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Developing and Testing a Measure for the Corporate Ethical Identity of Shariah Compliant Organizations

Roshima Said¹, Noor Zahirah Mohd Sidek², Normah Omar³

Universiti Teknologi MARA, Kedah, Malaysia

¹roshima712@uitm.edu.my

INTRODUCTION

Malaysia's aspiration to persist as the leader of the Islamic Capital Market entails its Shari'ah compliant organizations to embrace Islamic Business Ethics and values in an attempt to win the trust and confidence of its Muslim investors and stakeholders, by portraying their sincerity and earnestness in complying with Islamic values. Through promotion of extensive transparency and accountability will enable Malaysia to set up a comprehensive accounting, tax and regulatory framework to reinforce further its objectives as the champion of the Islamic Capital Market. Malaysia is facing an ever increasing competition from other Asia Pacific countries (such as Thailand, Philippines, Brunei and Singapore) and other Islamic Countries (such as Pakistan, Turkey and Bangladesh), that are trying to benefit from growing halal market. Accordingly, it is seen only natural that the government of Malaysia should ascend to deliberate on practicing Islamic Business Ethics on these Shari'ah compliant organizations as a niche area, if it wants to uphold and to seize the increasing trade with the Organization of Islamic Countries (OIC) in general and with GCC countries particularly.

PURPOSE/AIM & BACKGROUND

In the midst of rising corporate failures and fraud, it is hoped that by incorporating Islamic Business Ethics may improve the problems of ethics and values and corporate culture. In an attempt to win the trust and confidence of its Muslim investors and stakeholders, the Shari'ah compliant organizations must portray their sincerity and earnestness in complying with Islamic values which may have implications on winning the trust of Muslim investors largely from oil rich Arab Gulf Region which have flush of funds currently. To mitigate this problem, the study has developed an Islamic Corporate Ethical Identity Index as a measurement to assess the degree of conformity of Shariah Compliant organizations towards Islamic business ethics. The basis of development of

the Islamic Corporate Ethical Identity Index is the Qur'an and Hadith, which constitute the primary sources of the derivation of shari'ah conduct.

METHODOLOGY

Initially, a checklist of 87 items was constructed based on the Social Responsibility Reporting Framework, items proposed by the Accounting and Auditing Organizations for Islamic Financial Institutions (AAOIFI, 2001), Qur'an and Sunnah, selected studies by Haniffa and Hudaib (2007), Berrone et al. (2005), and Said, Zainuddin and Haron, 2009. In order to develop the checklist, the researchers also examined the definition of Islamic Ethics defined by Khan (2009). The checklist was sent to academia and practitioners to verify all the selected items. An expert is defined as someone who has special knowledge about a specific subject. The chosen expert in the process of constructing the i-CEI index is in the sense that the expert knows more about the topic than most people would. After the three round processes, the ultimate checklist with 283 finalized items was constructed.

FINDINGS OF THE STUDY

Based on the results, the mean score has improved over the years indicating that banks are continuously improving their non-financial performance by disclosing more ethical-based engagement in the form of physical activities, non-banking expenditure and adjusting policy direction towards value-based practices. Finally, we ranked the mean to investigate which themes matter more to the banks. The result shows that Corporate governance (Theme 6) appears to be of the highest importance to the banking community. The results are consistent with the fact that banks observe the Malaysian Code of Conduct in their banking practices. Shariah Supervisory Board (SSB) (Theme 5) ranked second since the SSB is the criteria that differentiates an Islamic bank from conventional counterparts. Interest free and shariah compliant activities (Theme 2) and Underlying philosophy (Theme 1) ranked surprisingly low despite Shariah Supervisory Board being ranked second.

CONCLUSIONS/IMPLICATIONS

The distinctiveness of the i-CEI is that it is an indexing system that enables individual companies to test their level of ethical compliance on an occasional basis. It is a workable indexing system for companies to assess their level of ethical values of conformity in a universal context. In fact, the i-CEI offers two (2) new dimensions to the Islamic finance industry. First, the i-CEI indexing criteria allow companies to move away from a mechanical legal-based analysis towards a more value-based analysis, which is consistent and parallel to business ethics. This will further gear companies towards the fulfilment of the maqasid of shari'ah rather than merely conforming to the shari'ah compliance requirements. Second, the i-CEI Index system takes the analysis of a company's degree of shari'ah compliance a step further by integrating the criteria into a comprehensive system that can be used by firms, rating agencies or any other monitoring institution. Hence, the i-CEI complements other existing shari'ah regulatory frameworks to ensure a more prudent and stable Islamic financial market.

Keywords: Shariah-compliant, Islamic Corporate Ethical Identity Index, Maqasid Shariah, Indexing System