

Explore the Shari'ah Governance Perception of Islamic Cooperative's Executives in Thailand

Aris Hassama^{1*}

Mahmood Hayeemad²

¹ M.Econ. (Economics), Lecturer, College of Islamic Studies, Prince of Songkla University, Pattani Campus

² DBA. (Business Administration), Lecturer, College of Islamic Studies, Prince of Songkla University, Pattani Campus
aris.h@psu.ac.th

Reviewed by: Associate Prof. Dr. Salmi Edawati Yaacob

Abstract

This qualitative research aims to explore the perception on Shari'ah governance of Islamic cooperative's executives in Thailand. The data were collected by in-depth interviews from 20 executives of 12 Islamic cooperatives in Thailand. Using thematic analysis to identify the perception on Shari'ah governance of Islamic Cooperative's executives. Three themes emerged to identify the perception of those executives. Firstly, Shari'ah governance is important above all. Secondly, all the staffs should be educated and supported. Finally, Collaboration among Islamic cooperatives is needed. The findings show that the executives' perception is clear, although in practice it is not tangible. The establishment of the Islamic Network of Thailand will be an important step of progress especially in *Shari'ah* governance issues. Central Shari'ah governance committee can be set up as well as Shari'ah governance guideline.

Keywords: Shari'ah Governance, Perception, Islamic Cooperative, Thailand

Introduction

Corporate governance in financial sector is the prominent concern either in conventional or Islamic banking. If the manager or the executive board take insufficient care, it will affect the performance and image of the institution. For this reason, Central Bank of Thailand orders the commercial banks to follow the governance regulation and monitor them for transparency, good governance and risk management. (Bank of Thailand, 2017) However, some financial institutions are exclude from the monitor of Bank of Thailand due to the difference form of operation. Islamic and conventional cooperatives are under the supervision of Ministry of Agriculture and Cooperative for Agriculture. So, the difference set of regulations will cause unstandardized operation in financial sector. Under this multi-supervised regulators and Muslim minority country, Islamic cooperative in Thailand faces the difficulties more than conventional ones. This paper tries to draw the current perception of the executive board of Islamic cooperative in Thailand regarding the Shari'ah governance as well as the challenges they are facing.

Overview of Islamic Cooperative in Thailand

Islamic Cooperative of Pattani Ltd., is the first Islamic cooperative in the southernmost provinces of Thailand which operated since 1987. Moreover, the follow years after, the similar kind of cooperatives were established in nearby provinces such as Ibnu Affan Islamic Cooperative, Ibnu Auf Cooperative and As-Siddeek Cooperative. While the Islamic Bank of Thailand, the only full-fledge Islamic bank which was set up under the Islamic Bank of Thailand Act 2003 expanded the branches to the 5 southernmost provinces which are Satun, Songkla, Pattani, Narathiwat and Yala branches and other parts of the country. (Haron, S. & Yamirudeng, K., 2003) These IFIs both in form of the bank and cooperative become famous among Muslim clients in these areas.

Cooperative is non-bank institution which provide financial services to members. Cooperative is categorized into 7 kinds according to the member's occupation. (Cooperative Promotion Department, 2016) Every cooperative is supervised by cooperative promotion department, Ministry of Agriculture and Cooperative for Agriculture under the Cooperative Act B.D. 2542 (Cooperative Promotion Department, 2016)

Even though Islamic Cooperative is not a kind of cooperative under Cooperative Act, the name 'Islamic cooperative' is still used by the member for those Shari'ah compliance operation cooperatives. Most of Islamic cooperative were registered under the service cooperative. (Cooperative Promotion Department, 2017) Islamic cooperative was first operated in 1987 namely Islam Pattani Cooperative (Hassama, 2017). Then other 54 similar cooperatives were established across the country in 2014. (Sulong, M. & Laeheem, K., 2015). While Islamic cooperatives were operated for 30 years, they still faced many shortcomings regarding the corporate governance. Because the cooperative promotion department set only the overall regulation for cooperative, but there is no specific Shari'ah governance regulation for them. Even Islamic cooperatives requested to add the title 'Islamic Cooperative' as the new category in the Cooperative Acts. The answer is still silent. (Uruiyos, M., 2010). Hence, Islamic cooperatives have assembled as Thailand Islamic Cooperative Network to supervise, advice and develop the Islamic cooperatives to be effective and consistent with Shari'ah.

Research Procedure

Qualitative Research was used to examine the perception regarding Shari'ah governance among Islamic cooperative's executives. The researcher selected the methodology according to phenomenology which believe that 'truth is subjective' and human behavior and perception are dynamics. (Chantawanich, S. 2009; Suthinarakorn, W. 2016) This study is a part of research project 'Shari'ah Governance Awareness and Practices of Halal Financial Institutions in Thailand" which was funded by Halal Institute, Prince of Songkla University.

The data was collected by in-depth interview through purposive sampling. Islamic cooperatives' executives who have experience in managing Islamic cooperative were selected. The researcher had interviewed 20 persons until the data is saturated. All samplings were informed and agreed about data recording and interviewing on this

research matter.

Results

Islamic cooperative's executives have the common understanding on Shari'ah governance which can be explained in 3 main issues as following.

1. Shari'ah governance is important above all. The executives of Islamic cooperatives mentioned about Shari'ah advisory board in the organizational structure which was set as the advisors of the operational board. Any suggestions from the Shari'ah advisory board must be accepted. The form of Shari'ah board varied according to the size of cooperative. The large Islamic cooperatives established formal *Shari'ah* committee consisted with staffs and external scholars. The smaller ones appointed a few external *Shari'ah* scholars as the informal *Shari'ah* advisory. Some of them left the Shari'ah issues to the general committee's judgement. Nevertheless, all Islamic cooperatives have set the working guideline based on the *Shari'ah* principle since the beginning.

2. All the staffs should be educated and supported. The executives were asked about the role of staffs in helping Islamic cooperative more governance. They mentioned that Islamic cooperatives tried their best to set the *Shari'ah* governance guideline and planned the workshop regarding this issue for their staffs. *Shari'ah* governance understanding of the staffs is the key success of Islamic cooperatives. However, some Islamic cooperatives are lacked budget to do so.

3. Collaboration among Islamic cooperatives is needed. Most of Islamic cooperatives in Thailand are small which become difficult for them to appoint their own Shari'ah advisory board. The establishment of the Islamic Network of Thailand recently will be a great help in development of central Shari'ah governance board and guideline. Finally, by this collaboration, Islamic cooperative will have the strength Shari'ah governance than working alone.

Conclusion

For 30 years of Islamic cooperative development in Thailand, the Shari'ah governance is clear in the executives' perception, although in practice it is still not tangible. Some of them have no formal Shari'ah board. Some of them leave Shari'ah issues to the general committee's judgement. However, the establishment of the Islamic Network of Thailand will be an important step of progress especially in *Shari'ah* governance issues. Central Shari'ah governance committee can be set up as well as Shari'ah governance guideline. The rigidity of the Shari'ah governance structure will vary depending on the size, operation characteristics and the complexity of financial institutions. There is no "single model" and "One-size-fits-all" (AAOIFI, 2010; IFSB, 2009) to provide effective counterbalance and monitoring systems. Even most of Islamic cooperatives are small, collaboration will help them move forward and further.

Acknowledgement The research team would like to thank the Halal Institute, Prince of Songkla University for research funding. Additionally, thanks to the executives of the Islamic Cooperatives for providing useful information in the study.

References

- AAOIFI. (2010). *Accounting, Auditing and Governance Standards for Islamic financial institutions*. Manama: AAOIFI.
- Bank of Thailand. (27 June 2007). Financial Institution Storytelling. Accessed from https://www.bot.or.th/Thai/BOTStoryTelling/Pages/FinancialInstitutions_StoryTelling_FI.aspx
- Chantawanich, S. (2009). *Qualitative Research*. Bangkok: Chulalongkorn University. (in Thai).
- Cooperative Promotion Department. (28 February 2018). *Cooperative database year 2016*. Accessed from <http://app1.cpd.go.th/profile/> (in Thai).
- Cooperative Promotion Department. (31 December 2017). *Thai Cooperative Information*. Accessed from <http://app1.cpd.go.th/e-book-coop/> (in Thai).
- Grassa, R. (2013). Shari'ah supervisory system in Islamic Financial Institutions: New issues and challenges: a comparative analysis between Southeast Asia models and GCC models. *Humanomics*, 29(4), 333-348.
- Haron, S. and Yamirudeng, K. (2003) Islamic banking in Thailand: Prospects and Challenges. *International Journal of Islamic Financial Services* 5 (2): 1-11. [Online]
<http://www.perpustakaan.depkeu.go.id/FOLDERJURNAL/vol5no2art1.pdf>
[Accessed: 30th October 2015]
- Hassama, A. (2017). Risk Management Practices of Islamic Financial Institutions in the Southernmost Provinces of Thailand. *The Journal of Risk Management and Insurance*, 21(1), 1–13.
- IFSB. (2009). *Guiding Principles on Shari'ah Governance Systems for Institutions Offering Islamic Financial Services*. Kuala Lumpur: IFSB.
- Ismail, M. I. I., Hasan, R. & Alhabshi, S. M. (2016). Shari'ah Governance Framework for Islamic Co-Operatives as an Integral Social Institution in Malaysia. *Intellectual Discourse, Special Issue (2016)* 477–500
- Obid, S. N. S., & Naysary, B. (2014). Toward a comprehensive theoretical framework for Shari'ah governance in Islamic financial institutions. *Journal of Financial Services Marketing*, 19(4), 304–318. <https://doi.org/10.1057/fsm.2014.26>
- Rammal, H.G. (2006). The importance of Shari'ah supervision in IFIs. *Corporate Ownership and Control*, 3(3), 204-208.

- Sulong, M. & Laeheem, K. (2015). Development of a causal relationship model for operations Islamic cooperative in Thailand and test the model invariance between cooperative savings and cooperative service. *Al-Hikmah*, 5(10), 27-36.
- Suthinarakorn, W. (2016). *Qualitative Research: research in the alternative paradigm*. Bangkok. (in Thai).
- Uruyos, M. (2010). *A policy study for Islamic finance development in Thailand*. Bangkok: Thailand Research Fund. (in Thai).