



INTERNATIONAL JOURNAL OF ACADEMIC RESEARCH IN BUSINESS & SOCIAL SCIENCES



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To Link this Article: <http://dx.doi.org/10.6007/IJARBSS/v13-i1/15203>

DOI:10.6007/IJARBSS/v13-i1/15203

Received: 09 November 2022, **Revised:** 10 December 2022, **Accepted:** 27 December 2022

Published Online: 18 January 2023

In-Text Citation: (Ruzulan et al., 2023)

To Cite this Article: Ruzulan, Z., Hassan, R., Jamaluddin, M. A., & Saidin, N. (2023). Good Governance Practice for the Shariah Compliant Hotel in Malaysia: An Insightful Study. *International Journal of Academic Research in Business & Social Sciences*, 13(1), 1697 – 1705.

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Vol. 13, No. 1, 2023, Pg. 1697 – 1705

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INTERNATIONAL JOURNAL OF ACADEMIC RESEARCH IN BUSINESS & SOCIAL SCIENCES



www.hrmar.com

ISSN: 2222-6990

Good Governance Practice for the Shariah Compliant Hotel in Malaysia: An Insightful Study

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Abstract

The performance of the Shariah compliant hotel has a strong relationship with the governance approach adopted by the hotel. On this occasion, poor governance practice may result in the mismanagement of the Shariah compliant hotel's operation where the Shariah compliant hotel does not comply with the Shariah requirements. Since a limited study focuses on the good governance practice for the shariah compliant hotel, this paper will investigate the essential elements of good governance for the Shariah compliant hotel. This study adopts a qualitative research methodology where the document analysis technique was used to collect the data and then analyzed using content analysis. The finding has shown that the governance practice of the Shariah compliant hotel is still at a minimum level where the Shariah compliant hotel focuses more on the halal certification requirement awarded to them. Thus, there is a need for the regulator to establish a proper policy on the best governance practice for the Shariah compliant hotel.

Keywords: Corporate Governance, Good Governance, Islamic Tourism, Shariah Compliant Hotel, Islamic Tourism

Introduction

The tourism industry has recognized Islamic tourism as a part of its niche segment. This recognition means that Islamic tourism does not exclusively belong to the 'Islamic country' per se, but this Islamic industry has extended to non-Muslim countries (Muharam & Asutay, 2019). Many studies have shown that Islamic tourism has become a new branding for the tourism destination as a marketing strategy to increase the participation of the tourism stakeholders (Standing Committee for Economic and Commercial Cooperation of the Organization of Islamic Cooperation (COMCEC, 2017). Consequently, the tourism industry could remain competitive and sustainable at the destination when halal products and services are available.

In this regard, halal-related accommodation offering at the destination plays a significant role in making the destination sustainable, particularly in providing halal hospitality (Ratnasari, 2020). Hotel is the main attribute that could guarantee the travellers the best services that

will be provided to them. Since Islamic tourism is associated with the Islamic religion (Mohsin et al., 2016), it is the accountability of the tourism stakeholder to ensure that no element could taint the Islamic image of the hotel. The Muslim guests mainly aim for the faith basic needs are available for them when they stay at the hotel. For instance, the Organisation of Islamic Cooperation (2017) has surveyed the accommodation attributes Muslim travellers would like to make available in the Shariah compliant hotel. The result is as per figure 1.

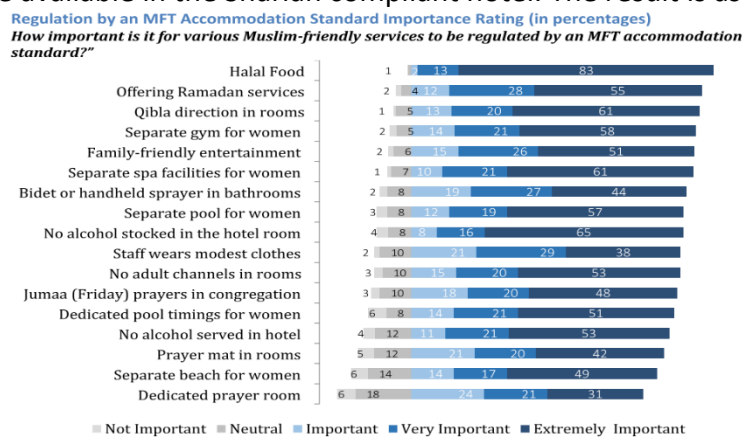


Figure 1. Basic faith needs among Muslim travellers (COMCEC, 2017)

Apparently, when the hotel is claimed as a Shariah compliant hotel thus, there is a need to ensure the observance is not partially done. However, it must adhere to all the Shariah principles and requirements.

Many studies have denoted that the Shariah Compliant Hotel attributes are the pull factor that attracts Muslim travellers to choose their destination (Al-Ansi & Han, 2019). Because of this demand, many hoteliers have started promoting their establishments as 'Islamic hotels'. Indeed, this trend is good, but there is a problem trigger in its implementation because of the absence of a regulatory framework on how to execute the Shariah principles in the process and the management of the Shariah compliant hotel (Musa et al., 2017). Indeed, a lack of guidance will also lead to a severe risk to the hotel and the Shariah law. Therefore, this study aims; to investigate the crucial elements of good governance for the Shariah compliant hotel. The governance that follows Shariah principles is necessary to accommodate the Islamic tourism sector in gaining more revenues but still in line with the tawhidic paradigm.

Methodology

A qualitative research methodology is appropriate for this study because this study aims to investigate the need for good governance for the Shariah compliant hotel. Undeniably, Shariah compliant hotel recognition started in 2013 (Musa et al., 2017). It is later compared to other halal industries established, especially the Islamic banking and finance industry in 1983, becoming the leading industry today. On this occasion, the researchers have realized that limited studies on the Islamic-related tourism industry have focused on the purview of the Shariah compliant hotel management (Salleh et al., 2014). This study is exploratory because Cresswell (2009) mentioned that the availability of legit sources is very significant in answering the research objectives, especially if the variables are still vague.

The secondary sources in the form of documents and written texts were used in this study. Previous literature on the governance approach, like Malaysian standards, journal articles, reports, book chapters and the proceeding paper related to the Shariah compliant hotel and

governance, were selected and reviewed. The search of the documents was based on essential keywords like corporate governance, governance practice, Shariah governance, Shariah compliant practice and Islamic tourism. The literature was sought through the available search engines like Google Scholar, Mendeley and the online databases provided by Universiti Teknologi MARA such as Scopus, Emerald, and Springer.

For the data collection, the document analysis technique is adopted because this study used the sources from the available literature. The researcher used the content analysis technique for the data analysis to review the selected documents and arrange the findings systematically.

Results and Discussion

The governance approach will determine the efficiency of the company's performance. How the Shariah compliant hotel manages the hotel will determine the efficiency of the hotel's management. For this study, four crucial elements could be highlighted on the need for a clear governance framework for the claimed hotel as Shariah compliant. The findings are as follows.

Regulatory Requirement

It has shown that the Malaysian government has committed much to be the leading Islamic tourism destination globally. With the globally renowned Islamic tourism destination, this development tremendously attracts hoteliers to opt and introduce the Islamic concept to their hotels as the establishments offering halal-related services and facilities to Muslim travellers, mainly the Shariah compliant hotel.

For the sustainable Islamic tourism industry in Malaysia, the establishment of the Islamic Tourism Centre on 16 March 2009 is a piece of clear evidence of the commitment of the Malaysian government to realize the mission of providing capacity building services related to the Islamic tourism industry (Islamic Tourism Centre, 2009). Many agendas and activities were held by Islamic Tourism Centre to promote this industry, like providing training, collaboration, seminars, and publishing a comprehensive guide for the tourist. Moreover, Islamic Tourism Centre is among the important stakeholders in ensuring the Islamic tourism policy is developed and improving the products and services of Islamic tourism products.

However, based on the investigation of the available literature, no laws or regulation are the primary references for the hotel that claims to be an Islamic or Shariah compliant hotel. This argument has been supported by Salleh et al. (2014), where the existing Malaysian regulation related to halal is only enforced in the halal-certified hotel. About this matter, the inadequate specific source of power to oversee the whole operational activities in the hotel will expose to the integrity issue related to the Shariah non compliant.

Currently, the Shariah compliant hotel or a hotel that claims to be an Islamic, Muslim-friendly, or halal hotel in Malaysia adopts particular halal-related certification from national and international certification and accreditation bodies. Figure 2. is among the certification standards widely known among the Islamic tourism stakeholders related to hotel certification. However, the certifications are voluntary only, where no laws from the federal or local authority obligate the hoteliers to have the certificate as a prerequisite to operate their business.

STANDARDS	MANUAL & GUIDELINES	CIRCULARS
<ul style="list-style-type: none"> • MS 2610:2015, Muslim Friendly Hospitality Services - Requirements • MS 1500:2009, Halal Food - Production, Preparation, Handling And Storage - General Guidelines (Second Revision) • MS 1900:2005, Quality Management Systemss - Requirements From Islamic Perspectives • MS 2300: 2009, Value-Based Management Systems – Requirements From An Islamic Perspective • MS 2393: 2010 (P), Islamic Principle and Halal – Definition and Explanation of terms 	<ul style="list-style-type: none"> • None 	<ul style="list-style-type: none"> • None

Figure 2. Common halal-related certification for the Shariah compliant hotel (Jais & Marzuki, 2018)

As a result, the absence of specific laws and regulations to oversee the Shariah compliant practice according to the Shariah principle may expose the non Shariah compliant. Besides, the availability of many certification standards that the Shariah compliant hotel adopts will lead to the non-standardization of the practice at the hotel (Pamukcu & Sariisik, 2020). This is owing to the different purposes of the standards coverage, requirements and the certification bodies' status.

With these issues, there is no direct monitoring and enforcement from the regulators to oversee the practice of the hotel to commit to the Shariah principles and its requirements. Consequently, among the hotel players, misuse of the Islamic concept like Islamic, Muslim-friendly, halal, Shariah hotel, and Shariah complaint hotels is higher. A study conducted by Ahmat et al (2015) has discussed that it is pretty challenging to implement the Shariah compliant hotel because it requires a higher cost to suit the Shariah requirements. Besides that, relying on alcoholic drinks as the highest proportion of the hotel's revenues leads to the non Shariah compliance. In this regard, a specific law to govern the specific hotel that claims as a Shariah compliant hotel is urgently needed. The law is to ensure no hotel will take this opportunity on the positive development of the Islamic tourism industry just as a part of the marketing and promotional strategies to attract travellers to visit Malaysian destinations and choose the Islamic hotel concept as their preference.

Management Responsibility

Top management is among the most crucial organs to ensure every process in the Shariah compliant hotel efficiently follows the Shariah principles. In this matter, proper strategy and planning are urgently needed to ensure the Shariah compliant hotel gets the highest

recognition from the policymakers and other Islamic tourism stakeholders. Many studies have ascertained that Shariah compliance has become the main tourist attraction among travellers (Al-Ansi & Han, 2019). This is specific to the Islamic hotel that clearly understands the service and facilities offered to make them comfortable to observe their religious obligation (Battour et al., 2018) and to the non-Muslim (Dabphet, 2021). Indeed, the unique ambience of the Islamic concept offered in the Shariah compliant hotel and the different geographical locations are the pull factor for the non-Muslim to experience.

This attraction subsequently has invited the management to add valuable attributes to their hotels. Since there is a Shariah parameter that needs to follow, thus, it is not merely the adoption of the Shariah concept for branding purposes per se, but it is more than that. This study has found that many Shariah-related certification standards require having a dedicated Muslim staff to oversee the activities related to Shariah. Since the requirements are general, thus it provides greater flexibility to the company to turn them into practice. Consequently, it depends on the commitment of the top management to aspiring towards the realization of the Islamic hotel. Since there are no present laws to protect the whole process and operations of the Islamic hotel, this sector has no binding commitment to abide by the regulation.

It is important to note that the external pusher from the regulatory bodies is a gatekeeper to ensure the commitment of the Islamic hotel to embed the demand of Shariah law in their operation (Abu-Tapanjeh, 2009). This is very important because the first motive of this establishment of the Islamic tourism industry is to cater to and protect the needs of Muslim travellers. Apparently, since this Islamic tourism industry is targeting Muslim travellers from the Middle East that could provide a significant contribution to the Malaysian country, domestic travellers have also become the main factor in the implementation of the Shariah compliant hotel by making sure the governance process is embedded the necessary Shariah element in the governance practices. This is to realize the spirit of responsible tourism, where all the considerations related to protecting the essential needs of the stakeholders are needed to realize the ultimate goal of Shariah.

Disclosure Practice

Disclosure is an essential element in the governance process to let the relevant stakeholders know what is happening to the organization. Indeed, the regulators have disclosed a condition to the listed companies to declare certain activities for integrity, like the annual report (Ramli et al., 2020). Since Shariah reporting is not mandatory, where not many hotels are listed at the bursa, it is free for the Shariah compliant hotel to do that as part of communication with the stakeholders.

Based on this practice, many hotels take advantage of the elements associated with Islam to gain many guests to visit and stay at the hotel. For instance, the online platform is the contemporary approach that Shariah compliant hotels use to advertise and market their hotel. But there is no precise mechanism yet to oversee the disclosure practice of the hotel, whether it is in line with the Shariah principle or not (Muharam & Asutay, 2019). Indeed, according to Shariah, the transparent disclosure approach is vital to ensure the guests get accurate information related to halal.

The other elements, like the activities related to corporate social responsibility, the contract used, promotional material, zakat, and financial-related matters, need a proper declaration to be transparent to others. As a result, the authority needs robust guidelines to safeguard the Shariah compliant hotel's transparency to adhere to the Shariah requirements.

Risk Management

Risk management is a possible way to manage any potential hazards and threats that could disturb the activities and the process of the organizations, which could affect the Shariah status of the hotels. To the best of the researchers' knowledge, limited studies related to risk management studies focus on the practice of the Shariah compliant hotel unless for the part of the food and beverages areas. A study from Shakira & Shari (2021) focuses on the importance of having a transparent halal risk management system at the halal procurement stage among Islamic hotels to avoid any failure of the halal food supply chain. This is because the authors have stressed that the quality of the materials is crucial, especially in adhering to the standard of halal requirements. Another study has shown that the determination of the ingredients and their process at the hotel is complex, where it is possible that cross-contamination could occur due to the several types of kitchens that are available in the hotel, like pastry kitchen, banquet kitchen, and tea and coffee kitchen where not all the kitchens have been certified as halal (Yahaya & Ruzulan, 2020). In conclusion, cross-contamination is possible if there is no clear standard operating procedure for handling the ingredients, equipment, and utensils during food processing.

However, the study has found that no in-depth study focuses on the Shariah risk management of the hotel as a whole to avoid any disturbance for the entire process of the Islamic hotel. Indeed, the discussion of risk management in other halal industries like Islamic banking and finance has clearly been spelt out. As to show that the specific management of avoiding non-compliance happens in the organization, Shariah risk has been recognized as part and partial of the operational risk management. BNM (2019) has explicitly defined Shariah risk management as "a function that systematically identifies, measures, monitors and reports Shariah non-compliance risks in the operations, business, affairs and activities of the Islamic Financial Institution.". This Shariah governance framework has highlighted the key functions of the Shariah risk in section 17.2, '*The Shariah risk management function*', to ensure the Malaysian Islamic financial institution could minimally follow systematic monitoring. These functions are as follows.

- (a) integrate Shariah non-compliance risk considerations with enterprise-wide risk management;*
- (b) identify Shariah non-compliance risk exposures in the business operations and activities of the IFI;*
- (c) assess Shariah non-compliance risk and measure the potential impact of the risk exposures to the IFI;*
- (d) establish appropriate risk mitigation measures;*
- (e) monitor Shariah non-compliance risk exposures and effectiveness of the risk mitigation measures;*
- (f) report to the board, Shariah committee and senior management on the Shariah non-compliance risk exposures in relation to paragraph 17.2(b) to (e); and*
- (g) constructively challenge decisions that may give rise to Shariah non-compliance risks.*

(Shariah Governance, 2019)

Based on the policy of the Bank Negara on Shariah governance, it has denoted the need to have a clear policy specifically on the Shariah part in ensuring the operation is compliant. Therefore, the Shariah compliant hotel not just highlights the basic facilities and services available for the guest, but the Shariah principle must be the primary subject matter in

implementing the Shariah compliant hotel or when halal-related facilities and products are offered to the guests.

There are many limitations based on the four governance elements highlighted in this paper on the need for a proper governance approach for the Shariah compliant hotel. Since the Islamic tourism industry is the new niche segment in the tourism industry, hoteliers tend to follow the conventional style they are already accustomed to in their management style. Thus, the policymaker needs to take one step forward to ensure that the hotel that adopts the Islamic concept in its operation follows the Shariah principles.

Conclusion

Islamic hotel concept has become a marketing and promotional tool among the Islamic tourism players regardless of whether it is from the government initiative, the hotel providers, or any tourism stakeholders to increase the number of travellers to visit the tourism destination. Since Muslim travellers are significant contributors to the tourism industry, thus Islamic tourism industry has been specialized as a niche segment to accelerate the economic growth of this industry. Undeniably, the Islamic tourism industry is under religious tourism because it associates with the Islamic religion. Thus, any activities in this industry, including those recognized or claimed as the hotel that adopts Islamic criteria, must follow the Shariah principles. In this matter, adopting the transparent governance approach according to Shariah is urgently needed to ensure the hotel's end-to-end activities are compliant.

This study would like to propose for the relevant policymakers, regardless at the federal or state levels, to establish an acceptable Shariah policy on the governance process for the Islamic hotel. This apparent policy could enhance the management process of the hotel within the tawhidic paradigm and avoid any malpractice that could lead to Shariah non compliant.

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