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Theories Underpinning Islamic Good Governance in Cooperatives: Synthesis of Literature from the Conventional and Islamic Perspective

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I. Introduction

Most people see the cooperative society as a form of social enterprise as well as an organisation with the potential to help the public. Non-governmental organisations (NGOs) including cooperatives are designed to benefit low-income groups most. The importance of this sector and the increased reliance on public funds has also attracted the public's attention to this sector.

According to Birchall (2014), cooperatives are a significant part of the global economy. 1,465 cooperatives have over USD100 million of annual turnover, showing that the cooperative model is not just for small business. These large cooperatives cover many sectors including agriculture and food, wholesale and retail trade, industry and utilities, banking, insurance, and health and social care. The largest number are found in the USA, followed by France, Japan, Germany, Netherlands, Italy, Spain, Switzerland, the UK, and Finland.

However, the core competencies of cooperatives require further research to ensure the effectiveness and efficiency of its policy framework. Macroeconomic stability should be the targeted objective to achieve financial viability and sustained economic development. Alexander (2013) finds that cooperatives are perceived as being central to the economic development strategies in several countries especially among African countries.

In Malaysia, the cooperative society was first established in 1922 to protect the welfare of rural peoples. The establishment is not only to improve the wellbeing of its members but also to eradicate the poverty and act as a distribution tool of national wealth. With the aim to help its members, cooperatives need to accelerate their performance to transform the nation into a high-income nation by the year 2020 (www.skm.gov.my).

This paper will discuss the theories that support the implementation of Islamic good governance in the cooperatives. Like other organisations, the cooperative sector is also exposed to governance issues. The governance issues of an organisation include corporate fraud cases, abuse of management power and lack of social responsibility. The debate is about how to solve the problems encountered in corporate practices through effective mediums or mechanisms, either to satisfy shareholder expectations or to meet current social demands.

In this study, the researchers focused on credit cooperatives as it is the largest cooperative in Malaysia. Also, the Shariah guidelines issued by the Malaysian Cooperative

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Commission (SKM) are also focused on its implementation in credit function cooperatives. In fact, the establishment of a cooperative in Malaysia in the early 1920s began with the function of granting credit to its members.

This study is relying very much on the corporate governance (CG) study which has been well established as a reference to be adopted and implemented in a cooperative sector where is necessary. Even though corporation and cooperatives are having different objectives but there is a need for cooperatives to be managed professionally. Furthermore, since there is no segregation between the conventional and Islamic cooperatives in Malaysia, the term "Islamic cooperatives" is always refers to those cooperatives which offer Islamic products to its members.

II. Underpinning Theories

The governance of cooperatives is relatively under-theorised in comparison with the governance of business corporations, where there is a large literature on corporate governance (CG) (Pozzobon and Filho, 2007). Morgan (1997) describes the way some thinkers of the organisation and the theory used are incompatible with the complexity and reality they face. Therefore, they need to adopt a multi-paradigm or perspective approach to understand the various situations to manage the conflicts that exist. Cornforth (2004) agrees that a multi-paradigm approach offers a promising approach to providing a new conceptual framework. For this study, the following four theories are found suitable to support the overall context including the findings, data analysis and conceptual framework development.

2.1. Agency Theory

CG is a global issue. According to Sulaiman, M *et al*. (2015), most studies focus on transparency and disclosure of governance as a mechanism of checks and balances. It is perceived as a measure to control agency risk resulting from asymmetric information between managers and investors. The major reason for having CG structures is to reduce agency problems that are caused by the separation of ownership and control (Berle and Means, 1932). This theory has been highlighted in modern companies by Jensen and Meckling (1976).

Agency theory is used to understand the CG issue of an organization. Agency theory literature focuses on the monitoring function of the boards and argues that firm's performance can be improved by reducing the agency costs. The main activities of the monitoring functions are monitoring the CEO, monitoring strategy implementation, planning CEO succession and evaluating and rewarding the CEO or top managers of the firm (Ioannis, 2009). Most scholarly research in CG uses this theoretical approach. Looking at the CG through the agency lens enables the researcher to explore the relationships between the governance process and the corporate performance.

Applying CG based on agency theory explains by the relationship between management with the owners where the management as responsible agents optimise the benefit of the owner (principal), and as in return, they will receive compensation in accordance with the contract. Modern organisations are characterised by the principal-agent relationship that is a separation between the ownership and the control of companies. The principal (owners or shareholders) has resources to the agent (managers) to manage their businesses with the goal of maximising the shareholders' wealth. The principal–agent relationship has created agency problem because the objectives of the agent are usually not the same as those of the principal, and thus the agent may not always best represent the interests of the principal (Arnold and de Lange, 2004).

Safieddine (2009) argues that it would be better to apply equal attention to examining the internal and external auditing process as well as both processes can act to provide strong evidence that the agency theory is not suitable to fully explain the dimensions of governance in the finance-related studies. This argument supports the statement of Asri and Fahmi (2003) who propose a governance framework to consist of *Shura* (consultants), including representatives of the shareholders, creditors, the public, the board of directors and the Shariah Supervisory Board.

Dalton *et al*. (2003) note that agency theory is the theoretical basis of most research related to CG. They propose other ways to examine the relationship of theory and suggest a substitution approach to take into account other various governance mechanisms. CG is the mechanism by which the agency issues corporate stakeholders, including shareholders, creditors, management, employees, consumers and the public is being drawn up and to be completed.

Cooperative organisations operate on the same basis as corporate organisations, and their existence is based on the principal–agent concept. Due to this fact, board members of cooperatives, acting as the agent, are prone to be involved in activities that have conflicting interests with the principal, namely the members. Due to the collapse of some cooperatives, the importance of cooperative to be accountable has been highlighted to be more transparent with full disclosure about their activities. Such ethics would enhance the public trust (Marschall, 2002).

Similar to a corporation, the directors act as the agent of its members in a cooperative which is controlled by its members. The directors are to serve the interests of these members. Agency theory argues that in order to protect the shareholders' interest, the board plays a vital role. The study by Österberg and Nilsson (2009) over 2000 Swedish farmers reveals that the success of the cooperative depends on the degree of participation of its members. Also, good governance of cooperatives promotes discipline, transparency, independence, accountability, responsibility, fairness and social responsibility (Chibanda *et al*., 2009).

However, Donaldson (2003) highlights agency theory from the point of directors' reward. He comments that The Greenbury Report (1995), emphasises chaired by Sir Richard Greenbury, director of Marks & Spencer in July 1995 focuses on directors' remuneration. The report states that most quoted companies had established remuneration committees and issued a Code of Best Practice.

> *"A main recommendation was that to avoid potential conflicts of interest, boards of directors should set-up remuneration committees of non-executive directors to determine on their behalf, and on behalf of the shareholders, within agreed terms of reference, the company's policy on executive remuneration and specific remuneration packages for each of the executive directors, including pension rights and any compensation payments. Remuneration committee chairmen should account directly to the shareholders…should consist exclusively of non-executive directors … should consult directly with the company chairman and/or chief executive, and have access to professional advice, inside and outside the company."*
>
> (Sir Richard Greenbury, Director of Marks & Spencer, July 1995).

Beasley (1996) finds that the independence of the board is related to decline in financial fraud. In his research, respondents found that all IFIs have sufficient experience and knowledge to carry out their responsibilities. All banks held meetings and are committed to disclosing the compensation of the general director. These practices show that the well-equipped board of directors in IFIs contributes to the decision-making process that can avoid the problem of agency. From the point of view of Islam, Lahsasna (2011) asserts that a person considers himself as an agent on this earth based on the principle of *Khilafah*, where his action will be in accordance with the Creator's commands who delegates him the assignment of agency.

On the other hand, Steinberg (2010) uses agency theory to resolve the question of accountability in NGOs and finds that it is not appropriate when principals differ in their different objectives of the organisation. Therefore, it is recommended that agency theory is complemented or supported by another theoretical perspective (Eisenhardt, 1989; Steinberg, 2010). Agency theory, also known as the financial model, suggests how the appropriate incentive system can be applied as a mechanism for resolving agency problems between shareholders and organisational management. While the finance model is focused on shareholder rights and control in publicly held corporations, La Porta et al. (1997) extend the finance view of the firm to include not only shareholders but also debt-holders and bankers.

Understanding the concept of agency theory and its application can help determine the extent of Shariah compliance in credit cooperatives in Malaysia. It helps improve Shariah compliance procedures within the cooperative environment. However, cooperative governance issues still require attention to understanding the relationships and responsibilities among stakeholders on quality management issues and good governance practices. As the Shariah governance (SG) component is fundamental in the framework of Shariah, mechanisms must be ensured to contribute positively and in line with the interests of shareholders (Samad *et al.*, 2016).

2.2. Stewardship Theory

Stewardship theory represents a consensus perspective of board involvement. According to the stewardship theory, executive directors do not intentionally shirk and exert moral hazard (Jonnergård and Svensson, 1995). As such, it is a theory that strongly focuses on the empowerment of executive directors who are seen as honourable wealth builders. It is also a theory that seeks the integration of decision management with decision control through boards' strategic roles (Donaldson and Davis, 1991).

Stewardship theory refers to the theory in which management and the board of an organisation are driven by a power greater than their desires when performing their roles and responsibilities in an organisation. It perceives that each company is incorporated as a separate legal entity. Davis *et al*. (1997) define stewardship theory as *"guards that protect and maximise shareholder value through the firm's performance because by so doing, steward's utility function is maximised."*

In this perspective, the shareholders nominate and appoint the directors, who then act as stewards of their interests and protect as well as create profits for them. However, unlike the agency theory, stewardship theory perspective is not emphasised on individualism (Donaldson and Davis, 1991). The top management is responsible for integrating their part to achieve the goal of organisations that can benefit the stakeholders and shareholders.

Agyris (1973) in Pande (2011) argue that stewardship theory recognises the role of the steward who is able to maximise shareholder returns. With this, the roles of CEO and management can be consolidated to reduce agency costs in the organisation. It has been empirically found that the outcome is improved when these theories are combined (Donaldson and Davis, 1991). Contrary to the agency theory, stewardship theory believes that directors do not always act in a way that maximises their interests as they can do and act responsibly with independence and integrity.

Stewardship exponents claim that directors need to recognise the interests of customers, employees, suppliers, and other legitimate stakeholders but under the law, their first responsibility is to the shareholders. They argue that conflict of interest between the stakeholders and the company should be backed by the law of governance (Tricker, 2009).

However, cooperative managers sometimes find it difficult to realise that the goals of traditional profit and growth may need to be modified in cooperative firms to ensure the welfare of members is preserved. For NGCs, the importance of appropriate management selection is significant with their involvement in value-added processing (Harris *et al*., 1996). This idea is supported by Besley and Ghatak (2005) by highlighting that NGOs can focus on selecting appropriate agents to avoid agency problems occurring in their organisations.

2.3. Stakeholders Theory

The stakeholder theory (SHT) can be defined as *"any group or individual who can affect or be affected by the achievement of organisational objectives."* It explains and guides the structure and operation of the established corporation. The stakeholder theory claims that all parties that affect a firm's performance are important to the success of the firm. These parties could be suppliers, trade associations, customers and so forth. The Western perspective claims that the stakeholder theory applied in an organisation emphasises the organisation's accountability to various stakeholders in society (Hung, 1998).

Cornforth (2004) differentiates the application of stakeholder theory in CG practices of the private, public and non-profit organisation. He claims that *"by incorporating different stakeholders on boards it is expected that organisations will be more likely to respond to broader social interests than the narrow interests of one group. This leads to a political role for boards negotiating and resolving the potentially conflicting interests of different stakeholder groups in order to determine the objectives of the organisation and set policy. The principles of stakeholder involvement are less controversial in the public and non-profit sectors, and the practice more common, although not always discussed in terms of stakeholder theory."*

Hill and Jones (1992) integrate the SHT with the agency theory. They discuss the standard principal-agent paradigm of financial economics, which emphasises the relationship between shareholders and managers, to create "stakeholder-agency theory," which then constitutes "a generalised theory of agency." According to this concept, managers "can be seen as the agents of all other stakeholders." This review is supported by Morgan *et al*. (1997) also claim that this theory suggests the organisation is to be managed with the explicit objective by considering the interests of all stakeholders.

An increasingly stakeholder-oriented view of CG has resulted in redefining CG in broader terms, for example:

> *"... the system of checks and balances, both internal and external to companies, which ensures that companies discharge their accountability to all their stakeholders and act in a socially responsible way in all areas of their business activity"* (Solomon, 2007).

In 1999, the Commonwealth Association of Corporate Governance (CACG) issued a report that laid the foundations of best practices to stakeholders. The OECD (2004) also stressed the need for accountability among stakeholders.

Heath and Norman (2004) propose that SHT could be divided into two. Firstly, explanatory SHT which refers to the theory that describes and explains how companies and their managers act. “Managing stakeholder relationships, rather than to manage input and output, can provide an adequate model for understanding what the company is doing …” Secondly, strategic SHT which refers to the theory about how to devote resources sufficiently and bring attention to the management of stakeholder relationships which will to lead to a positive outcome to the corporation.

From the Islamic point of view, stakeholder theory emphasises the importance of CG in the economic system to maximise the welfare of all stakeholders as the objective of the organisation rather than maximising the shareholders’ return. However, the main objective of most companies is to maximise shareholder value. This shows that in actual practice, many Muslim companies adopt the shareholder model of CG rather than the stakeholder model (Hassan, 2009).

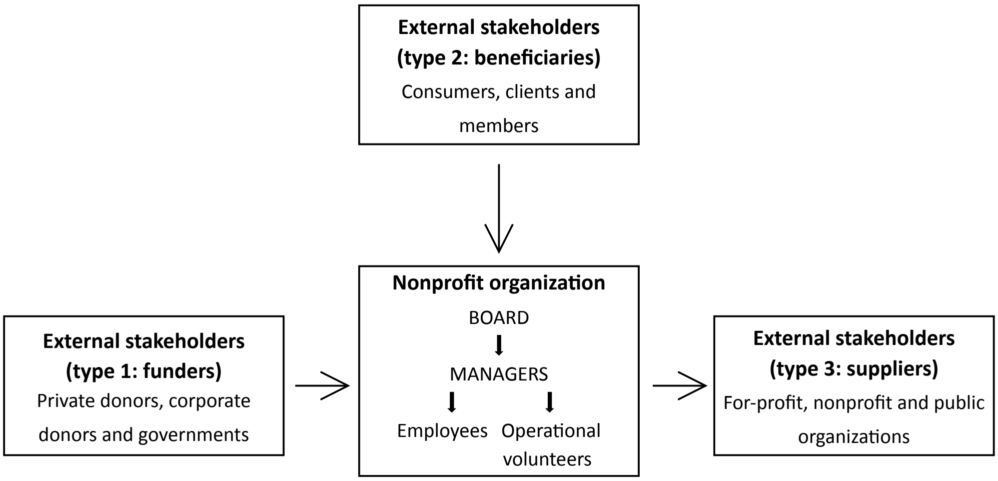
The principles governing property rights and contracts in Islam justify the inclusion of stakeholders in the decision-making and governance structure. Iqbal and Mirakhor (2004) argue that within the Islamic framework, a firm can be viewed as a “nexus of contracts” whose objective is to minimise transaction costs and maximise profits and returns to investors.

The governance framework ensures that the voice and concerns of stakeholders are heard, and an appropriate platform is accessible to all stakeholders to participate in decision-making. Appropriate regulatory and Shariah authorities will ensure that a monitoring and compliance framework is in place to protect the rights of the stakeholders. As advocated by Chapra and Ahmed (2002), the primary concern in Shariah relates closely to the notion of equitable protection of the rights of all stakeholders irrespective of equity holders or otherwise. Furthermore, according to Grais and Pellegrini (2006), corporate stability, financial performance and ability to function as a source of financial intermediation depend on the confidence of stakeholders in the judiciary.

The SHT asserts that irrespective of whether or not, stakeholders’ management leads to improved financial performance. With the above arguments and discussions, it is important to evaluate whether the current SG guidelines ensure good governance practice to preserve both the stakeholders and shareholders of cooperatives. Furthermore, the requirements for SG recognition need to be analysed to ensure a strong structure of governance in cooperatives.

Van Puyvelde *et al*. (2012) elaborate on non-profit principal–agent relationships. They divide the stakeholders into internal and external. The internal stakeholders consist of BODs, managers, employees and operational volunteers. External stakeholders are divided into funders, beneficiaries and suppliers where funders and beneficiaries will jointly support the organisation and the benefit from organisational management will be channelled to the public welfare.

Figure 1: Non-profit Principal–agent Relationships



Source: Van Puyvelde *et al*. (2012)

Van Puyvelde *et al*. (2012) detail the types of stakeholders as shown in Table 1.

Table 1: Stakeholders of a Non-profit Organisation

Stakeholder type	**Description**
Interface stakeholders	
Board members	The board of directors is the governing body of the nonprofit organization. It represents the organization to the outside world and makes sure that the organization carries out its mission.
Internal stakeholders	
Managers	Management of the nonprofit organization.
Employees	Other paid staff of the nonprofit organization.
Operational volunteers	Volunteers who are directly involved in the provision of goods and services offered by nonprofit organization.

External stakeholders	
Funders	Individuals or organizations that donate to the nonprofit organization and governments or government agencies that give subsidies to the organization.
Beneficiaries	Consumers, clients, or members of the nonprofit organization
Suppliers / Contractors	For profit, nonprofit, or governmental organizations that provide goods or services to the nonprofit organization.
Competitors	For profit, nonprofit, or governmental organizations that compete with the nonprofit organization in the same market or industry.
Organizational partners	For profit, nonprofit, or governmental organizations that collaborate with the nonprofit organization.
Others	Other external stakeholders such as the media, community groups, and persons or groups who are affected by externalities produced by the nonprofit organization.

Source: Van Puyvelde *et al*. (2012)

Ben-Nev and Theresa, V. H. (1990) argue that some consumers have the ability to set the objectives of the non-profit organisation in which they have an interest. They suggest that consumer control is key to the ability of non-profit organisations to correct market and government failures and to satisfy consumer demand. Moreover, they conclude that most non-profit organisations will be formed only if consumers can exercise control over the organisation and can ensure that it performs according to their needs within economic feasibility constraints.

2.4. Institutional Theory

Institutional theory is a complementary theory as it emphasises the role of mimetic behaviour in explaining patterns of adaptation, innovation and change throughout firms in an industry (DiMaggio & Powell, 1983; Webb & Pettigrew, 1999). It describes the concept of new institutional sociology (NIS) theory that attempts to explain and understand how human behaviour is guided not only by formal rules and regulations but also by the role of norms, symbols, myths, culture and belief systems and informal arrangements within an institution (Sulaiman & Khair, 2015).

Institutional theory is concerned with how organisations interact with their institutional environment and how organisational practices reflect social expectations (Dillard *et al*., 2004).

Meyer and Rowan (1977) deliberate on institutions from the perspective of organisational structures such as policies, programs, techniques and professions are reflections of rationalised institutional rules that function as myths and ceremonies which organisations incorporate to gain legitimacy, resources, stability and enhanced survival prospects.

Malaysia should be able to institutionalise a culture of excellence through adopting a proper worldview and committing to realise a moral, just and dynamic society. One's worldview strongly influences individual and collective thinking and actions. Thus, the culture of excellence is the result of adopting a proper worldview and the implementation of a dynamic social system (Nik Hassan, 2012).

Clarke (2007) describes that theoretical perspectives on boards and governance can best be seen as "multiple theoretical lenses" with which to view the subject. In the words of Pettigrew (1992):

> *"Corporate governance lacks any form of coherence, either empirically, methodologically, or theoretically with only piecemeal attempts to try and understand and explain how the modern corporation is run."*

Good and effective governance cannot be explained by a single theory, but it requires a combination of several theories. This could help to impose stricter rules and laws to ensure good governance practices while also improving the social relations (Stiles, 2001; Roberts *et al.*, 2005). The literature shows that even with strict regulations, there are still violations of CG in many organisations. Addressing this issue requires a holistic approach and awareness among the stakeholders, especially in the administration of the organisation. Although the topic of CG is developed primarily in the financial literature, previous studies revealed that it was also attractive to law researchers, economists, political scientists, sociologists and science management experts. Understanding these theories could help the researcher to explore the roles and duties of each CG organ as prescribed in Shariah Governance Guidelines (GP28) and how they support each other to form a strong organisational structure which is guided by the rules and regulations set by SKM.

III. Islamic Principles in Governance

The philosophy of faith can raise ethical values of Islam. In Islam, ethics reflect a person's character and the believer is said to have good manners. Ethics discuss the moral system established by Allah SWT for human life. Islamic economic activity must meet the Islamic ethical requirements (the Shariah rules). Nik Hassan (2012) explains that Sheikh Waliullah, a scholar in the 18th century highlights ethical principles that can enhance the dignity of the human. The integration of ethical principles as a whole not only can ensure a person of high moral but also society in general.

The Islamic Work Ethics (IWE) is an area of Islamic governance that has long existed but is still under study and has little to do. Exposure to IWE's practice began to gain attention among researchers with the awareness of the importance of the community to return to the true teachings of Islam as a way of overcoming the challenges in managing the organisation today.

From the Islamic perspective, ethics is referred to as *akhlaq* (moral character) which carries the meaning of any treatment received as customary and does not contravene the law of *syarak* (al-Maududi, 1967). Among the guidelines of IWE outlined by al-Maududi (1967) is first, it educates every individual whether employer or employee to performing the moral obligations. This is to prevent from abusive acts such as cheating and bribery. Second, to distinguish between good and bad forms of work based on al-Qur'an and al-Sunnah. Thirdly, the principles and values of work ethics emphasized by Islam are universal. Hence, it can be accepted by all the world community irrespective of religion, race, and ancestry. Fourthly, Islam is a religion that emphasizes peace and prosperity. Therefore the principles of Islamic work ethics are built to fit the human nature. Fifth, in order to achieve the goal of work in accordance with the requirements of Islam, Islamic work ethics emphasizes that the work is done in accordance with the prestige of good morals (Al-Maududi 1967).

Nik Hassan (2012) stresses that when the management is based on an Islamic framework, the three elements should be emphasised in the organisation in the following areas:

i. The human beings (the board, the management team, the members) as the main players in the organisation.
ii. The organisational operations or nature of the activities.
iii. The nature of the organisation in which it is located (the organisational environment).

Other than the *Tawhidic* philosophy, other models are used to support this study. The cooperative model is also appropriate to support this research where it provides comparative advantages as a formula for success. The ability of cooperatives is already known for its efforts to eradicate poverty and to improve people's living standard. Its involvement in various sectors proves the ability of cooperatives to compete with other businesses. Cooperatives operate based on the concepts of *Shura* and *Ta'awun* (mutual help) among its members. Thus, it is important to understand how these concepts help the members to operationalise the cooperative in line with the planned mission and vision.

3.1. *Tawhid* Philosophy in Governance

As the foundation of Islamic faith is *Tawhid* (Al-Faruqi, 1982), the basis for the corporate governance framework also emanates from this concept. In al-Qur'an, Allah SWT says,

> *"Men who celebrate the praises of Allah, standing, sitting, and lying own on their sides, and contemplate the (wonders of) creation in the heavens and the earth, (With the thought): "Our Lord! not for naught Hast Thou created (all) this! Glory to Thee! Give us salvation from the penalty of the Fire."* (Surah Ali Imran, 3:191)

For the above verse, Ibn Kathir (Vol. 2, 2003) mentions a hadith narrated by al-Bukhari that 'Imran bin Husayn said that the Messenger of Allah (PBUH) mentioned,

"Pray while standing, and if you can't, pray while sitting, and if you cannot do even that, the pray lying on your side." (Narrated by al-Bukhari)

This verse provides a fundamental principle of governance where everything created by Allah SWT has a purpose, and human beings are created to be the world's vicegerent. By putting trust in mankind as a vicegerent, Allah SWT plays active roles to monitor and involve in every affair of a human being, and He is aware and knows everything at all times (Chapra, 1992).

As Allah SWT knows everything and all mankind is answerable to Him, the principle of *Tawhid* shall be the foundation of the CG model in Islam as the parties involved in the corporation are answerable and accountable to Allah SWT. For the Muslims, the ethical code of conduct based on a *Tawhidic* worldview and Quranic values are considered superior to that detached from religious moorings (Barjoyai, 2002).

Islam has vital ingredients that can propel a holistic development of a nation. The paradigm contained in the Qur'an and the Sunnah of the Prophet (PBUH) is relevant now and for the future. Islam is a complete and comprehensive way of life which covers all aspects of life, communities and countries, including economic affairs. This religious approach aims to guide the Muslims to be proactive and organise the life of society to create a healthy civilisation. Centering the goal of human life can provide uniformity in the ideals of life (Nik Hassan, 2012).

The worldview of Islam which is based on the spirit of faith is able to organise multiple dimensions of life. This perspective emphasises the importance of seeing the need to construct and build a human society from a comprehensive perspective. In embracing economic affairs, the philosophy of faith advocates an effort to create momentum *al'adl wal ihsan* (Choudhury & Hoque, 2004), confirming the word of Allah SWT:

> *"Allah commands justice, the doing of good, and liberality to kith and kin, and He forbids all shameful deeds, and injustice and rebellion: He instructs you, that ye may receive admonition."* (Surah an-Nahl, 16:90).

In Tafsir Ibn Kathir (Vol. 5, 2003), the above verse highlights that Allah SWT commands His servant to be just, i.e., fair and moderate, and Allah SWT encourages kindness and good treatment. The principle of fairness is a dynamic fundamental to organise and conduct the affairs in the local economy. A strong pillar is essential in the economic system to ensure the system can contribute to the justice and the spirit of excellence. Thus, it provides space for individuals to work in a positive and optimistic environment.

To achieve success, Islam emphasises the spirit of working together and in harmony. Thus, the dispute between economic units can be minimised because all units focus on a common goal to foster the spirit of cooperation rather than to compete with each other. This is the essence of integrity in the economic community as suggested by Islam, namely cooperation for existence (Nik Hassan, 2012).

3.2. Concept of *Ta'awun*

Allah says in Qur'an,

> *"Help you one another in Al-Birr and At-Taqwa, but do not help one another in sin and transgression. And have Taqwa of Allah. Verily, Allah is severe in punishment."* (Surah al-Maidah, 5:2)

The scope of mutual assistance or *Ta'awun* is limited to efforts to promote righteousness and obedience to Allah SWT. Figure 4.3 illustrates the roles of the *Tawhidic* paradigm. The creation of human being in dual roles requires them to cooperate. *Ta'awun* should be in line with the voluntary attitude, sincerity and integrity that will produce universal unity or brotherhood. These features are important for a modern and contemporary business to face the challenges of life (Elamin and Tlaiss, 2015; Harangozó and Zilahy, 2015).

3.3. Concept of *Shura*

In the book titled "The Islamic community in the Qur'an and Sunnah" written by Dr. Qaradawi (2005), he highlights about the importance of *Shura* in the lives of individuals, families, communities and countries. Al-Qur'an is one of the most important elements in a society that has built the basic principles and laid the foundations of Islamic life. Allah SWT says:

> *"And consult them in affairs..."* (Surah Ali Imran, 3:159)

The command in this verse was revealed after the Battle of Uhud advising the Prophet

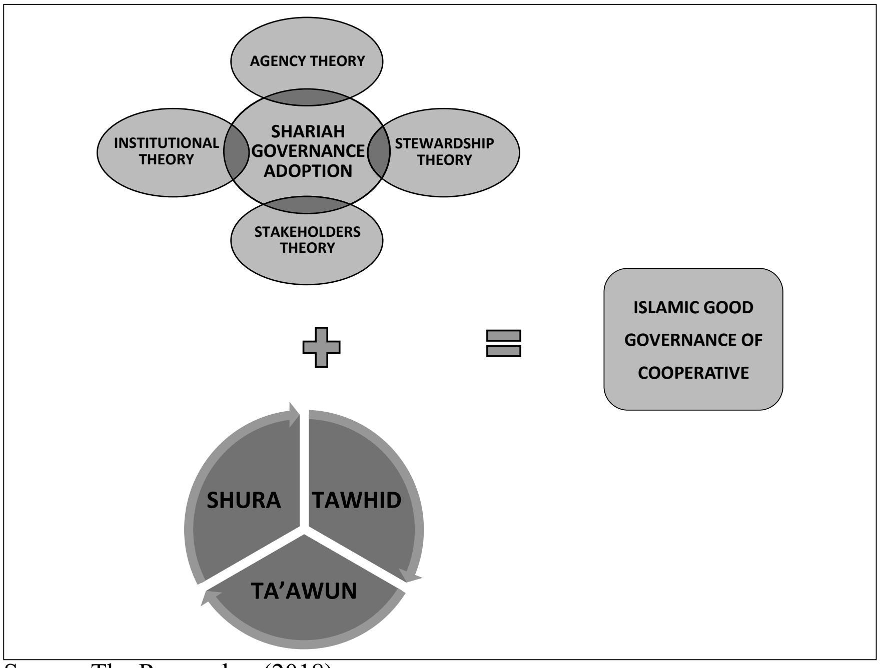
(PBUH) to consult his companions. Failure to do so led to the defeat that befell Muslims that killed 20 martyrs including Hamza, Mus'ab, Sa'd bin Rabbi and others. However, Allah SWT ordered the Prophet to speak with the companions which described the need to continue to negotiate as there were good and blessings, though the results were sometimes unpleasant (dissatisfaction). The important factor is the outcome of the discussion (Qaradawi, 2005).

According to Daud (1999), *Shura* is a term introduced by al-Qur'an. It is a communication process that includes discussions, consultations, brainstorming, collection and exchange of information, facts and data collection, and the collection and exchange of ideas from every angle. It is the decision of the majority to achieve the goal of truth. The decision was implemented in the form of actions by every individual. Meanwhile, neglecting *Shura* could have negative implications such as the spread of conflict and crisis in the family, community, organisational, nationally and internationally. It also leads to division, discord and strife, in addition to producing autocracy and nepotism that ultimately lead to decline and destruction.

IV. Islamic Perspective on Governance in Cooperatives

To cater for the unique governance needs of Shariah-compliant cooperatives, the authors are proposing that Islamic good governance model for cooperatives to feature the western theories discussed, namely agency theory, stewardship theory, stakeholder theory and institutional theory, integrated with Islamic principles of *Tawhid*, *Ta'awun* and *Shura*. The integration forms a framework of SG cooperatives, which is presented in Figure 2:

Figure 2: The Islamic Good Governance of Cooperative



Source: The Researcher (2018)

Figure 2 caters the governance needs of Shariah-based cooperatives, which in needs of professional governance and the observation of Islamic values that binds cooperative practices in the first place. Cooperatives are built on the spirit of co-operators as being responsible to manage the responsibilities as a vicegerent to Allah. This calls for co-operators to discharge their responsibilities in the most effective manner as vicegerent to Allah SWT, they are the believer that accountability is answerable in the world as well as in the hereafter. Internalised values brought by the element of *tawhid* serves as a check and balance mechanism to making sure that co-operators are performing *amanah* in the most observant manner.

Consultative governance, towards a certain extent is being adopted in the governance of institutions by the Board members collectively make decisions upon hearing out the needs of the management of cooperatives. *Shura*, or Islamic consultative concept extends the concept of collective decision making to reflect divine guidance brought about by the Shariah laws. Board members and Shariah advisors are deliberating amongst them on issues taking into account Shariah requirements. *Ta'awun* or mutual assistance forms the foundation for Islamic cooperatives as cooperatives ope rate on the basis of mutually assisting the members of the cooperative in question to focus on equality, equity via members economic participation, solidarity and self-responsibility.

The theories relevant to cooperatives, when applied to the context of cooperatives accommodates Islamic good governance, with the core foundation of *tawhidic* philosophy in governance; *tawhid, ta'awun and shura*.

i. Agency theory - maintaining and linking cooperative members with *Tawhid* principles. Lahsasna (2011) asserted that the person considers himself as an agent on this earth based on the principle of *Khilafah*, where his action will be in accordance with the Creator's command who delegates the assignment of agency to him.

ii. Stewardship theory - linking the responsibilities of CG organ with *Tawhid* principles. According to Bundt (2000), *"the principal (cooperatives) must believe that the steward will make decisions in the best interests of the organisation and will be capable of carrying the decisions out. Failure to meet this condition may constrain the steward either literally by rules and regulations or psychologically by demoralisation."* This statement is consistent with the *Khilafah* concept. In fact, the concept of *Tawhid*, *Khilafah* and brotherhood form the basis for stewardship theory. Therefore, the appointment of a Shariah board member of a compliant organisation will be able to carry out its duties with full accountability, not only to fulfil its obligations to God but also to the whole society (*Ummah*) (Sulaiman N. A. *et al.*, 2015).

iii. Stakeholder theory - maintaining and linking the other stakeholders of cooperative (outsiders) with *Tawhid* principles. Hassan (2009) claims that the nature of CG's goal is inclined towards the stakeholder value model where its governance style aims and protecting the stakeholders as a whole. In addition, as advocated by Chapra and Ahmed (2002), the primary concern in Shariah relates closely to the notion of equitable protection of the rights of all stakeholders irrespective of equity holders or otherwise.

iv. Institutional theory - maintaining and linking all elements of the institution with the principles of *Tawhid* for its sustainability. The organisation should be able to institutionalise a culture of excellence through adopting proper views and having a commitment to realise a moral, just and dynamic society. Individual and collective thinking and actions are strongly influenced by one's worldview. Thus, the culture of excellence is the result of adopting a proper worldview and the implementation of a dynamic social system (Nik Hassan, 2012).

V. Conclusion

SG has become diverse and advanced in line with economic growth. Given the impressive growth and increased financial sophistication, SG has proven to be challenging. Thus, each jurisdiction uses a different approach to developing and promoting SGF. At this point, it is important to understand and appreciate SG's pluralistic approach in an effort to identify and highlight the best practice framework. In the cooperative sector, good governance practices are new. Hence, the practices and achievements of IFIs serve as a reference for cooperative governance.

The unique features of the cooperative have led to the idea of involving the entire governance organs towards its more organized and professional administration to achieve the well-being of its members. In the context of cooperatives in Malaysia where most cooperatives are led by Muslims, the introduction of Islamic good governance in its administration is very coincidental. The four Western theories are best suited to be incorporated into the proposed framework. This proves that the development of this model has taken into consideration the elements of *Aqli* and *Naqli* in establishing a Shariah framework for cooperatives.

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