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The Need of Shariah Governance for Small and Medium Enterprise (SME): A Literature Review

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Abstract
Shariah Governance was introduced for islamic financial institutions on 2010 through Shariah Governance Framework 2010. Starting from that, other financial institutions including takaful, ar-Rahnu and cooperative started adapting the SGF 2010 to create shariah compliance economic system. Small and Medium Enterprises (SME) also contributing significant role in Malaysia economy which shows that these enterprises also need to adapt the SGF 2010. The objective of this paper is to review past literatures related to shariah governance and the need of shariah governance implementation in Malaysian SME thus observe the need of shariah governance for SME. The methodology of this paper is qualitative by using contents analysis method and the data are analysed descriptively. The outcome of the literature review done shows that shariah governance complete the existing corporate governance which ensures all transactions and business operations are done in shariah compliance manner. It also increases an institution’s credibility and also public’s confidence on its shariah compliance status. This paper shows the importance of shariah governance implementation in SME enterprises. Therefore, further research needs to be conducted on what shariah governance model that are suitable with size, nature of business and the ability of SME enterprises to implement it.

Keywords: Small and Medium Enterprise, Shariah Governance, Shariah Compliance, SGF 2010, Financial Institution
Introduction
The development of Islamic Financial Institutions (IFI) worldwide are seen as a signal that economy cannot be separated from Islam (Kasim et al., 2013). As an Islamic based organisation, IFI comes out with a different approach from its conventional parts especially from the aspect of its objective, organizational governance and unique framework to make sure that the IFI are operating based on Shariah principles holistically. Islamic management strategy is a fundamental aspect for an Islamic based institution. Being different from its counterpart, conventional institutions management strategy is focused only on gaining profit (Shah & Sharif, 2018). This means that conventional institutions doesn’t consider the aspects of halal and haram in transaction and also involving riba, gambling, fraud and cheating in their business activities. The people who recognised the importance of shariah compliance in their business activities begin to take steps to implement shariah governance in their institution to ensure that the operation and business activities the services provided are following shariah principles. For example, Islamic financial institutions (IFI), Islamic Capital Market, Government Linked Investment Companies (GLIC), Cooperative, Hotels, al-Rahnu and many more.

Shariah Governance Frameworks that were introduced by Malaysia Central Bank (BNM) are being implemented in Islamic financial institutions in Malaysia started from 2020 to ensure that all operations and business activities are running in parallel with shariah principles. In addition, Malaysia’s shariah governance structure are considered among the most structured Islamic finance in the world (Nasir et al., 2020). From that, the shariah governance structures and frameworks introduced by BNM are followed by other economic sectors that want to make sure their business activities and transactions are shariah compliance. Adan et al (2017) stated that a business entity is considered Small and Medium Enterprises (SME) if their annual sales and number of employees meet the definition of SME. This can be seen from SMIDEC report issued on 2002. The report also stated that SME sectors contribute 38.9% in work intake and overall workforce in Malaysia (Saleh & Ndubisi, 2006).

As there is a push towards shariah compliance economy ecosystem, other economic sectors also started to follow the step to create a shariah compliance business entity. Thus, this research are made to analyse past literatures related to shariah governance in Islamic Financial Institutions especially on the aspect of elements that can be implemented by SMEs for IFI has a good and efficient shariah governance practice.

Literature Review
This paper will discuss on the need of shariah governance in small and medium enterprises. Therefore, this literature review is divided to two themes related to the need of shariah governance in small and medium enterprise.

Small and Medium Enterprise in Malaysia
There are various of SME definitions by past researchers that are based of the business size, business activity, annual sales and fixed capital. National SME Development Council (NSDC) defined SME based on three main sector which is manufactory and services related to it, primary agriculture sector and service sector (BNM, 2013). Whah & Shiang (2018) stated that a company is considered as SME based on qualitative indicator which is based on the number of permanent
employee and annual sales. Meanwhile, Saleh & Ndubisi (2006) defined SME based on these criteria:

1. Manufactory, service related to manufactory and agro based industry
   - Fulltime employees not exceeded 150; OR
   - Annual sales not exceeded RM25 million
2. Service, Primary Agriculture, Information and Communication Technology
   - Fulltime employees not exceeded 50; OR
   - Annual sales not exceeded RM5 million.

New definition of SME was introduced by BNM on 6 November 2013 through Circular on New Definition of Small and Medium Enterprises (SMEs) document which involve two sectors: manufacturing and service sector and other sectors (BNM, 2013). This new definition increases the criteria limit which is annual sales and number of fulltime employees. The comparison between new and old definition can be seen in the table below.

Table 1
Comparison of New and Old Definition of SME (BNM, 2013; Saleh & Ndubisi, 2006)

<table>
<thead>
<tr>
<th>New SME Definition</th>
<th>Micro</th>
<th>Small</th>
<th>Medium</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing, service related to manufactory and agro based industry</td>
<td>Annual sales less than RM250,000 OR Fulltime employees are less than 5 person</td>
<td>Annual sales between RM250,000 and RM10 million OR Fulltime employees between 5 to 10 person</td>
<td>Annual sales between RM10 million to RM25 million OR Fulltime employees between 51 to 150 person</td>
</tr>
<tr>
<td>Services, primary agriculture, information and communication technology (ICT)</td>
<td>Annual sales less than RM200,000 OR Fulltime employees less than 5 person</td>
<td>Annual sales between RM200,000 and RM1 million OR Fulltime employees between 5 to 19 person</td>
<td>Annual sales between RM1 million to RM5 million OR Fulltime employees between 20 to 50 person</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>New SME Definition</th>
<th>Micro</th>
<th>Small</th>
<th>Medium</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>Annual sales less than RM300,000 OR</td>
<td>Annual sales from RM300,000 to less than RM15 million. OR</td>
<td>Annual sales from RM15 million to less than RM50 million. OR</td>
</tr>
</tbody>
</table>
The Need of Shariah Governance and its Importance

Corporate governance will help increase SMEs presentation and public perception on the credibility of the company. Punyaratabandhu (2004) defined governance as “community management by community member” in using the authority to control and manage resource and business. Meanwhile, United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) defined governance as a decision-making process which the decision will be implemented or not (Noor & Nordin, 2016). The institute of governance defined governance from 3 dimension, which is:

- Governance that decides who has the power
- Who makes decisions
- How other stakeholders make sure their voices are heard and how account is presented.

Sheila & Salman (2013) stated that Board of Director play an important role for Small and Medium Enterprise to get access to financial and capital, giving confidence to investor, generate private sector and contribute to national economy. According to the researchers, other benefit of governance implementation for SME is that it can make a company expand much faster, increasing the company accountability and credibility and make the company have clear destination. Abor & Biekpe (2007) stated that SME companies that implemented good corporate governance can get easy access to financial support from investors and financial institutions to expand their business. Good corporate governance also will ensure SMEs growth and committed to the business effectiveness because there is a external monitoring body (Abor & Adjasi, 2007).

Therefore, SME companies also need corporate governance to ensure long-term sustainability and profitability of the company. Khor (2017) stated that the implementation of corporate governance in SME companies will be an added value to such companies even if they do not intend to become listed companies. Sheila & Salman (2013) suggested that a corporate governance guideline that are suit to the context of these SME must be made as the contribution made by these companies to the national economy is enormous. Mahzan and Yan (2014) also proposed to establish a specific code of governance for SME companies as the context is different from listed companies. Past studies have shown that it is not impossible for SME companies to implement corporate governance it also will be an added value to an SME company and differentiate it from other companies that are in the same category.

Implementing corporate governance will bring various benefits to the owners and management of the company and at the same time it will improve the transparency and
disclosure of information which will make it easier for the company to obtain funds from investors and gain public trust in its credibility (Sheila & Salman, 2013; Abor & Biekpe, 2007). Kasim et. al (2013) stated that corporate governance according to the Islamic perspective needs to be seen from the aspect of the concept of Islamic accountability. The concept of Islamic accountability includes two aspects of accountability, namely the main accountability as a trustee of God’s commandments and accountability for contracts between owners, investors and managers (Hameed, 2000). Past studies have shown that corporate governance according to the Islamic perspective complements existing corporate governance which is purely secular in nature.

The combination of modern forms of business and Shariah rules is the most important aspect to ensure that a company or business is Shariah compliant (Febianto, 2011). Corporate governance according to the Islamic perspective requires the existence of an additional layer of governance for the purpose of shariah compliance. Therefore, institutions that wish to implement shariah governance need an organizational arrangement to control and monitor aspects of shariah compliance in their business and operations (Nasir et. al., 2020). This makes the board of directors have the additional responsibility to control and ensure that the institution operates in accordance with Islamic guidelines (Kasim et. al., 2013). The purpose of establishing such a control system is to ensure constant compliance and implementation of shariah principles by the institution (Muneeza, 2014; Hasan et. al., 2020). Past studies have shown that shariah governance is similar to corporate governance which is a system of control and the role of shariah governance is to ensure shariah compliance occurs in an organization.

Shariah governance was created to complement the existing corporate governance framework at IFI and also due to the lack of a specific model of corporate governance that follows the Islamic perspective (ISRA, 2016). Grassa (2013) also states that effective shariah governance will be an added value to the existing corporate governance framework. With the existence of Shariah governance, it will be able to ensure that the business operations of an institution always comply with Shariah and corporate governance does not cater on this aspect of Shariah compliance (Zain & Shafii, 2018; Sori et. al., 2015). Meanwhile, noncompliance to the shariah principles event will affect the halal and haram status of the income (Nasir et. al., 2020). In addition, in the context of governance implementation in IFI, Sori et. al (2015) stated that the implementation of IFI can safeguard the interests and trust of all stakeholders such as depositors or customers, shareholders and stakeholders. Past studies conducted show that there are various importance and advantages of the implementation of shariah governance in IFI. However, such previous studies have only focused on large economic sectors. Therefore, further research needs to be done for the SME sector which is also one of the contributing sectors of the economy.

Afiq et. al (2011) defined shariah governance as a system that is implemented using shariah principles and controlled by a religious body or board to supervise the activities carried out by an institution to always run in accordance with shariah. Shariah governance according to Bank Negara Malaysia (BNM) is a set of organizational rules through which IFI can ensure effective monitoring, accountability and responsibility of the board, management and Shariah Committee (BNM, 2009). Meanwhile, Islamic Financial Services Board (IFSB, 2009), an international standards-making body related to IFI defines shariah governance as a set of institutional or organizational rules through which institutions offering Islamic financial services can ensure the
existence of effective and independent shariah compliance monitoring for each of the following processes and structures:

i. Issuance of relevant Shariah pronouncements/resolutions,

ii. Dissemination of information on such Shariah pronouncements/resolutions to the operative personnel of the IIFS who monitor the day-to-day compliance with the Shariah pronouncements/resolutions vis-à-vis every level of operations and each transaction,

iii. An internal Shariah compliance review/audit for verifying that Shariah compliance has been satisfied, during which any incident of non-compliance will be recorded and reported, and as far as possible, addressed and rectified, and

iv. An annual Shariah compliance review/audit for verifying that the internal Shariah compliance review/audit has been appropriately carried out and its findings have been duly noted by the Shariah board.

From the definitions stated, it can be understood that shariah governance is a system to control and ensure an organization to constantly comply with the shariah principles with creating relevant functions to achieve the objective. Shariah governance is also complementary to the long-established system of corporate governance. Only that corporate governance is secular in nature that focuses on the secular aspects while shariah governance will complement the aspects of the hereafter, especially the halal and haram status of income earned from business conducted. Therefore, the combination of shariah governance and corporate governance will drive the success of an organization more comprehensively.

The main purpose of the shariah governance framework for IFI is to strengthen the role of the board, shariah committee and management on matters involving shariah, including strengthening the relevant key component members responsible for performing shariah review and compliance functions aimed at achieving a shariah compliant operating environment (BNM, 2010). The implementation of Shariah governance will strengthen public confidence in the integrity, management and business operations of an Islamic institution (BNM, 2019; Wardayati, 2011). In addition, shariah governance also aims to ensure that financial products issued are in line with shariah principles and giving shariah advise on every step in the contracts used, increase transparency and disclosure of information to enhance oversight of IFIs which in turn will increase investor confidence in institutions (Haqqi, 2014; Hasan, 2011; Mizushima, 2013; Mohamed & Hasan, 2019). Furthermore, Mohamed & Hasan (2019) states that the shariah governance framework is also an effective tool for measuring and ensuring the competency and effectiveness of shariah compliance of Islamic financial operations.

There are also various studies on the need for the implementation of shariah governance in other economic sectors such as Islamic capital markets, cooperatives, hospitality and so on that have different goals, nature and forms of business from each other. This is because each economic sector has its own form and characteristics that require a different model of shariah governance to suit the context and needs of each sector. Since there are many studies related to shariah governance focus on IFI only, Kasim et. al (2013) stated that there is an urgent need to establish a Shariah Governance Framework for the Islamic Capital Market as the sector provides a shariah-compliant investment platform for Islamic banks, takaful companies as well as Muslim investors (Hasan et. al., 2020). These studies are a clear indication that other economic sectors
are also beginning to take steps to implement shariah governance to meet the needs of the Muslim market as well as create a shariah-compliant economic ecosystem.

Apart from that, there are also previous studies related to the implementation of shariah governance in cooperatives to ensure that the operations and activities carried out by a cooperative are shariah compliant (Hassan et. al., 2018; Shafii et. al., 2017; Itam et. al., 2016; Ahmad & Al-Aidaros, 2015). However, shariah governance in cooperatives is slightly different from financial institutions because the main objective for cooperatives is to empower the social economic welfare of cooperative members (Itam et. al., 2016). The scope of application of cooperative shariah governance only focuses on matters related to financial services such as banking function, credit, financing and Ar-Rahnu and does not cover other business type. In addition, the Shariah Governance Guidelines (GP28) introduced are guidelines adapted from SGF 2010 and are still in the introductory stage and in need of improvement (Surkery & Yaacob, 2019). Although shariah governance in cooperatives is considered still in its early stage, past studies have shown that parties involved in the sector are aware of the importance and need for the implementation of shariah governance to ensure that their business operations are shariah compliant and able to offer products that are Muslim friendly.

According to Nasir et. al (2020) in his study on the need for shariah governance in government-linked investment companies stated that shariah governance is important to ensure that the operation of an institution always complies with Shariah principles, especially involving the following 3 main aspects:

i. Structure: The Shariah governance structure is important because its role is to meet what is expected of the Shariah governance structure of an Islamic institution. This is to ensure that all business operations, processes and activities are in line with sharia.

ii. People: People who are in IFI are required to carry out their Shariah-related duties including the board of directors, Shariah committees and management team.

iii. Process: The process for conducting shariah-compliant investments is important. Therefore, there is a need for Shariah review/audit, Shariah risk management and Shariah research.

The implementation of effective shariah governance requires a specific act to regulate an organization. For IFI, shariah governance begins with the existence of a specific act, namely the Islamic Financial Services Act. Subsequently, Bank Negara Malaysia as the regulator has created a framework and policy document on shariah governance, namely Shariah Governance Framework (SGF) 2010 and then improved through Shariah Governance Policy Document 2019 to enhance the shariah governance process in IFI. The same goes for the Islamic capital market sector and cooperatives which each have shariah governance guidelines introduced by the regulators of each sector. While other sectors do not have a specific and clear shariah governance framework, but it can be seen that most of these sectors make SGF 2010 BNM as a guide and adapt it in the implementation of shariah governance in their organizations.

Shariah-compliant business models are practiced by Islamic financial institutions that are limited to transactional and financial aspects, not to a comprehensive business model. In addition, previous studies on shariah governance in Islamic financial institutions, Islamic capital markets, cooperatives and others show that there are few differences between sectors. This is because each sector has a different business nature, capabilities and scope. Therefore, a study on the need for the implementation of shariah governance in SMEs needs to be done to identify
aspects that can be adapted to the context of SMEs by using the existing model as a reference. In addition, SMEs also have a different business nature from the stated sectors which are more focused on products based on financial services while SME business involves the sale and purchase of physical goods, manufacturing, services and so on. However, the question arises, what is the appropriate structure of shariah governance components to be applied in SME companies?

**Shariah Governance Structure**

The shariah governance system in IKI involves systematic mechanisms and processes that require the coordination of various management members (Hasan, 2012). Shariah Governance Framework issued by Bank Negara Malaysia listed the key components that need to exist in shariah governance include the Board, Shariah Committee, Management and shariah compliance functions such as review, audit, risk management and inspection (BNM, 2010; BNM, 2019). A study from Nawal et. al (2013) showed that the shariah governance standards and guidelines issued by Bank Negara Malaysia have similarities with the standards issued by AAOIFI and IFSB in describing the main functions in shariah governance such as shariah committee responsibilities, shariah inspections and audits. In addition, a study by Minhas (2012); Noor & Nordin (2016) states that there are four main pillars or components to a shariah governance model, namely:

i. Management and Monitoring

ii. Shariah Advisory

iii. Shariah Review and Compliance

iv. Information disclosure and Transparency

To ensure fund management activities conducted in Malaysia are shariah compliance, Securities Commission (SC) issued the Islamic Fund Management Guidelines in 2007. Among the contents of the guidelines is to appoint an independent shariah advisor from among individuals, consulting companies, licensed and recognized institutions or Islamic banks (SC, 2007). The guidelines also emphasize the need to appoint a compliance officer to ensure that the business conducted complies with the set guidelines as well as to report any non-compliance issues to shariah advisors, the company's board of directors and the SC. Hasan et. al (2020) stated that although Islamic fund management companies do not have a comprehensive shariah governance framework, but the shariah governance process is well carried out as well as rules and guidelines by regulators are adequate to ensure shariah compliance. In addition, the researcher also stated that shariah functions such as shariah review/audit and shariah risk management are carried out by the holding company and there is no need for shariah review because investment instruments are selected from the list of available shariah-compliant investment options.

The shariah governance structure for cooperatives is based on Guideline 28 (GP28): Shariah Governance Guidelines issued by the Malaysian Cooperative Commission (SKM, 2015). The GP28 has stated that cooperatives wishing to implement shariah governance must implement key functions which include the Cooperative Board, Cooperative Shariah Committee, Cooperative Management and Internal Audit Committee. Among other contents in the guidelines is that cooperatives need to establish a Shariah committee and also allocate sufficient resources and manpower to support Shariah governance commensurate with the size, complexity and nature of the cooperative's business.
Past studies on the structure of shariah governance have shown that the main function applied in other economic sectors such as Islamic capital markets and cooperatives is to create shariah committees and internal officers whose role is to support shariah governance at the internal level. This also shows that shariah governance involves two levels of monitoring, namely the internal level and the external level, by playing their role to conduct checks and balances that can ensure the operation of a business always complies with shariah. This two-level check and balance function will also reflect that an organization has exercised good governance and is able to convince the public and stakeholders of the shariah-compliant status of their business. Therefore, the implementation of shariah governance in SME companies must take into account the stated aspects, namely creating a Shariah Committee and appointing internal officers whose role is to advise, monitor and ensure that overall business operations comply with shariah principles.

**Literature Review Analysis**

Based on the literature review, the study has found that the main requirement and importance for the implementation of shariah governance is to ensure that transactions, operations and business activities conducted by the company always comply with shariah principles. As a result, the implementation of shariah governance will be able to ensure that the income earned is halal and free from elements that are forbidden in Islam such as gambling, *riba*, *gharar* and so on. In addition, the results of the literature review also found that the implementation of shariah governance will enhance the credibility and reputation of the company, give confidence to stakeholders, strengthen public confidence and also facilitate the process of obtaining funding from financial institutions and so on.

Based on the literature review of previous studies related to the structure of shariah governance, it is found that the structure adopted serves to be a check and balance in the implementation of shariah governance in these institutions. The check and balance function is implemented in two stages, namely the internal level and the external level. The internal level involves management, review and compliance which functions to ensure that day-to-day operations run in line with shariah compliance. While the oversight function and the shariah committee is at the external level which aims to monitor the management and provide relevant advice to ensure shariah compliance is carried out with cohesively. As a result, shariah-compliant reports issued by the information disclosure and transparency component will reflect the extent of shariah compliance implemented in an institution. This will also give confidence to stakeholders and the public such as investors, shareholders, customers and others about the institution's compliance with shariah principles.

### a. The Need and Importance of Shariah Governance

<table>
<thead>
<tr>
<th>No</th>
<th>Researcher</th>
<th>Research Outcome</th>
</tr>
</thead>
</table>
| 1  | Nasir et. al (2020); Hasan et. al (2020); Hassan et. al (2018); Shafii et. al (2017); Itam et. al (2016); Rodzi & Al-Hassan (2015); Febianto (2011); | • To ensure that transactions, operations and business activities carried out always comply with shariah principles  
• Ensure that the income earned is halal |
2. Haqqi (2014); Hasan (2012); Mizushima (2013); Mohamed & Hasan (2019); BNM (2019); Wardayati (2011)  
   • Increasing the credibility and reputation of an institution  
   • Giving confidence to stakeholders such as customers, shareholders and stakeholders on the shariah compliance status  
   • Strengthen public confidence in the integrity, management and operation of the business

   • Facilitate company owners to obtain funding from external parties such as Islamic financial institutions etc.

b. Shariah Governance Component Structure

<table>
<thead>
<tr>
<th>No.</th>
<th>Researcher</th>
<th>Research Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Minhas (2012); Bahari &amp; Baharudin (2016)</td>
<td>• The main functions of shariah governance should include the functions of Management and Supervision, Shariah Advisory, Shariah Review and Compliance, Information Disclosure and Transparency</td>
</tr>
<tr>
<td>2</td>
<td>Securities Commission (2007)</td>
<td>• Appoint a compliance officer to ensure that the business conducted complies with the set guidelines</td>
</tr>
<tr>
<td>3</td>
<td>Febianto (2011)</td>
<td>• A comprehensive shariah-compliant business model must involve human resource management, marketing management, operations management and other areas of management and must inculcate Islamic values and shariah principles</td>
</tr>
</tbody>
</table>

Discussion and Result

Awareness to create an Islamic economic ecosystem is gaining ground among industry players in the economic sector. Starting with the Shariah Governance Framework 2010 introduced by Bank Negara Malaysia for IFIs, other sectors are also following the steps to implement shariah governance in their institutions. This is also in line with the importance of the implementation of corporate governance in companies to increase public credibility of the company and also facilitate the company's process of obtaining funding. Past studies have also noted the need for companies under the SME category to implement corporate governance. The corporate governance system is a general system and does not touch on religious aspects, while the shariah governance system is complementary to the existing corporate governance system to ensure that an organization or company operates in accordance with shariah principles.

Furthermore, Figure 4.1 shows the importance and need of shariah governance. The shariah compliance status obtained by an institution as a result of the implementation of shariah governance not only ensures that the profits earned are halal, but also will increase the trust of customers, investors, shareholders and the reputation of the institution. SME companies have
limited funds and need external funding to increase the size of their businesses. Therefore, the implementation of shariah governance will help to facilitate the process of SME companies to obtain funding from Islamic financial institutions with a good shariah governance system.

<table>
<thead>
<tr>
<th>No</th>
<th>Aspects of Importance and Need</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Ensure the transactions, operations and business activities conducted complying shariah principles</td>
</tr>
<tr>
<td>2.</td>
<td>Increase an institution’s credibility and reputation</td>
</tr>
<tr>
<td>3.</td>
<td>Empower stakeholder’s confidence such as customers, shareholders on the business shariah compliance status</td>
</tr>
<tr>
<td>4.</td>
<td>Facilitate company owners to obtain funding from external parties such as Islamic financial institutions etc.</td>
</tr>
<tr>
<td>5.</td>
<td>Strengthen public confidence in the integrity, management and operation of the business</td>
</tr>
</tbody>
</table>

Figure 4.1: Aspects of Importance and Need for Shariah Governance

As there is no specific shariah governance framework for SMEs, it is important to examine these institutions in relation to the implementation and practice of shariah governance. This is because the shariah governance component in IKI is recognized as the most complete shariah governance. Meanwhile, there are also other sectors also adapting the shariah governance based on the ability of their business size, complexity and form of business. Thus, not all components of IKI shariah governance are implemented as shown in Figure 4.2 and Figure 4.3. This means that if the size of a business is large, then more shariah-related workforce are needed to meet the need of ensuring shariah compliance in business operations and transactions. The same goes for looking at the nature of the business itself.

<table>
<thead>
<tr>
<th>Component</th>
<th>Islamic Financial Institution</th>
<th>Cooperative</th>
<th>Islamic Capital Market</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shariah Committee</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>Shariah Secretariat</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>Shariah Risk</td>
<td>✔</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Shariah Review</td>
<td>✔</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Shariah Audit</td>
<td>✔</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Figure 4.2: Implementation of shariah governance structure in IFI, Cooperatives and Islamic Capital Market
Component | Employees' Provident Fund (EPF) | Lembaga Tabung Haji (LTH) | Permodalan Nasional Berhad (PNB)
---|---|---|---
Shariah Committee | ✔ | ✔ | ✔
Shariah Secretariat | ✔ | ✔ | ✔
Shariah Risk | ✔ | ✔ | -
Shariah Review | ✔ | ✔ | -
Shariah Audit | ✔ | ✔ | -

Figure 4.3: Implementation of shariah governance structure in government linked investment company (Nasir et. al., 2020)

Conclusion
Shariah governance is complementary to the corporate governance system. The implementation of Shariah Governance will be able to ensure that all business transactions and operations are conducted in accordance with shariah principles. This is because, the profits of a business conducted in a non-Shariah compliant manner cannot be used by the owner as it has become haram property. In addition, Shariah Governance in Islamic Financial Institutions is recognized as a pioneer in implementation of shariah governance system. Therefore, the Shariah Governance Framework and Guidelines for IFI serve as an example of shariah governance frameworks or guidelines for other economic sectors. In addition, the benefits offered by its implementation such as ensuring business operations are always shariah compliant, facilitating the process of obtaining funding, enhancing credibility and reputation etc will certainly benefit SME company owners.

Shariah governance has become a necessity for the SME sector as well as other economic sectors in general. In addition, the appropriateness for its implementation in SMEs needs to be studied and examined in depth because the characteristics of SMEs have a few differences with the industries in other economic sectors, especially related to business size, annual sales, number of employees and so on. Therefore, these aspects need to be taken into account with the proposed implementation of shariah governance in SMEs. Lastly, further studies need to be conducted on what shariah governance model suitable for SME companies by considering the size, nature of the business and capabilities of the company.

Reference


