Religious Councils (SIRCs) play a pivotal role in the administration of Islamic affairs. Each state has its own SIRC, established under respective state laws, responsible for managing various aspects of Islamic life, including religious education, mosque administration, zakat collection and distribution, and the implementation of Shari'ah law (Mahadi, Sariman, Noordin, Mail & Ab Fatah, 2018; Masruki, Hussainey & Aly, 2018). The SIRCs ensure that religious practices and policies align with Islamic teachings and operate under state jurisdiction while being coordinated at the federal level. Table 2 below summarizes the list of SIRC in Malaysia.

Table 2: List of SIRC in Malaysia based on States

No	States	SIRC
1	Kelantan	Majlis Agama Islam dan Adat Istiadat Melayu Kelantan
2	Terengganu	Majlis Agama Islam dan Adat Melayu Terengganu
3	Pahang	Majlis Ugama Islam dan Adat Resam Melayu Pahang
4	Perlis	Majlis Agama dan Istiadat Melayu Perlis
5	Johor	Majlis Agama Islam Negeri Johor
6	Kedah	Majlis Agama Islam Negeri Kedah
7	Selangor	Majlis Agama Islam Selangor
8	Perak	Majlis Agama Islam & Adat Melayu Perak
9	Negeri Sembilan	Majlis Agama Islam Negeri Sembilan
10	Melaka	Majlis Agama Islam Melaka
11	Penang	Majlis Agama Islam Negeri Pulau Pinang
12	Wilayah Persekutuan	Majlis Agama Islam Wilayah Persekutuan
13	Sabah	Majlis Agama Islam Sabah
14	Sarawak	Majlis Islam Sarawak

Beyond religious duties, SIRCs are involved in social and economic activities aimed at improving the welfare of the Muslim community. They manage Islamic charitable funds, such as zakat and waqf (endowments), to support educational initiatives, healthcare services, and poverty alleviation programs (Wahid, Ahmad, Nor & Rashid, 2017). Given their significant responsibilities, it is believed that SIRCs must adhere to high standards of governance, transparency, and accountability, especially in Malaysia's multicultural and multi-religious context (Sawandi, Derashid, Ismail, Bakar, Wahab & Shaari, 2023). Integrating Shari'ah principles into their operations enhances their credibility and effectiveness in serving the Muslim community.

However, existing frameworks for evaluating and reporting value creation often lack integration with Shari'ah principles, leading to critical issues for Islamic organizations like the SIRCs (Kasri & Kamal, 2021; Siraj, 2012). Current practices primarily focus on financial metrics and conventional corporate social responsibility (CSR) activities (Abd Aziz, Abd Ghadaz & Zawawi, 2021; Hanic & Smolo, 2023; Harun, Hussainey, Mohd Kharuddin, & Farooque, 2020), neglecting the unique ethical and moral dimensions emphasized by Shari'ah. This misalignment can undermine the credibility and religious integrity of the SIRC's operations. Additionally, there is a significant gap in standardized guidelines that integrate

Shari'ah principles into value creation metrics, resulting in inconsistencies in reporting contributions to the community (Ramli, Ali & Muhammed, 2018).

Based on the preliminary interview conducted with the representative from one the SIRCs, it was found that many staff members within the Islamic organizations lack a comprehensive understanding of how to implement Shari'ah-compliant evaluation and reporting practices, thus hindering the effective integration of Islamic ethical considerations into organizational governance. However, measuring social justice, community well-being, and environmental stewardship from a Shari'ah perspective presents unique challenges, as conventional metrics often fall short in capturing the holistic nature of value creation defined by Islamic principles. Therefore, without a clear Shari'ah-compliant framework, SIRCs may struggle to maintain transparency and build trust among stakeholders, especially the Muslim community and beneficiaries. This lack of transparency can undermine the SIRCs' ability to demonstrate their commitment to their religious and ethical obligations effectively (Masruki & Azizan, 2020).

This study aimed to contribute to the existing literature by proposing a comprehensive Shari'ah-compliant framework that integrates conventional value creation metrics with Islamic ethical considerations. Using a qualitative research methodology, including document analysis and in-depth interviews with key stakeholders within the SIRC, this study explored current practices and identified areas for improvement.

LITERATURE REVIEW

Value Creation and Reporting in Islamic Organizations

Value creation in organizations is typically assessed through financial performance, stakeholder satisfaction, and social impact (Battisti, Miglietta, Nirino & Villasalero Diaz, 2020; Hall, 2018). However, for Islamic organizations, value creation must also be evaluated in light of Shari'ah principles, which emphasize justice, fairness, and the well-being of the community (Hanic & Smolo, 2023; Kamaruddin & Auzair, 2020). The distinct nature of Islamic organizations necessitates a framework that not only measures conventional financial metrics but also incorporates the ethical and moral dimensions rooted in Islamic teachings (Rosli, Dahlal & Elgharbawy, 2021). This holistic approach is rooted in the Maqasid al-Shariah (the objectives of Shariah), which emphasizes the protection of faith, life, intellect, lineage and wealth. As such, Islamic organizations strive to create value that benefits not only their shareholders but also the broader community and environment (Mohammad & Nurhasanah, 2021).

Previous studies have highlighted the importance of the creation of spiritual and ethical values in Islamic organizations. This includes fostering principles such as integrity, justice and hard work. For instance, Asutay, Buana and Avdukic (2022) demonstrated that Islamic work ethics (IWE) positively influenced job satisfaction and organizational commitment by fostering a sense of purpose and ethical behavior among employees. Their research showed that Islamic spirituality, when integrated into workplace ethics, can enhance employee engagement and loyalty, ultimately benefiting organizational performance. Consistently, Qasim, Irshad, Majeed and Rizvi (2022) found that psychological capital mediates the relationship between IWE and task performance, while ethical leadership moderates the connection between IWE and psychological capital. These findings collectively underscore the integral role of ethical values in cultivating a workplace environment that balances spiritual values with professional excellence, ultimately driving enhanced organizational outcomes.

Moreover, Islamic organizations are expected to be committed to social welfare and environmental stewardship. Hassan and Abdul Latiff (2009) for instance proposed a collaborative approach between corporations, Islamic financial institutions (IFIs) and charitable foundations to enhance the allocation of corporate resources to the social sector. It was believed that this approach will ensure that corporate social responsibility optimizes value, offering the corporate sector a new set of competitive tools that justify resource investment. Simultaneously, this strategy may unlock a more powerful means of making the world a better place.

For Islamic organizations, although economic and financial stability is essential, it must be balanced with ethical considerations. Islamic organizations including IFIs are required to avoid transactions involving usury (*riba*) excessive uncertainty (*gharar*) and speculative behavior (*maisir*) (Abd Rahman et al., 2021; Aziz and Rahman, 2023). Instead, they are expected to engage in a profit-and-loss sharing arrangement that creates positive value and align the best interest of investors and entrepreneurs (Harun & Halim, 2020).

Several studies have examined the intersection of Islamic principles and organizational governance reporting. Haniffa and Hudaib (2007) highlighted the importance of incorporating Shari'ah principles into corporate governance frameworks to ensure ethical behavior and accountability. Their research indicated that Islamic organizations, particularly Islamic banks, should communicate their ethical identity through annual reports, which could serve as a tool for ethical accountability. They argued that transparency in reporting not only enhanced the organization’s credibility but also aligned with the broader objectives of Shari'ah, which include social justice and public welfare.

Maali, Casson, and Napier (2006) also argued that Islamic organizations must adopt reporting practices that reflect their religious and ethical obligations. Their study on social reporting by Islamic banks suggested that these institutions should go beyond financial disclosure to include information about their social and ethical impact. They proposed that Islamic banks should report on how their operations contribute to the social good, reflecting the Islamic principle of *maslahah* (public interest). This approach ensures that the banks’ activities are in line with the objectives of Shari'ah, which prioritize social equity and the well-being of the community.

In the context of value creation, Islamic organizations are expected to fulfill their roles as ethical entities that contribute positively to society. This expectation is deeply rooted in the maqasid al-Shari'ah (objectives of Shari'ah), which aim to protect and enhance faith, life, intellect, progeny, and wealth. Therefore, a comprehensive value creation framework for Islamic organizations must incorporate these dimensions to ensure that their operations are not only financially viable but also ethically and socially responsible.

Underpinning Theory: Maslahah Mursalah Theory

The concept of maslahah (public interest) is central to Islamic jurisprudence and ethical reasoning. Maslahah Mursalah, or unrestricted public interest, refers to the consideration of public welfare in the absence of specific textual evidence from the Qur'an or Sunnah. This Theory is employed to promote the well-being of the community and ensure that Islamic rulings remain relevant and beneficial in changing circumstances (Hirsanuddin, Asmara & Abdul, 2021; Husain, Abd Majid, & Rab, 2017).

The application of Maslahah Mursalah theory in organizational governance emphasizes the importance of actions and policies that benefit the community and avoid harm. This theory aligns with the broader objectives of Shari'ah, which include the protection and enhancement of essential human interests. By incorporating Maslahah Mursalah into their governance and reporting frameworks, Islamic organizations can ensure that their activities are not only legally compliant but also ethically sound and socially beneficial.

Shari’ah Compliant Frameworks

The development of Shari'ah-compliant frameworks has been explored in various contexts, including Islamic finance, corporate governance, and social responsibility. Chapra (2008) emphasized the need for a holistic approach to governance that integrates Shari'ah principles with contemporary management practices. He argued that Islamic governance should encompass not only compliance with Islamic law but also the promotion of ethical conduct, social justice, and economic equity. This holistic approach ensures that the organization's activities are in harmony with the ethical and moral values of Islam.

Dusuki and Abdullah (2007) proposed a Shari'ah-based approach to corporate social responsibility (CSR), highlighting the role of Islamic ethical values in guiding organizational behavior. They argued that the concept of CSR in Islam is not limited to charitable activities but extends to all aspects of business operations. Their model of Islamic CSR emphasizes the importance of social justice, environmental stewardship, and economic fairness, which are integral components of Shari'ah. This approach aligns with the broader objectives of Islamic law and provides a comprehensive framework for assessing the social and ethical impact of business activities.

Despite these contributions, there is a lack of comprehensive frameworks specifically designed for evaluating and reporting value creation in Islamic organizations. Existing frameworks often focus on specific aspects such as financial performance or CSR but do not provide an integrated approach that encompasses all dimensions of value creation from a Shari'ah perspective. This gap highlights the need for a tailored framework that addresses the unique requirements of Islamic organizations, particularly those involved in managing religious and social affairs.

In the Malaysian context, the need for a Shari'ah-compliant framework is particularly pertinent given the significant role of institutions like the State Islamic Religious Council (SIRC). The SIRC is responsible for managing various aspects of Islamic life, including religious education and the administration of Islamic wealth such as zakat and waqf (Mahadi, Sariman, Noordin, Mail & Ab Fatah, 2018). Therefore, a comprehensive framework that integrates Shari'ah principles into the evaluation and reporting processes is essential for ensuring that the SIRC's activities align with its religious and ethical obligations (Kasri & Kamal, 2021).

This study sought to address this gap by proposing a Shari'ah-compliant framework tailored to the needs of the SIRC in Malaysia. The proposed framework aimed to provide a holistic approach to value creation that incorporates financial, social, and environmental metrics, while also aligning with the ethical and moral values of Islam. By integrating Shari'ah principles into the evaluation and reporting processes, the framework aimed to enhance the transparency, accountability, and overall governance of the SIRC, thereby contributing to the well-being of the Malaysian Muslim community.

RESEARCH METHODOLOGY

This study employed a qualitative research design to explore the development and implementation of a Shari'ah-compliant framework for evaluating and reporting value creation within the SIRC in Malaysia. The research methodology involved two main components: document analysis and in-depth interviews.

Document Analysis

The document analysis focussed on reviewing existing reports related to the evaluation and reporting practices of the SIRC. This included analyzing latest annual reports and other relevant documents such as bulletin, financial statements and statistics available in the SIRCs' websites to identify the current practices and any gaps in value creation reporting. By analyzing these documents, the study aimed to understand the extent to which Shari'ah principles were currently integrated into the reporting practices.

Interviews

In-depth interviews were conducted with key stakeholders within the SIRC, including management and Shari'ah experts as listed Table 3 below. The series of interview swere conducted between January and March 2024. Each interview session took between 30 to 45 minutes. The interviews aimed to gather insights into the current practices, challenges, and perspectives on integrating Shari'ah principles into the evaluation and reporting processes. Participants were selected based on their roles and expertise in the organization, ensuring a comprehensive understanding of the internal dynamics and external pressures influencing the SIRC’s practices. The interview questions were designed to explore themes such as the awareness and understanding of Shari’ah principles, the perceived benefits and challenges of Shari’ah compliant framework reporting, and suggestions for improving the current framework.

Table 3: List of Participants Interviewed

No.	Participants	Roles
1	Participant 1	Manager of SIRC 1
2	Participant 2	Manager of SIRC 2
3	Participant 3	Manager of SIRC 3
4	Participant 4	Executive officer of SIRC 4
5	Participant 5	Executive officer of SIRC 5
6	Participant 6	Shari’ah expert
7	Participant 7	Financial reporting expert

Data Analysis

The data collected from document analysis and interviews were analyzed using thematic analysis. Thematic analysis involved identifying, analyzing, and reporting patterns (themes) within the data. This approach allowed for a comprehensive understanding of the current practices and the development of a Shari'ah-compliant framework. Initially, the data were coded to identify significant phrases and concepts related to Shari’ah compliance and value creation. These codes were then grouped into broader themes that reflected the underlying patterns in the data. Themes such as “alignment with Shari’ah principles”, “transparency in reporting”, and “stakeholder engagement” emerged, providing an overall understanding of the SIRC’s practices. The final step involved synthesizing these themes to propose a Shari’ah-compliant framework for value creation reporting, which included practical recommendations for implementation. To ensure the reliability and validity of the findings, this study employed triangulation by cross-referencing the data obtained from document analysis and interviews.

FINDINGS AND DISCUSSIONS

Current Practices in Value Creation Reporting

The document analysis revealed that the SIRC in Malaysia currently employed a range of metrics to evaluate and report its value creation efforts. These metrics primarily focussed on financial performance, operational efficiency, and social impact especially on the distribution of zakat funds. Financial performance metrics included revenue generation, budget utilization, and cost-efficiency indicators. For the majority of SIRCs, their main revenue was from zakat, followed by investment by subsidiary companies, grant and waqf. The following Table 4 was extracted from Majlis Agama Islam Wilayah Persekutuan (MAIWP) annual report, showing that the majority of the income for the year 2022 was from zakat collection.

Table 4: Revenues of MAIWP for the Year Ended 2022

No.	Revenue	Amount (RM)	Percentage
1	Zakat collection	930,551,372	68.60%
2	Zakat amil	135,773,135	10.01%
3	General waqf	1,940,810	0.14%
4	Grant	34,242,848	2.52%
5	Rental	5,279,701	0.39%
6	Investment	16,747,097	1.23%
7	Tuition fees	16,354,647	1.21%
8	Subsidiary	135,468,217	9.99%
9	Others	80,123,863	5.91%
	Total	**1,356,481,690**	**100%**

Source: MAIWP Annual Report (2022)

Operational efficiency was assessed through metrics such as service delivery timelines, resource allocation effectiveness, and process optimization. This included the effectiveness of the SIRCs in distributing the zakat funds to the recipients (or also known as *asnaf*) and management of the Muslim's wealth such as waqf (charitable endowment held in trust), *hibah* (benevolent contract for the unilateral transfer of ownership of an asset) and *faraid* (inheritance of a deceased's property to the heirs).

In general, SIRCs play a very important role for social development and well-being of the Muslim community in Malaysia through the distribution of Muslims' wealth. For the purpose of this study, social impact was evaluated using measures such as the number of beneficiaries served, the extent of community outreach programs, and the impact of educational and welfare initiatives.

Despite the comprehensive nature of these metrics, there was limited integration of Shari'ah principles in the evaluation and reporting processes. This gap was evident in several areas:

- **Financial reporting:** Although several SIRCs published their financial performance on their websites, many still lack comprehensive reporting. They tended to focus more on reporting the amounts of zakat collected and distributed, without providing detailed information on their activities and operational expenses. Additionally, the annual report of several SIRCs were somewhat outdated. These issues were not aligned with Shari'ah principles, which emphasized accountability, transparency and timeliness.
- **Operational efficiency:** The current metrics for operational efficiency were primarily concerned with quantitative measures such as processing

times and resource utilization rates. However, they did not fully capture the ethical dimensions of Shari'ah compliance, such as the equitable treatment of employees, ethical procurement practices, and the avoidance of waste (israf). The absence of these considerations meant that operational practices were not fully aligned with Islamic ethical standards.

- **Social impact reporting:** Although the SIRC reported on various social impact initiatives, these reports often lacked a Shari'ah-compliant framework that evaluated the ethical and moral implications of their activities. For example, while the number of beneficiaries and the scope of community programs were recorded, there was little assessment of how these initiatives contributed to the broader objectives of maqasid al-Shari'ah (the objectives of Shari'ah), such as the preservation of faith, life, intellect, progeny, and wealth.
- **Lack of standardized Shari'ah compliant metrics:** There was an absence of standardized guidelines for integrating Shari'ah principles into value creation metrics. This lack of standardization resulted in inconsistencies and variations in how different aspects of value creation are measured and reported. For instance, while some departments within the SIRC considered Shari'ah principles in their reporting, others did not, leading to a fragmented and incomplete picture of the organization's overall compliance with Islamic values.
- **Limited training and awareness:** The limited integration of Shari'ah principles was also attributable to a lack of training and awareness among SIRC staff. Many employees did not have a deep understanding of how to apply Shari'ah principles in their daily operations and reporting activities. This knowledge gap hampered the organization's ability to develop and implement a comprehensive Shari'ah-compliant reporting framework.
- **Stakeholder engagement:** Current reporting practices did not sufficiently involve stakeholders in the evaluation process. Effective stakeholder engagement is crucial for understanding the diverse needs and expectations of the Muslim community and ensuring that the SIRC's activities align with these expectations. Without robust stakeholder feedback mechanisms, the SIRC missed opportunities to refine its value creation metrics to better reflect Shari'ah principles.

Therefore, while the SIRC in Malaysia employed a range of metrics to evaluate and report its value creation efforts, there was a significant gap in integrating Shari'ah principles into these processes. The current practices focussed primarily on conventional financial, operational, and social impact metrics, with limited consideration of the ethical and moral dimensions emphasized by Islamic teachings. Addressing these gaps requires the development of standardized Shari'ah-compliant guidelines, enhanced training and awareness programs for staff, and more robust stakeholder engagement mechanisms to ensure that the SIRC's activities are aligned with Shari'ah principles and the broader objectives of Islamic governance.

Challenges in Integrating Shari'ah Principles

The interviews with key stakeholders highlighted several challenges in integrating Shari'ah principles into the evaluation and reporting processes of the State Islamic Religious Councils (SIRCs) in Malaysia. These challenges were multifaceted and stemmed from both structural and operational limitations within the organization.

Lack of standardized guidelines

One of the primary challenges mentioned by the interview participants was the absence of standardized guidelines that incorporate Shari'ah principles into value creation metrics. This lack of standardization resulted in inconsistencies across different departments and functions within the SIRC.

> *"For example, while some units may attempt to integrate Shari'ah principles into their operations and reporting, others may rely solely on conventional metrics. This inconsistency hampers the organization's ability to present a cohesive and comprehensive picture of its adherence to Shari'ah principles."*

(Participant 2)

Without standardized guidelines, there was also a risk of subjective interpretation of Shari'ah principles, leading to variations in how these principles are applied. This resulted in disparities in the evaluation and reporting processes, making it difficult to assess the overall Shari'ah compliance of the SIRC's activities. One of the experts interviewed further emphasized the need for clear, uniform guidelines that can be consistently applied across the organization to ensure that all aspects of value creation were evaluated in a manner that aligned with Islamic teachings.

Limited awareness and understanding of Shari'ah reporting

Another significant challenge was the limited awareness and understanding of Shari'ah reporting frameworks among the SIRC staff. As mentioned by Participant 4 during the interview:

> *"Based on my observation, many employees in my department do have a clear understanding of Islamic ethics but lack the detailed knowledge required to apply these principles in a practical, organizational context. This is particularly pronounced in areas such as finance, operations, and strategic planning, where the integration of Shari'ah principles requires a good understanding of both Islamic jurisprudence and contemporary management practices."*

(Participant 4)

The financial reporting expert interviewed noted that this lack of awareness often led to resistance to change, as staff may be uncertain about how to incorporate Shari'ah principles into their existing workflows. Additionally, there was a need for ongoing education and training programs to build the capacity of staff to understand and apply Shari'ah principles effectively. Without such initiatives, the integration of Shari'ah principles is likely to remain superficial and inconsistent.

Complexity of measuring non-financial value creation

Measuring non-financial value creation in a Shari'ah-compliant manner presents unique challenges. Shari'ah principles emphasize not only financial outcomes but also social justice, ethical conduct, and community welfare. These aspects of value creation are inherently more difficult to quantify, and report compared to conventional financial metrics.

For instance, while it is relatively straightforward to measure financial performance through revenue and expense reports, assessing the impact of social justice initiatives or community welfare programs requires more sophisticated metrics and evaluation techniques. During the interview sessions, Participants 1, Participants 2, Participants 3 and Participants 5, highlighted the difficulty in developing indicators that can capture the qualitative aspects of value creation, such as the promotion of social equity, the ethical treatment of employees, and the environmental stewardship of the organization. As also mentioned by Participant 6:

> *"The complexity is compounded by the need to ensure that these non-financial metrics are aligned with the objectives of maqasid al-Shari'ah, which include the preservation of faith, life, intellect, progeny, and wealth. Developing comprehensive metrics that reflect these objectives requires a deep understanding of Islamic jurisprudence, as well as expertise in social science research methodologies.*
>
> (Participant 6)

Integration of ethical considerations into operational practices

Integrating ethical considerations into operational practices is another challenge faced by the SIRC as explained by participants 3 and 4. While financial and operational efficiency metrics are well established, there is a need to embed ethical considerations into these practices. For example, procurement processes should not only focus on cost-efficiency but also ensure that suppliers adhere to ethical standards such as fair labor practices and environmentally sustainable operations. Similarly, employee performance evaluations should consider ethical behavior and adherence to Islamic values alongside productivity and efficiency.

The two experts interviewed pointed out that incorporating these ethical considerations into everyday operations requires a cultural shift within the organization. This shift involves fostering an environment where ethical behavior is valued and rewarded, and where staff are encouraged to consider the broader implications of their actions on the community and the environment.

Stakeholder engagement and transparency

Another challenge identified is the need for more effective stakeholder engagement and transparency. The SIRC must engage with a diverse range of stakeholders, including the Muslim community, regulatory bodies, and other Islamic organizations, to ensure that its activities align with the expectations and needs of these groups. However, as mentioned by Participants 1, Participants 3, Participants 4, Participants 5, and Participants 7, current practices for stakeholder engagement are often ad hoc and lack the structured processes needed to gather comprehensive feedback.

> "*Enhanced stakeholder engagement can help the SIRC to refine its evaluation and reporting processes to better reflect Shari'ah principles. Additionally, improving transparency in reporting can build trust and credibility with stakeholders, demonstrating the SIRC's commitment to ethical and Shari'ah-compliant practices.*"
>
> (Participant 7)

Proposed Shari'ah Compliant Framework

Based on the documents analysis and interview sessions with the SIRC stakeholders, this study proposed a Shari'ah-compliant framework for evaluating and reporting value creation within the State Islamic Religious Council (SIRC) in Malaysia. This framework aims to ensure that the SIRC's activities align with Islamic ethical principles and effectively communicate their impact on the community. The proposed framework consists of the following components:

- **Shari'ah governance structure:** A robust Shari'ah governance structure is essential to ensure that the SIRC's activities comply with Islamic principles. This involves establishing a dedicated Shari'ah advisory board composed of scholars and experts in Islamic jurisprudence. The advisory board's role is to oversee the evaluation and reporting processes, provide guidance on Shari'ah compliance, and ensure that all organizational activities align with Islamic ethical standards. The board will regularly review the SIRC's policies and practices, offering recommendations for improvements and ensuring that Shari'ah principles are integrated into every aspect of the organization's operations.

- **Holistic value creation metrics:** To capture the comprehensive nature of value creation as defined by Shari'ah principles, the framework includes the development of holistic value creation metrics. These metrics encompass financial, social, and environmental dimensions. Social metrics should measure the impact on community well-being, including initiatives that promote social justice, education, healthcare, and poverty alleviation. Environmental metrics should assess the organization's efforts in environmental stewardship, such as sustainable resource management and reducing environmental footprint. These holistic metrics provide a balanced view of the SIRC's contributions to society, aligned with the maqasid al-Shari'ah (objectives of Shari'ah).

- **Stakeholder engagement:** Effective stakeholder engagement is crucial for understanding and addressing the needs and expectations of the community, beneficiaries, and other stakeholders. The proposed framework enhances stakeholder engagement processes by establishing regular consultation mechanisms, such as forums, surveys, and feedback sessions. These engagement activities ensure that the SIRC considers diverse perspectives and incorporates stakeholder input into its evaluation and reporting processes. By actively involving stakeholders, the SIRC can build stronger relationships, increase transparency, and ensure that its activities are relevant and beneficial to the community it serves.
- **Transparent reporting:** Transparent reporting practices are vital for building trust and accountability. The proposed framework emphasizes the implementation of clear and comprehensive reporting mechanisms that provide detailed information on the SIRC's value creation efforts. This includes the integration of Shari'ah principles into the reporting process, ensuring that all reports reflect the ethical and moral dimensions of the organization’s activities. Transparent reporting should cover financial performance, social impact, and environmental stewardship, with specific sections dedicated to explaining how these activities align with Shari'ah principles. Additionally, the SIRC should publish regular reports and updates on its website and through other communication channels to keep stakeholders informed and engaged.
- **Continuous improvement:** To maintain the relevance and effectiveness of the Shari'ah-compliant framework, it is essential to establish mechanisms for continuous improvement and periodic review. The SIRC should implement a cyclical process of assessment, feedback, and enhancement to ensure that its evaluation and reporting practices remain up-to-date and responsive to emerging challenges and opportunities. This involves regularly reviewing the framework, incorporating stakeholder feedback, and benchmarking against best practices in Islamic governance. By fostering a culture of continuous improvement, the SIRC can ensure that its activities consistently align with Shari'ah principles and effectively contribute to the well-being of the community.
- **Implementation strategy:** Implementing the proposed Shari'ah-compliant framework requires a strategic approach that includes training and capacity-building for SIRC staff, development of standardized guidelines and templates, and investment in information technology systems to support data collection and reporting. Training programs should focus on enhancing staff understanding of Shari'ah principles and their application in organizational governance. Standardized guidelines and templates will ensure consistency in reporting practices across the organization. Information technology systems can facilitate efficient data management, enabling the SIRC to track and report on its value creation metrics effectively.

In conclusion, the proposed Shari'ah-compliant framework provides a comprehensive approach to evaluating and reporting value creation within the SIRC in Malaysia. By integrating Shari'ah principles into governance structures, developing holistic value creation metrics, enhancing stakeholder engagement, implementing transparent reporting practices, and establishing mechanisms for continuous improvement, the SIRC can enhance its accountability, transparency, and alignment with Islamic ethical values. This framework not only addresses the current challenges but also positions the SIRC to better serve the Muslim community in Malaysia.

CONCLUSION

This study proposed a Shari'ah-compliant framework for evaluating and reporting value creation within the State Islamic Religious Council in Malaysia. The framework integrates conventional value creation metrics with Islamic ethical principles, providing a comprehensive approach to organizational governance. The findings highlight the importance of integrating Shari'ah principles into the evaluation and reporting processes to enhance transparency, accountability, and stakeholder trust.

The implementation of the proposed framework requires a commitment from the SIRC's leadership, investment in training and capacity-building, and the development of new metrics and reporting practices. The findings also have implications for policy development at both the organizational and regulatory levels.

Future research should focus on exploring the application of the proposed framework in other Islamic organizations and contexts. Additionally, further studies are needed to develop standardized guidelines and best practices for evaluating and reporting value creation in a Shari'ah-compliant manner.

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