

## Corporate Governance from Muslims' Perspective: A Malaysian Case

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### ABSTRACT:

*Companies, local or international, are funded by shareholders, managed by the top management (CEOs), and overseen by the board of directors. Managing the relationship of these three groups is called corporate governance. Thus organizations have two types of main stakeholders who hold interest directly or indirectly. The above three are internal stakeholders who are favoured or constrained in policy decisions by external stakeholders such as the customers, community, and government.*

*Various governance problems have been experienced in the Malaysian environment by local and multinational corporations. The shareholders are often visualized as a group interested only in its narrow self-interest of earning dividends. The CEO is often accused of unethical practices or mixing up corporate interest with personal interest. The board of directors is thought of as a group uninterested or ineffectual, or both, in overseeing the affairs of the corporation. However, stakeholders' theory dictates as strategic direction must be based on an analysis of the economic power, political influence, rights and demands of various stakeholders require to addressing them in appropriate strategy formulation. Otherwise the source of competitive advantage that is based on superior linkages with stakeholders leading to trust, goodwill, reduced uncertainty, improved business dealings and ultimately higher firm performance, would be at stake.*

*Overall, the organization that is able to manage its stakeholder relationship is likely to gain greater success in today's globalised world. Corporate management is difficult when there exists unfair and biased dealing with the stakeholders. Organizations do not necessarily have to deprive one stakeholder in order to benefit another stakeholder. Stakeholder relationship need to be based on mutual trust and understanding. Islamic teachings based on revealed knowledge sources are clear on the nature of human behavior. The Holy Quran provides extensive references to what is the right and wrong behavior. Right behavior is the key to just stakeholder management.*

*The paper will examine these issues at length from socio-economic, educational, religion-cultural perspectives and make a descriptive study of multi-dimensional issues in the Malaysian environment.*

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## **Corporate Governance from Muslims' Perspective: A Malaysian Case**

Corporate sector and their current organizational structure have passed through an evolution process. Historically, prior to the 1950s: organizations were mechanical entities characterized; by a centralized authority, departmental specialization and division of labor, and strict rules and regulations with clear lines of authority and responsibilities. As a result variation bureaucratic forms were common. After 1950 dynamics of socio, political, economic, cultural and educational change necessitated different business policy responses due to; increasing flexibility and adaptability and maximum utilization of resources, restructuring demands in terms of new thinking, analysis, and a systematic approach to problem solving. Consequently, restructuring of organizations was viewed as a practical and an effective approach to enhance organizational ability to cope with change and to facilitate an optimal implementation of strategies.

Malaysia as an OIC member nation is a Muslim dominated country with a population of approximately 27 million people of different race, religion and values and subscribing South East Asian nations' culture. The people of Malaysia are historically aware of importance of mutual respect of various religion, race, values and culture which played a paramount role in country's economic growth by enhancing national unity and progress of the nation. Proper orientation of the issues of religion, race, values and culture would result in strong national unity and create the environment for better understanding, mutual relations and contribution to the overall development of Malaysia.

On the other hand, the government under the leadership of 2<sup>nd</sup> Prime Minister, Tun Razak Hussein, after Malaysia obtained Independence (1969-1976), introduced the New Economic Policy (NEP) to cater, among other things, for the eradication of poverty and enhance race balance with economic function and wealth distribution. Furthermore, with the adoption of *Rukunegara*, national education policy and national language policy, the government has clearly advanced the cause of national unity; economic development and progress.

As a matter of fact, national policy initiated under the leadership of 4<sup>th</sup> Prime Minister, Tun Dr. Mahathir Mohamad, aspired towards instilling Islamic values in government administration so as to ensure that the moral values become part and parcel of work environment and culture. This policy emphasized values such as; trustworthiness, responsibility, sincerity, dedication, moderation, diligence, cleanliness, discipline, cooperation, integrity and thankfulness<sup>1</sup>. The government of Malaysia has always been mindful of the importance of corporate governance based on these environmental elements in national unity and nation building as policy response to guide business corporations, that in turn created a lot of employment opportunities, enhancing per capita income *vis a vis* standard of living for citizens of the society. Lately, for instance, the initiation of national culture policy (1972), inculcation of Islamic values policy (IIV 1981/1986), introduction of *Islam hadhari* approach (2004) by latest Prime Minister and others, bear witness

of the importance of religion, values and culture in national unity yielding economic growth and business prosperity.

There are some challenges and issues on race, religion, education, values and culture that need to be addressed in designing better corporate governance in contemporary Malaysian environment to achieve a status of developed Muslim nation. These include answer to; what are the determinants of organizational culture? Does organizational structure emerge independently of societal culture? How to determine that the existing structure is adequate? Are there preferable methods for investigating the appropriateness of organizational structure? Do these perspectives constrain or facilitate management freedom in designing organizations? Does Islam present certain perspectives on structure?

## CORPORATE GOVERNANCE AND STUDY OBJECTIVE

Companies are funded by shareholders, guided by the board of decisions and managed by the top management. The relationship management of these three groups is called corporate governance. Organizations have stakeholders who hold interest directly or indirectly. There are internal stakeholders such as the managers and employees. There are external stakeholders such as the customers, social groups and community at large, and government. Various of scandalous nature problems have been experienced in the governance of corporations of 21<sup>st</sup> century.

The shareholders are often visualized as a group interested only in its narrow self-interest of earning money. The board of directors is thought of as a group uninterested or ineffectual, or both, in overseeing the affairs of the corporation. The top management is often accused of unethical practices or mixing up corporate interest with personal interest.

Corporate business management based on an analysis of external environment of the economic power, political influence, rights and demands of various stakeholders leads to proper strategy formulation. Overall, the organization that is able to manage its stakeholder relationship is likely to gain greater success. This gives the source of competitive advantage that is based on superior linkages with stakeholders leading to trust, goodwill, reduced uncertainty, improved business dealings and ultimately higher firm performance, is seen doubtful. Management is difficult when there is an unfair and biased dealing with the stakeholders. Organizations do not necessarily have to deprive one stakeholder in order to benefit another. The stakeholder relationship need to be based on mutual trust and understanding. Malaysian Muslims' as guided by Islamic revealed knowledge sources need to be very clear on the nature of human behavior. The Holy Quran provides extensive references to what is the right and wrong human behavior. Right managerial behavior is the key to just and fair play for stakeholder relationship management, leading to good government.

The objective of this paper is to study the interface of environmental dynamics and organizational development in an era of global problem of scandalous behavior characterized

with poor governance. Determinants of a successful organizational design are characterized by changing ownership,

organizational size, technology, competition, etc. But these are subjected to attitudes and views of companies' top management. Top management has to ; i) continuously monitor whether the existing structure facilitates the desired social and organizational interactions/cohesiveness; and ii) the degree to which the organization maintains flexibility in reacting to market events and changes. Besides, the top management also has to give close attention to; a) sluggish response to market dynamics, b) dysfunctional flows of information within the organization, c) confusion among personnel, d) ambiguity of roles, and e) contradictory instructions in prevailing socio-cultural and legal environment.

### Methods for Investigating and Scope of the Study

There are basically three common research methods and they are survey method, interview method and case studies. For the present paper the case method was adopted in spite of the methods' own advantages and disadvantages. Advantages include a focus on a specific organization or on several organizations within or across industries; provide a wealth of information; enable researchers not only to identify the determinants of structure and its context but also the evolution of structure and its appropriateness over time; map the strategic aspects of structure and grasp the motives that influence managers in seeking specific structures in tune with traditions in Islamic inquiry and through them author can build a foundation for conceptual and theoretical propositions relevant to Malaysian Muslims' culture and environment. However a disadvantage may include perceptual and contextual biased and time factor because other methods are time consuming and could delay the study.

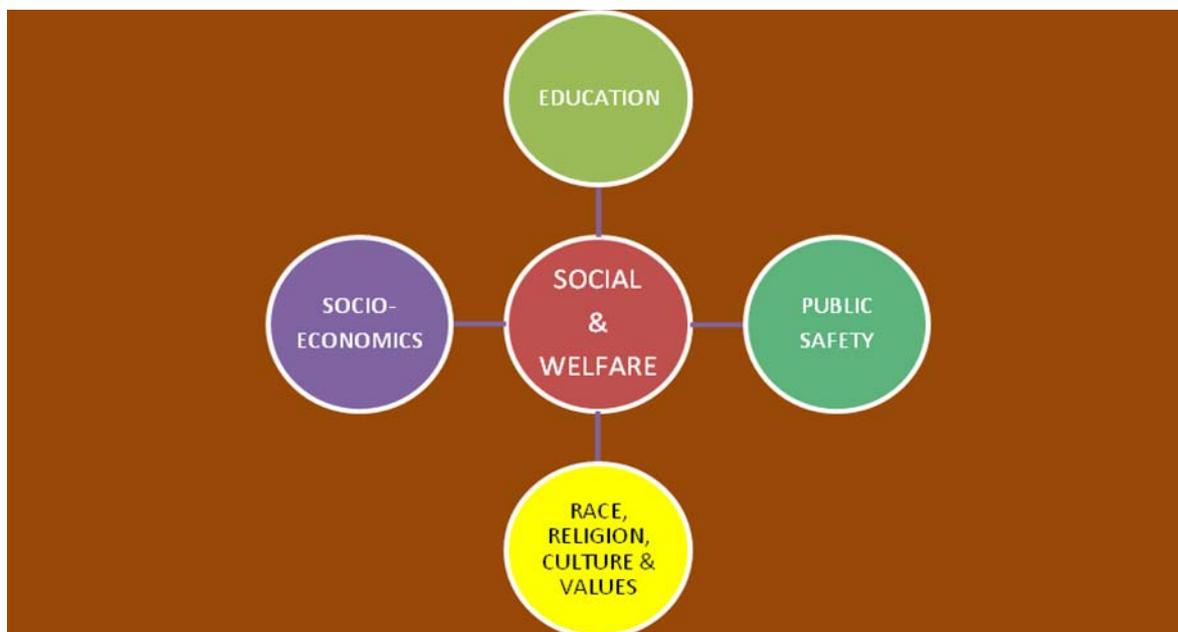
Incentives are there in other methods too. Likewise conducting interviews of the executives can give the ease in comparing structure and context across several organizations. Researchers can get an accurate picture of the structure if executives reveal frankly their structural preferences, and normally that is not the case. In Western cultures, senior managers are generally more accessible to researchers but Muslims mostly belonging to Asian culture are hesitant becomes the disadvantage. It is also demanding in terms of time and resources (skilled interviewers; scheduling of appointments) besides an issue of small sample size of top management.

Survey method is quite common in business related research. They are in two general types: 1) investigating the orientations and outlook of participants, and 2) capturing the dimensions of structure and its context. Advantages include; least costly, its application in a Muslim environment is increasingly gaining acceptance and an ease in collecting data via sending students to conduct survey as is one of its best advantages. But disadvantage is participants'

general tendency to either not give serious attention in their completing of the survey or to attempt to answer according to their perception of the researchers' expectations.

Beside, study of the structure in a given culture has two major approaches culture-free and Culturally Bound

Malaysia has its own high context, high power distance and collectivistic elements of culture<sup>ii</sup> and any study has to be based on culturally bound ones. The meaning of social structure has particular sense for each social group the framework of organizations may appear to be familiar and the same in different countries and thus the influence and coordination mechanisms, along with the routine and daily interactions within the organizational diverse groups, remain specific to that organization and are easily differentiated from others in the Malaysia environment<sup>iii</sup>. Therefore the following chart will determine the scope of the study of the social and human welfare dynamics of Malaysia Incorporated business environment:



## SCENARIO OF A MUSLIM COUNTRY- A CASE OF MALAYSIA

Malaysia is a Malays Muslim dominated country but other races such Chinese, Indians, Arabs as immigrant communities for couple of centuries, constitute *bangsa* Malaysia (Malaysian citizenry). Other primitive communities in Eastern part of the country are integral part of the One Malaysia. Empowerment through educating citizens has been prime agenda of Independent Malaysia. Education is considered one of the major vehicles for the national, socio-cultural and economic development of Malaysia. In fact, it is the means for achieving the goal of national integration and unity. For the purpose of unity, the Malay language was set as its backbone as

evident from the Razak Report (1956). The aim of the report was to establish a “*national system of education acceptable to the people of the Federation as a whole which will satisfy their needs and promote their cultural, social, economic and political development as a nation, having regard to the intention to make Malay the national language of the country whilst preserving and sustaining the growth of the languages and culture of other communities living in the country (Para 1a).*” The report implies accepting cultural pluralism rather than assimilation as evident from the recognition of national vernacular schools in both primary and secondary levels until 1961 when the Rahman Talib Report and the Education Act 1961 allowed for the pluralistic vernacular and primary schools but only English and Malay medium national secondary schools, for the sake of national unity.

Based on studies and observations, the following are the major issues in Malaysian education that need to be addressed in ensuring political and economic sustainability.

- a. Increasing racial polarization in educational institutions
- b. Declining quality of the national education system and higher education.
- c. Declining status of the Malay Language as the national language
- d. Inability of the national primary (Malay) schools to attract non-Malays

### **1.1. Racial polarization in educational institutions**

Despite fifty years of independence, *firstly*, there is an increase in racial polarization in educational institutions today. This is evident in the enrolment of the national and national type primary schools in 2006 (Refer to Table 1), where 98% of the Malay cohort attended the National schools, 94% of the Chinese cohort attended the National Type Chinese Schools and 51% of the Indian cohort attended the National Type Tamil Schools. The enrolment figure of the various races in the National secondary school is better in comparison to the primary school. However the number of Chinese Independent High Schools is increasing from 14 when the Education Act 1961 came in force to 60 today. The pattern is the same in the tertiary level, with the Chinese forming almost 90% of enrolment in private colleges and universities while it is more proportional in the public universities. Racial polarization is on the rise and this situation is critical because it results in very little interaction and communication between the ethnic groups which is necessary for understanding, respect and national unity.

#### *Related Present or Past Policies*

- Pupils Own Language (POL) – failure due to lack of teachers and school support.
- Integrated Schools – failure due to opposition from Dong Zong and Jiao Zong.
- Vision schools – not much study as yet.
- Mother tongue and third language education – still new

- Integrated curriculum with emphasis on the inculcation of universal moral values.
- Provision of quota in public universities – successful in public universities in terms of educational access for the Bumiputeras but might be unfair to some who did better but did not get admission

However the main gap and the main difficulty is the absence of primary schools that is heterogeneous during children’s formative years as the English schools prior to 1970s and the educational policy that admits pluralism for this level, is being addressed by the policy makers as One Malaysia concept of new leadership.<sup>iv</sup>

**Table 1, Enrolment in Assisted National Primary Schools by Medium before and after 1970**

Medium	1968	(%)	1972	(%)	1986	(%)
Malay	606,664	44.5	807,419	54.1	1,568,649	70.3
English	307,984	22.6	171,337	11.5		
Chinese	367,565	26.9	435,266	29.2	582,104	26.1
Tamil	81,428	6.0	78,758	5.2	81,051	3.6
Total	1,363,641		1,492,780		2,231,804	

Source: Ministry of Education, *Educational Statistics in Malaysia* 1968, 1972, 1986, and 2001 (Kuala Lumpur: Dewan Bahasa & Pustaka).

## 1.2 Declining quality of the national education system and higher education.

The lack of our students’ quality in the school is affecting the universities, which are now also expected to provide them with skills they are supposed to have acquired in basic schooling. The situation is worse for the rural students in comparison to the urban students. Consequently, our university students are passive and cannot communicate effectively. They still brought with them the mentality of studying for the exam, instead of exploring their talents and potentials. In addition, some of our university faculty members are also not competitive and some do not reach the level of competency demanded of academics. They could not provide model of diligence, communication fluency, creativity, analytical and critical ability and innovativeness to the students.

Despite investing so much in education, ICT and teachers in smart schools and universities, the returns have not been satisfactory. Teachers and lecturers are still applying the same conventional methods of getting their ideas across and the mode of assessment remains the same. The ranking of our universities is rather low in comparison

to international standards. The ability of our students in the various literacy is not impressive although we did not perform badly in TIMSS. Our teachers themselves lack the 21<sup>st</sup> century skills.

We should arrest this decline in quality of education. Otherwise, Malaysia will slide further down in her economic competitiveness and the richness of her human capital.

#### *Related Present or Past Policies*

- Smart school – slow but is progressing and more widespread after the Prime Minister issued the order to make all schools smart.
- English language mastery – only a small percentage became competent despite 11 years of exposure to all students in schools and the strong presence of English in Malaysian media.
- Stronger base for S&T through ETeMS & ICT – lots of problems because lack of planning. Put a lot of pressure on teachers.
- Upgrading teachers and lecturers' knowledge and skills through in service training (PKPG, PTK and CLA) – is still going on but the philosophy behind these is not clear. Presently it is mainly for evaluation in promotion exercise.
- Formulation of Education Development Master Plan (PIPP) 2006-2010 with 6 strategies including cluster schools, nation building, and teacher improvement – progressing especially cluster schools and teacher upgrading (from non-degree to degree).
- Malaysian examination board & council – policy is shifting toward more school based and process-based assessment.

However the main gap and the main difficulty is the differences between what is provided in the learning environment and the product expected by society and the industry.

### **1.3 Declining status of the Malay language as the national language**

The status of the Malay language as the national language is being threatened with educational policies developed to meet the challenges of globalization such as English for the teaching of mathematics and science (ETeMS), and English for science and technology in the universities. There is less pride for the Malay language as the Malaysian national identity as evident of its use as the lingua franca of the region

especially in the socio-cultural and political spheres of South East Asian. The language was the language of the existing arts and sciences then, the language of communication and expression that also unites and gives not only Malaya but the region its Malay identity. Since 1970, the language has been elevated to a language of S&T with the existence of UKM (Universiti Kebangsaan Malaysia) and later the other public universities. Through the use of this language, Malaysia has produced its professionals and scientists that are recognized in the West.

However, with the dawn of the ICT era, most material in the internet is in English and no effort was made to increase presence of Malay language material in the Web like the quantity available in Japanese or other languages. However, the national language is crucial because it is the soul of a nation and its identity. There is fear that the Malaysian identity, which is set in the constitution to be the Malay language and Islamic faith will be watered down only to become symbolic and not translated and realized.

#### *Related Present or Past Policies*

- Medium of instruction for national schools and universities – succeeded in producing professionals and graduates even recognized and accepted in Western universities.
- Dewan Bahasa dan Pustaka – published original and translated work but the rate is slow although they received many works.
- National Institute for Translation Malaysia (ITNM) – the rate of translation is slow and the quantity is small.
- Bulan Bahasa Kebangsaan in the 1960s which was filled a lot of programmes and was also broadcast – successful in raising awareness and sense of pride among non-Malays.

However the main gap and the main difficulty is the lack of resources for S&T and other fields of knowledge in the national language whether in the hard media or in the cyberspace and lack of good educational programmes targeted for all Malaysians in the electronic media.<sup>v</sup>

#### **1.4 Inability of the national primary (Malay) schools to attract non-Malays**

The core national primary Malay medium schools have failed to become the premier national school in the country especially at the primary level when parents have a choice of schools for their children. This trend is also happening in the secondary schools and the tertiary level when there is also more choices than previously. This does not augur well for the country's future racial relationship because it means segregation by choice.

The national and public educational institutions must be investigated for the cause of its aversion, which needs to be arrested and addressed.

*Related Present or Past Policies*

- English schools were the convergent point for all the various races, and the popular choices of parents for economic reasons - Able to get Malaysians abroad.
- Vernacular national schools became more popular after the 1970 policy of conversion of national English type schools. This policy solve the problem of inequal educational opportunity and educational access especially for higher education but the side effect, it sowed the seeds of racial pluralism.
- KBSM or the Integrated Curriculum emphasizes universal values but is perceived by non-Malays as Muslim and Malay religions values.
- The core national schools are also perceived as not nurturing discipline and diligence as in the National type Chinese schools’.
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- The increasing number of Malays studying in the National Type Chinese schools for the reason to acquire Mandarin is perceived by the Chinese as attesting to the quality of their schools.
- Over enthusiastic principals and teachers who were not tactful and sensitive of pupils of different cultures i.e. multicultural education.
- Lack of non-Malay teachers in schools that could be due to poor economic return, low status or lack of Malay language proficiency.

However the main gap and the main difficulty is the lack of understanding of the nature of Malaysian cultures and its translation in the school environment to create a win-win situation for all.

*Secondly*, Malaysian view to public safety relates to the most fundamental human rights—the right to life. It involves the prevention of and protection from events that could endanger the safety of the general public from significant danger, injury/harm, or damage, such as disasters or crimes (natural or man-made) and road safety or safe infrastructure.

In the *Malaysian Quality of Life 2004*, published by the Economic Planning Unit of the Prime Minister’s Department, the public safety index is measured by crimes per thousand population and road accidents per thousand vehicles. We can add to this notion of public safety a current concern among Malaysians, i.e., security from natural disaster. As a whole, while the Malaysian

quality of life has increased, there is also a worrying trend of rising crime rate committed by illegal immigrant workers, increase in traffic accidents and also casualties from natural disaster (such as the recent Bukit Antarabangsa tragedy). It is therefore a challenge for the country's leadership, especially the incoming one, to guarantee public safety to the citizens.

The discussion that follows below illustrates a brief observation of the current state of natural disasters, traffic accidents and crime in Malaysia. It also highlights the current government policies in tackling those issues. Generally, it observes that the policies, laws and regulations the country have are adequate to address these issues. Nevertheless, their implementation needs to be strengthened and reinforced.

**2.1** Being a natural cause, no one can prevent natural disaster from happening, the impact of such disaster can be minimized through responsible government policies. The tragedies of Highland Towers (1993) and the recent Bukit Antarabangsa (2008) can actually be avoided through strict regulations of hillside development. There is fear that other hillside housing areas would experience the same fate as Bukit Antarabangsa. Another recurring issue is flood, which is seasonal in affected areas; and also flash flood in poorly irrigated areas.

#### *Related Policies*

The government has clear laws, policies and guidelines with regards to hillside development. The government has also undertaken many drainage projects throughout the country. The problem is that these issues keep on recurring.

However the main gap and the main difficulty is policies and laws with regard to hillside development are clear, but their enforcement is lacking, due to reasons unknown to author.

**2.2** Cases of traffic accidents are serious. Traffic accidents have always been a major problem, especially during the festive seasons. For example, during Ops Sikap XVII between 24/09/2008 and 08/10/2008, there were 15,996 traffic accidents, of which 186 were fatal ones, with 208 deaths. However, this number was lower than the Ops Sikap XIII (of the previous year), where there were 15, 911 accidents, of which 208 were fatal ones, resulting in 225 deaths. In addition, fatalities due to road accidents reduced considerably from 7.4 per 10,000 registered vehicles in 1990 to 4.9 in 2002 despite the rapid increase in vehicle and driver population, and volumes of traffic. There is also a serious concern regarding the phenomenon of *Mat Rempits* (dangerous motorbikes) who pose danger to road users.<sup>vi</sup>

### Traffic Related Death, Injuries and Damages

<b>Kemalangan</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008 Jan-Jun</b>
<b>Maut</b>	5,378	5,634	5,678	5,623	5719	5672	3,018
<b>Parah</b>	6,696	7,163	7,444	7,600	7373	7384	3,632
<b>Ringan</b>	30,259	31,357	33,147	25,905	15596	13979	6,690
<b>Kerosakan</b>	237,378	254,499	280,546	289,136	312564	336284	170,357
<b>Jumlah</b>	<b>279,711</b>	<b>298,653</b>	<b>326,815</b>	<b>328,264</b>	<b>341,252</b>	<b>363,319</b>	<b>183,357</b>

Sumber : Jabatan Siasatan Traffik ,Polis Diraja Malaysia, Bukit Aman

#### *Related Policies*

The government has undertaken positive steps at reducing the number of road accidents and casualties. This is especially visible during the festive seasons with the many *Ops Sikap*. The various agencies of the government are also active in holding road safety campaigns to different target groups, including schoolchildren. The government has also enforced the rear seat belt rules since January 2009.

However the main gap and the main difficulty is that the government has done its responsibility in regulating the traffic and reducing traffic accidents. Nevertheless, a significant part of the blame on traffic accidents has to be apportioned to the road users too. Malaysians are almost notorious for their dangerous driving, perhaps being too adventurous nature of new generations, and this needs to be addressed.

**2.3** Crime rate is rising. Incidences of index crime were 121,176 in 1997, and it has increased to 156,455 in 2004. There is also a correlation between economic slowdown and crime rate as the statistics in 1998 and 1999 recorded the highest incidences of crime in during the period (1997-2004). In the first 10 months of 2008, the rate of crime was 772 per 100,000 populations in 2008. Although the number is low compared to other countries, e.g., 1,166 per 10,000 in Hong Kong or 1,569 per 10,000 in Japan, it is still a cause of concern as it is an increase from just 624 cases per 10,000 that Malaysia recorded in 2000.

#### *Related Policies*

The government announced, in early 2008, that it would increase the police force by 60,000. The visibility of the police force can help reduce the crime rate. In addition, the police force has also introduced “Rakan Cop” to encourage participation in combating crime among the public. The

government's strategy in combating crime, then, is a combination of the strengthening of the police force and public participation.

However the main gap and the main difficulty is despite the fact the Royal Malaysian Police has the reputation as one of the most capable police force in the region. However, the main complaint against the police is its credibility. In addition, the reputation of the police is affected by its failure to solve a few high-profile cases, e.g., Nurin and Sharlinie.

*Thirdly*, religion, race, values and culture play a paramount role in enhancing national unity and progress of the nation. Proper orientation of the issues of religion, race, values and culture would result in strong national unity and create the environment for better understanding, relations and contribution to the over all development of Malaysia. The government of Malaysia has always been mindful of the importance of these elements in national unity and nation building. For instance, the initiation of national culture policy (1971), inculcation of Islamic values policy (IIV 1981/1986), introduction of *Islam hadhari* approach (2004) and others, bear witness of the importance of religion, values and culture in national unity.

As a matter of fact, IIV policy initiated under the leadership of Dr. Mahathir aspired towards instilling Islamic values in government administration so as to ensure that the moral values become part and parcel of work environment and culture. This policy emphasized values such as; trustworthiness, responsibility, sincerity, dedication, moderation, diligence, cleanliness, discipline, cooperation, integrity and thankfulness.<sup>vii</sup>

**3.1** Race and ethnic-related issues and increasing trends of politicisation of the son of the soils (Bumiputra) status and rights enshrined in the constitution, rukunegara and NEP is annoying new generations of other races. Also challenge of negative impact of westernization on Malay identity and heritage (Challenge of detachment from the Malay tradition in favor of Westernization) is a concern of many.

Government is revisiting some aspects of the New Economic Policies (NEP) and strengthening Bahasa Melayu (national language) and encouraging the learning of additional two languages such as; English, Mandarin, Tamil is being envisaged through Ministry of Culture which can see through the possibility of establishing a notional body involving all races to focus on devising policies and policy recommendations on enhancing the "Malaysian Identity" agenda.

**3.2** Limits to religious freedom as proclaimed by certain groups is mounting pressure on others. Politicisation of religion and undermining of religious co-existence and tolerance is becoming an issue. Weakening of proper presentation and teaching of religion leading to tension and discontent should have been avoided. But weakening of the social impact of the common religious values in disseminating universal values and dealing with social ills and problems must

have been part of religious policies. Religion as a value added factor in developing the nation and maintaining national unity is need of a time.

**3.3** Culture and values related issues need space for cultural expression and cultural relations among the various races. Diminishing role of values in enhancing development friendly environment and the Malaysian moral fabric of the community is necessary. Concerns over the cultural rights of various ethnic groups are raised in private discussion.

There is a likely revisit to the IIV policy (1986) in order to enhance its practical impact and revitalise the role of values in administration and combat any compromise on any form of corruption. Also revisit the national culture policy (1971) to enhance the cultural relations and ethnic common cultural values. Teaching common values and cultural norms to Malaysians through introducing new subjects in lower and higher education institutions perhaps would be a solution. Recommendation is to establish a national council (which will include experts from all cultures) to develop strategies and action plans in order to enhance for “Common Cultural and Civilizational Values and Heritage” for the purpose of national unity

*Fourthly*, Economic downturn is enemy of all the races in Malaysian environment.

**4.1** Unemployment rate has increased due to global economic down turn but still manageable level. Recommendations to maximise employment of the locals and better incentives to be given especially for the blue collar jobs are on table of policy makers. Create tax incentive for the employers to attract FDI in the country. A nice balance between labour intensive and automation to absorb extra supply of working age groups/fresh graduates to minimize unemployment problem is a better option.

**4.2** Population percentage below poverty line is an issue of equitable wealth distribution. In Malaysia we have a history of gradual decline in poverty ratio due to

- Accelerated rural development.
- Use of idle land through palm oil plantation settlement.
- Enforcement on CSR on corporate sector.
- Tax incentive for community development programmes participation.
- Introduce subsidies in supply of basic necessities, and
- Better spending on zakat disbursement fund by Baitul ma'l

**4.3** Increasing outrage of modesty cases and social ills affect social well being (table 2). Courses on marriage and parenting helped to combat such ills. However, bad impact of peers during free time and away from parents due to friendship is a cause of concern. It is partially due to rapid urbanization rising affluence. Late coming to house, may be due to the presence of night clubs and other life centres, to be curbed or strictly regulated

Outcry and recommendations from NGOs and social pressure groups is encompassing a dire need for severe punishment. And this needs to be made public as deterrence, so other may learn lesson.

**Table 2, Outrage of Modesty Cases From 2000 – 2007**

<b>YEAR</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
<b>TOTAL</b>	<b>1,234</b>	<b>1,393</b>	<b>1,522</b>	<b>1,399</b>	<b>1,661</b>	<b>1,746</b>	<b>1,972</b>	<b>2,243</b>

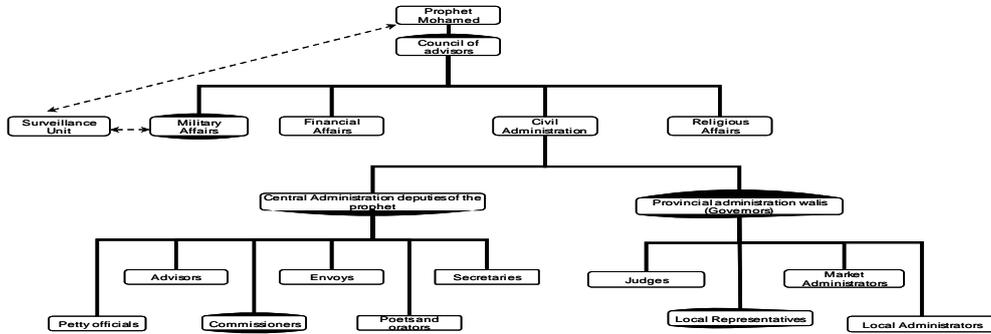
Source: Statistik Januari - Disember 2005 (Sumber AADK), Jabatan Perangkaan Malaysia

In a nutshell, to tackle the above social and human welfare environmental dynamic issues, the government of Malaysia which sets the helm of the affairs, needs to regulate business and society relationship. The setting of the business policies, laws and regulations that can improve the corporate governance *vis-a-vis* education system, public safety, religious tolerance and socio-economic trends in the country is urgently needed. This includes integration of school curriculum, the strengthening of the police force (and making it more representative of the country's ethnic groups), regulation of traffic rules and strict enforcement of hillside development projects. In addition to these, the government should emphasise citizen's participation, e.g., support for residents' initiatives in neighborhood watch and various civil society's activities in improving the living standards of the citizens. This is in line with the thinking of Malaysia becoming a developed nation in another 11 years to come (Vision 2020).

#### **ISLAMIC PERSPECTIVES ON DEVELOPING CORPORATE GOVERNANCE**

The early years of Islam, Prophet Mohamed (saw) gradually organized and governed the State based on human centred approach. The salient features were informal relationship approach and members were frequently changed according to the pressing situation. Surveillance or scanning of the environment was an integral part of organizational structuring whereby administrators and officers were given autonomy. Later in Islamic history between 661 and 1258 years structuring in both the State and business organizations acquired some sophistications. The Structure of the state, however, changed according to then changing environment for governance and strength/stability of the State, the power of the Caliph, the power of the chief *wazir* and the Power of the bureaucrats (refer to chart below).

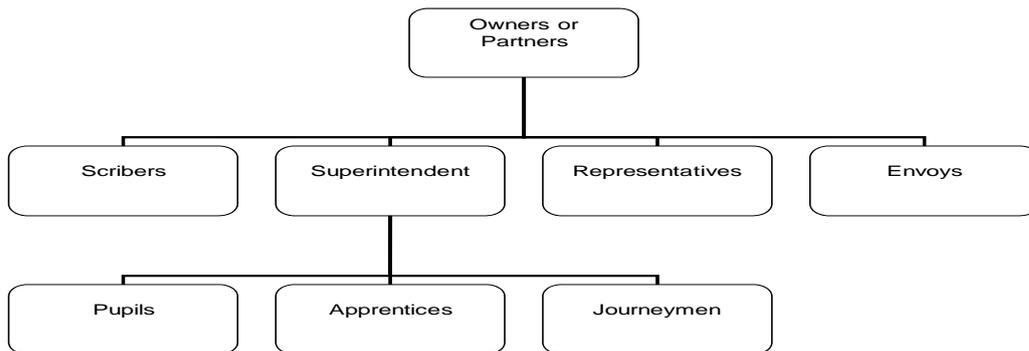
Islamic Perspectives on Structure Continued



Source: Abbas J. Ali (2005)

Business organizations were mainly family owned, mostly in trade. Alliances among business groups (families) especially in shipping (e.g., subcontracting guards, organizing caravans) and envoys/representatives were strong. Employees (full-time, part-timers) were representing in other regions of trading nations of that time (refer to second chart below).

Islamic Perspectives on Structure Adopted Business



Source: Abbas J. Ali (2005)

Muslim civilizations recognize a gradual change through system of *ijtihad* (culture of innovation). It is the norm rather than exception: “God sends down rain from the sky, and leads it through springs in the earth. Then He causes to grow, therewith, produce of various colors, then it withers; thou wilt see it grow yellow” (Al-Quran). Similarly Al-Quran dictates as diversity is an integral part of the nature of the universe: “And the things on this earth which He has multiplied in varying colors and qualities” and “If God so willed, He could make you all one people”.

Diversity of ends and objectives may dictate espousing different methods to reach goals. The Quran (92:4) states, “Verily, the ends ye strive for are diverse.” The “middle way” is the most preferred path for conducting affairs, behavior, and for organizing. Legitimacy of any activity is primarily derived from benefiting others (The Quran - 2:164) Prophet Mohamed explicitly instructed “The best of people are those who benefit others.” Structuring of organizations to serve the interest of those involved (stakeholders) and those who are affected by the corporation is urgent need of Muslims today.

Western model set on Honor (France) and Consensus (Netherlands) whereby Islamic model is based on spirit of *ehsan*. *Ehsan* -goodness and generosity in dealing- as a pattern of feeling and behavior that closely shapes individual and group interaction within organizations. It encompasses; goodness, mercy, justice, forgiveness, tolerance and attentiveness

The interaction and the nature of relationships based on *ehsan* are not determined by tasks independent of the people performing them. Organizations are set in a way that fosters interactions and eases dialogue while performing organizational market goals. Members of the organization exchange ideas or reflect on issues regardless of hierarchal arrangements. Likewise in conventional management, traditional Group Centered: organization might be centralized but not formalized; focuses on concerns for group harmony and the viability of the organization are not divorced. Basically the same way Islamic perspective of corporate governance is derived from spiritually enlightened executives: is designed to take advantage of the market conditions, aligns organization interests with the human welfare and viability of the community.

In a summary we can say that current financial scandals and schemes and the recent severe economic downturns demonstrate that certain business recognitions and glorifications seem to be bestowed on corporate executives without careful consideration, is debatable from corporate governance viewpoint. Furthermore, their promotion, irrespective of content and reality, perpetuates the mythos and mockery of the western system. For years, Bernard Madoff, the head and owner of an investment securities firm which was named after him, was introduced repeatedly in the media and public places as a philanthropist, a genius business person, a civic leader, and a pillar of Wall Street and the thriving business community in midtown Manhattan and around the globe. His contributions to society and numerous communities were counted with admiration and pride.

Recent discovery of what is claimed to be the largest Ponzi scheme in history by Madoff's firm has shocked the business community and shaken the foundation of basic business trust. More importantly, it accentuates the need to rethink the role of executives and the necessity of having a business environment conducive to cultivating qualities that uphold ethical and moral conduct. Business schemes, financial scandals, and shady conduct have inflicted untold damages on communities and institutions across the globe and have endangered the global economic system eliminated by the presence of multinationals companies (MNC) and its foundations.

Indeed, there is an increasing sentiment among ordinary people and the elite that deceptions and fraudulent activities have been tolerated and alarming signals have been overlooked because of the prevailing organizational culture which celebrates good news and overlooks misdeeds. In this culture, senior executives are granted unrestrained reign in conducting business irrespective of transparency and accountability watch dogs. Free of restraints, these executives have been emboldened and have felt no need to show responsibility to any stakeholders enshrined in good corporate governance.

In a culture which celebrates only "good news," even though it is illusionary, and places considerable emphasis on personal fame and putting short-term gains ahead of long-term growth and survival, responsible executives have been either marginalized or found themselves unable to compete when pitted against those who practice deception and boast imaginary achievements. The scope and depth of the current economic problems make it imperative that different types of executives should take the lead in building confidence in the market institutions and in charting new business paths where moral clarity is cultivated, sanctioned, and reinforced. While competent executives are always needed, unfolding business calamities and widespread corruption and deception have to be eradicated and the culture profoundly changed, especially the rules that govern competitive games.

The question which may be raised is: "what types of executives are needed?" Each era and culture has its own leaders. The current economic crisis is a serious one and, viewing it in a global context, it demands a new thinking and genuine foresight. It accentuates a need for executives who are competent and comfortable in confronting abuses and who will shoulder historical responsibility for regaining the health of the economy without suspending feeling and all sense of value. That is, the new types of executives need to be spirited and gain satisfaction in seeing that the fruits of their efforts are shared and the benefits are widely distributed among various stakeholders.

It should be mentioned that the spirited executives may have something in common with competent executives but they differ from them in many aspects, including the capacity to remap their businesses or organizational priorities in a broader context and rethink their roles in the years ahead. Furthermore, spirited executives differ from passionate executives. The latter actively seek attention, publicity, and fame. Their obsession with their personal image and their urge to accumulate personal wealth at any cost place them apart from the spirited executive.

Like their counterparts in the scholarly arena, the spirited executives are consciously aware of their roles in society and, therefore, express the aspiration of communities they serve and

organizations they govern. Consequently, their propositions and designs are genuine, practical, and logical. Spirited executives are remarkably disciplined and certainly not after passing fame. Their motive is not divorced from the reality of their surroundings and is anchored on the grounds of trust and the belief that obligations and entitlements go hand in hand. Their contributions are not confined to a particular race religion and are not restrained by either personal prejudice or blinded rationalities. For this reason, they are at ease in addressing business and societal concerns and never doubt their complementary nature. Consequently, their propositions and designs flow with creativity, practicality, life, and feeling.<sup>viii</sup>

**Conclusion:** We can, therefore, infer that, such spirited executives have three major qualities that place them apart from competent and so called passionate executives: hopefulness, content, and inclusiveness. Both competent and passionate executives may display optimism. But this often is short-term in nature or is linked to goals which are either personal or organizationally driven. In the case of spirited executives, hopefulness spans the horizons. Indeed, hope enables spirited executives to see beyond current problems, map possibilities, and aim high and act with confidence.

Since spirited executives shun personal fame, immediate gratification, and excessive wealth, they tend to be content. Executives with such qualities know their capabilities and potential, therefore, they are, more likely, not threatened by the competency or achievement of others. Rather, they tend to encourage and offer them opportunities to utilize their potential. More importantly, spirited executives view their achievements to be an outcome of the collective efforts of those around them and are a reaffirmation of the need to strategically link organizational goals to societal interests. Content, therefore, serves as a powerful mechanism to guard society's interests without sacrificing organizational growth and survival goals.

Finally, spirited executives are holistic in their outlook and conduct. Their inclusive tendency is the norm rather than exception. At the organizational level, they tend to involve others in setting their career paths, mentoring them, and designing realistic successive policies. At the societal level, they see no dichotomy between consumers and employees and between societal and communities' concerns. More importantly, they do not limit possibilities and, unlike some other executives, they view chaos and instability at home or abroad not as business opportunities that must be exploited but tragic events that must be avoided or contained in the long term interest of human welfare.

In short, each historical stage has its own leaders including ones in Malaysia. The current financial and economic crises have led to global gloominess and uncertainty, desperation, and fear and Malaysia being trading nation is not exception to this. Spirited executives may be the choice who understands the temptations in the markets and the self-destructive nature of unbridled pursuit of selfish interests. They understand their moral and professional responsibilities and link them to the broader society's interests. Under current conditions and for the years to come, they are the only hope for rescuing corporate organizations as market institutions and setting the stage for orderly but fruitful business conduct through good corporate governance.

## References

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<sup>ii</sup>Adapted from Greet Hofstede (1983).

<sup>iii</sup> Khaliq & Ariff (2000) Perception of Justice and Fairness in Allocation of Organizational Resources: Examining Cultural Differences." *IUM Journal of Economics and Management*, KENMS, International Islamic University Malaysia, Kuala Lumpur: Vol. 8 No.1, , pp1-20.

<sup>iv</sup> Ministry of Education, *Educational Statistics in Malaysia* 1968, 1972, 1986, and 2001 (Kuala Lumpur: Dewan Bahasa & Pustaka).

<sup>v</sup> Statistik Januari – Disember 2005 (Sumber AADK), Jabatan Perangkaan Malaysia

<sup>vi</sup> Jabatan Siasatan Traffik ,Polis Diraja Malaysia, Bukit Aman (2008)

<sup>vii</sup> (See Panduan Penerapan Nilai-Nilai Islam (Inculcation of Islamic Values Guide), Prime Minister's Department, 1986 and Dasar Baru Kerajaan (The Government's New Policies) (Kuala Lumpur: Ministry of Information, 1986).

<sup>viii</sup> Abbas J. Ali (2005), *Islamic Perspectives on Management and Organization*. Edward Elgar Publishing: UK.