



Leadership and Governance of Islamic Financial Institutions in Malaysia

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Abstract

Some corporate failures such as Enron and WorldCom were due to mismanagement and frauds committed by the top management of the organization and even the external auditors. Leadership was cited as one of the factors that led to the collapse of Enron. The Islamic financial institutions discussed in this paper focuses on Islamic banking and Takaful sectors. In both sectors, the level of governance has not received an extensive coverage as most studies have the tendency to focus on the people's perceptions and acceptance towards the respective sectors as well as its product offering. This paper incorporates two aspects; firstly, leadership from the theoretical perspective such as traits, behaviour, and contingency theory. Secondly, this paper also reviewed governance from the conventional practices as well as from the Islamic viewpoints. The final section of the paper presents the existing studies on leadership and governance and explains the significance of this study.

Keywords: Leadership; Islamic Governance; Islamic Bank; Takaful; Effective.

1. Introduction

The role of leadership is very complex due to the fact that human beings have their own multiple goals, aims, ideologies, values, expectations, and diverse perceptions. Without leadership, a particular organization will lose its direction and will be facing problems in completing and sustaining its competitive dynamic environment. Leadership is not a choice but an imperative factor and leaders are the main actors in all aspects of organizational development and survival (Joseph, 2007). Leadership needs to change both quantitatively and qualitatively (Rosell, 2000) as quantitatively, more people with leadership skills are needed at all levels of organizations and society whereas qualitatively, traditional decision-making and management skills, leaders need to be skilled in the continual construction of shared language, meanings, interpretations, viewpoints and values. These shared mental maps provide the necessary framework for more effective decision-making and legitimate governance (Rosell, 2000).

Corporate governance is the way a corporation polices itself. In short, it is a method of governing the company like a sovereign state, instating its own customs, policies and laws to its employees from the highest to the lowest levels. Corporate governance is intended to increase the accountability of a company and to avoid massive disasters before it occurs. International Finance Corporation (2005) refers to governance as "...the structures and processes for the direction and control of companies". Corporate governance concerns the relationships among the management, Board of Directors, controlling shareholders, minority shareholders and other stakeholders. During the 1997 Asian financial crisis, Malaysia suffered from deterioration in financial performance. As a result, Bank Negara Malaysia (BNM) has strengthened its supervision towards financial conglomerates (Alnasser & Muhammed, 2012). Other examples of corporate governance failures were Enron and WorldCom in the USA, due to mismanagement and frauds committed by the directors, managers, and even the external auditors. Corporate failures would not have happened if proper governance was in place (Hanefah, Shafii, Salleh, & Zakaria, 2012).

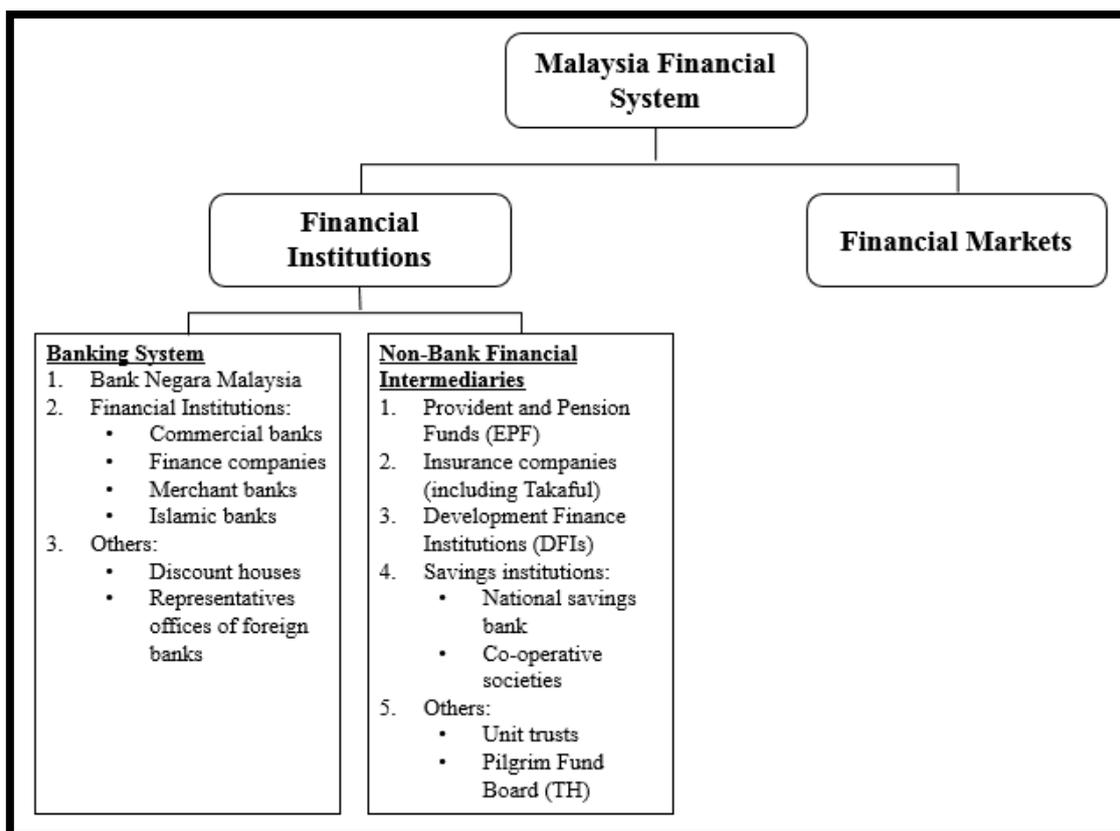
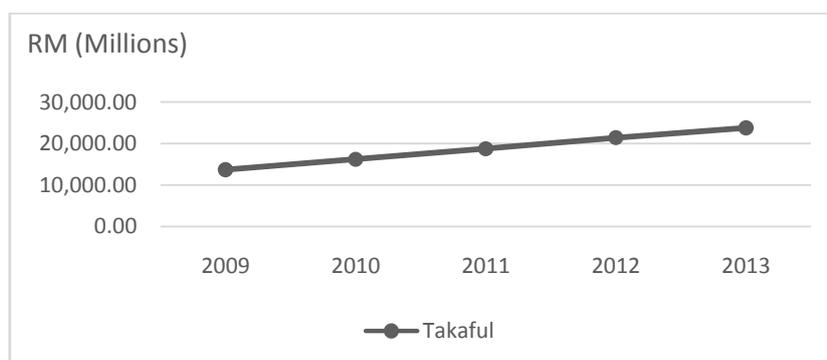


Fig 1: Financial System of Malaysia (Source: KPMG)

Financial institutions in Malaysia structured under the regulations of BNM is categorised into banking system and non-bank financial intermediaries. As in Figure 1, the banking system comprises the BNM itself, followed by the participating banking institutions such as commercial banks, finance companies, merchant banks, and Islamic banks. Other financial institutions are discount houses and representatives of foreign banks. For the non-bank financial intermediaries, the participants are Provident and Pension Funds (EPF), insurance companies inclusive of Takaful operators, Development Finance Institutions, savings institutions, and other non-bank financial intermediaries. In this paper, we focus on the Islamic financial institutions in Malaysia which are largely dominated by the Islamic banking and Takaful sector as compared to other Islamic financial institutions available in the market. Both sectors have portrayed growth tremendously since their establishment. Islamic banking in Malaysia was introduced in 1983 and since then it has contributed to the growth and sustainability of the Malaysian economy (Osman, Ali, Zainuddin, Rashid, & Jusoff, 2009). Takaful industry has been expanding rapidly mainly because of the acceptance from the users or customers (Mohamad, Nik Mutasim, & Norfaizah, 2012). However, Takaful came into the financial services scene a year after the establishment of the Islamic banking sector. Chart 1 and Table 1 provide the overall performance for the respective sectors.

Chart 1. Recent growth of Takaful sector in Malaysia (Total asset)



Source: Bank Negara Malaysia, Monthly Statistical Bulletin

Although both sectors have been in the market for several decades, research on the level of governance within the banking and Takaful have not received adequate coverage. This can be observed from recent studies which largely focusing on its products, perceptions, and theoretical comparisons. Past studies in the area of Islamic banking addressed the issues of customers' perceptions (Dusuki & Abdullah, 2007; Abdul Aziz, Rokiah, & Ahmad Azrin, 2012; Ahmad & Haron, 2002) and discussions and arguments on theoretical aspects such as the rapid growth of Islamic banking with the implementation of profit loss sharing approach and comparison on the elements of profit rate and interest rate (Chong & Liu, 2009; Haslindar & Erusan, 2010; Sudin & Wan Nursofiza, 2008). As for Takaful, the areas which have been researched previously include the demand for family Takaful (Sherif & Nor Azlina, 2013), risk management (Nooraslinda, Roszana, & Mohammad Kamil, 2012), and sales performance on Takaful agents (Fauzilah & Abdul Razak, 2011).

Table 1: Total assets growth by types of institutions in Malaysia

Types of Institutions	5-year recent growth (RM Millions)				
	2009	2010	2011	2012	2013
All Banking System	1,391,509.90	1,513,523.70	1,744,397.80	1,882,332.30	2,058,265.90
Islamic Banks	219,848.40	253,516	320,518.50	367,685.90	426,430.40
Commercial Banks	1,331,234.60	1,451,226.80	1,677,380.30	1,814,459.30	1,987,697.70
Investment Banks	60,275.30	62,297	67,017.70	61,313.90	55,668.90

Source: Bank Negara Malaysia, Monthly Statistical Bulletin

While research from in the context of leadership has attracted much attention, it tends to emphasise traits of leaders or leadership style (Abdul Jalil & Mohd Khairuddin, 2012; Jayasingam & Cheng, 2009). The collapse of Enron was a wake up call to all the players in the industry on the importance of practicing good governance in organizations. According to Munzig (2003), leadership was one of the factors that contributed to the demise of Enron arising from changes in the leadership structure of the Enron. Lord, Atkinson, Mitchell, & Martin (2009) highlighted that weak governance can be overcome by having an effective leadership. That is, leadership can be a mechanism to counteract weak governance leading to improve performance of the company. Therefore, the purpose of this study is to incorporate the leadership theories and review governance practices from both conventional and Islamic perspectives. This study is expected to contribute in providing the framework for leadership and governance.

2. Review of Literature

2.1. Leadership

Leadership may be referred to as a management function which is mostly directed towards people and social interaction, as well as the process of influencing people towards achieving the goals of the organization or some other common organizational goals. Hence, a company may not be able to achieve success without quality leadership (Skansi, 2000). Studies on leadership have been a popular subject among researchers leading to many versions of the definition of leadership itself as shown in Table 2.

Table 2: Definitions of Leadership

Authors	Definitions of Leadership
Rowden (2000)	The behaviour of an individual when that person is directing and coordinating an activities of a group towards accomplishing a shared goal.
Janda(1960)	“A particular type of power relationship characterized by a group member”s perception that another group member has the right to prescribe behaviour patterns for the former regarding his activity as a group member”.
Winston & Patterson (2006)	“A leader is one or more people who selects, equips, trains, and influences one or more follower(s) who have diverse gifts, abilities, and skills and focuses the follower(s) to the organization’s mission and objectives...”
Suppiah(2011)	Leadership is the ability to influence others to follow him in pursuance of a vision for the organization’s success.
Maxwell (1998)	Leadership is “influence – nothing more, nothing less. If you can’t influence others, they won’t follow you and if they won’t follow you, you’re not a leader”.
Syed Ikhsan (2011)	“The ability to influence the process affecting the actions of followers, the choice of objectives for the group of organization”.
Northouse (2013)	“A process whereby an individual influences a group of individuals to achieve a common goal”.

Interest on leadership has been on the increase during the early 20th century. It was focused on what qualities distinguished between leaders and followers, while subsequent theories looked at other variables such as situational factors and skill levels. Leadership theory resists that the behaviour of individual is able to significantly influence the behaviour of others (Avolio, Walumbwa, & Weber, 2009; Spendlove, 2007). However, in order to be more effective towards achieving the organizational goals leaders will also need to incorporate other theories such as the traits theory and situational theory, and contingency theory as it encompasses other inborn qualities of a leader, skills of a leader, as well as situations that may affect the decision-making of a leader. Leadership studies have evolved from only focusing on male leaders in an organization to also involving female leaders in the decision making process. In the United States, the managerial positions have been occupied by women only at 18 percent in 1970s but has risen to 46 percent in year 2002 (Eagly & Carli, 2003). It can be observed that the role of female leaders have become important in the modern era. If male leaders lead by authoritative approach and result-oriented, female leaders lead differently by using their emotional intelligence in dealing with subordinates (Sandler, 2014). The initiative for leadership studies in Malaysia could be tracked from the colonialism legacy where the practices were done based in top-down approach or autocratic. As the country reached the phase of a developing nation, the adoption of democratic management style was applied in line with the status of Malaysia being a democratic country (Nazatul Shima, Fatimah, Normaziah, & Misyer, 2008).

2.1.1. Traits

This leadership theory is defined as relatively coherent and integrated patterns of personal characteristics, reflecting a range of individual differences that foster consistent leadership effectiveness across a variety of group and organizational situations (Zaccaro, 2007). According to Kirkpatrick & Locke (1991) the study on leadership traits has a long and controversial history. In the 19th and 20th centuries, “great man” leadership theories were popular at that time. Those theories asserted that leadership qualities were inherited, especially by upper class people. “Great man were born, not made” (virtually those days leaders were normally perceived for men). Kirkpatrick and Locke underlined the dimensions for this traits as drive, motivation, honesty and integrity, self-confidence, cognitive ability, and business knowledge. However, Northouse (2013) who compiled dimensions from previous studies on leadership traits from 1948 until 2004 provided different dimensions from different authors as shown in Table 3.

Table 3: Compilation of Leadership Traits Studies and Dimensions

Stogdill (1948)	Mann (1959)	Stogdill (1974)	Lord, DeVader, and Alliger (1986)	Kirkpatrick and Locke (1991)	Zaccaro, Kemp, and Bader (2004)
intelligence	intelligence	achievement	intelligence	drive	cognitive abilities
alertness	masculinity	persistence	masculinity	motivation	extraversion
insight	adjustment	insight	dominance	integrity	conscientiousness
responsibility	dominance	initiative		confidence	emotional stability
initiative	extraversion	self-confidence		cognitive ability	openness
persistence	conservatism	responsibility		task knowledge	agreeableness
self-confidence		cooperativeness			motivation
sociability		tolerance			social intelligence
		influence			self-monitoring
		sociability			emotional intelligence
					problem solving

Sources: Adopted from “Leadership: Theory and Practice” by Northouse (2013), Sixth Edition (pp. 23)

In the recent study of traits theory, the variable has been expanded and categorized under the Big-Five personality (BFI) which include additional dimensions such as neuroticism (Tatlah, 2011). Remaining characteristics remain used until the present. However, the result from his study showed that neuroticism was neither related to people nor task-oriented leadership style. Neuroticism relates to the experience of negative emotions, such as anger, depression, or anxiety. It can also be known emotional instability. Existing BFI, according to (Barrick & Mount, 1991), consisted of extraversion, emotional stability, agreeableness, conscientiousness, and openness to experience.

Extraversion can be described as an energy creation from an external means. Extravert leaders love to interact with people and often perceived as a person with full of spirit. They tend to be enthusiastic and action-oriented individuals. Emotional stability is the opposite of neuroticism where these types of leaders express positive emotion by being optimistic. They usually have the ability to manage their emotion in their approach towards work. Agreeableness reflects on how leaders have strong social skill. They usually portray positive vibe towards their followers by being generous, kind, considerate, and most importantly willing to compromise their interests for others. Conscientiousness is a characteristic that focuses on the leaders’ self-discipline, act dutifully, and aim for achievement against measures or outside expectation. These types of leaders show dependability; that is, being careful, thorough, responsible, organized, and planner. Last but not least, openness to experience reflects on leaders who have general appreciation for variety for experience such as art, emotion, adventure, imagination, curiosity etc. Usually they are intellectually curious and willing to try new things. Because of this they are seen as creative as compared to closed type of people.

In the Malaysian context, studies on leader’s traits have been investigated by some researchers. However, not all studies provide the same dimensions used to measure a leader’s traits on instructional leadership specifically on secondary school in Pahang (Abdullah & Kassim, 2011). For trait characteristics, attitude reflects the personality of a leader towards organizational change. The attitude was measured by three dimensions; cognitive, affective, and behavioural. It was found that school principals possess positive attitude towards organizational change based on their mean interpretation. A similar study on leading change in Malaysia was conducted to investigate the influence of personality and leadership style of Malaysian managers (Alkahtani, Abu-Jarad, Sulaiman, & Nikbin, 2011). The measurement for personality in this study used the Big Five personality dimensions comprising emotional stability, openness to experience, extraversion, agreeableness, and consciousness. The outcome of the study in relation to personality indicated that extraversion showed significant relationship with leading change. Recent study that relates to personality was conducted involving expatriates on job performance (Bhatti, Battour, Ismail, & Sundram, 2014). The measurement for personality also using the Big Five

dimensions, showed a slight difference where they include neuroticism instead of using emotional stability as one of the measurement. The outcome of the study showed that personality traits (all measurement) positively influence expatriate adjustment.

2.1.2. Behaviour

The study of the actions, or behaviours, that define a leader is known as leadership behaviour. This theory is different from the situational theories, which are focused on the effectiveness, application, and skills depending on the operating environments found in the workplace. The objective of leadership behavioural studies as suggested by Benson (1998) was to identify variables such as initiating structure and consideration necessary for effective leadership. Initiating structure is described as a degree to which a leader defines and organizes his role and the roles of his followers in terms of goal achievement, well-defined patterns and communication channels. On the other hand, initiating structure resembles a task-oriented leadership style. A leader who shows his concern and respect for his followers usually is a responsible person. Considerate behaviours is the degree to which a leader shows concern and respect for his followers. Not only that, a leader's responsibility covers the area on employees' welfare as well as expresses appreciation and support (Bass, 1990). This behavior indicates people-oriented leadership style. Fisher College of Business, Ohio State University has developed the scales for leadership behaviour study. The dimensions included are representation, demand reconciliation, tolerance of uncertainty, persuasiveness, initiation of structure, tolerance and freedom, role assumption, consideration, production emphasis, predictive accuracy, integration, superior orientation. Mohamad et al. (2012) in their study on the leadership behaviour of Takaful representatives in Malaysia, applied four dimensions of leadership behaviour; representative, persuasiveness, initiating structure, and consideration. To date, the remaining dimensions have yet to be applied in other studies.

Table 4: Definitions of Leadership Behavior's Scales

Scale	Definitions of Scale
Representation	Speaks and acts as the representative of the group.
Demand Reconciliation	Reconciles conflicting demands and reducing disorder to system.
Tolerance of Uncertainty	Able to tolerate uncertainty and postponement without anxiety or upset.
Persuasiveness	Uses persuasion and argument effectively; exhibits strong convictions.
Initiation of Structure	Clearly defines own role, and let followers know what is expected.
Tolerance and Freedom	Allows followers scope for initiative, decision and action.
Role Assumption	Actively exercises the leadership role rather than surrendering leadership to others.
Consideration	Regards the comfort, well-being, status, and contribution of followers.
Production Emphasis	Applies pressure for productive output.
Predictive Accuracy	Exhibits foresight and ability to predict outcome accurately.
Integration	Maintains a closely knit organization; resolve inter-member conflicts.
Superior Orientation	Maintains cordial relations with superiors; has influence with them; is striving for higher status.

Sources: Adopted from "Leader Behaviour Description Questionnaire (LBDQ)" by Ralph M. Stogdill (1963), Fisher College of Business, the Ohio State University.

Some researchers have different interpretations of a leader. Not all studies used the dimensions as outlined by the Ohio State University. For instance, leadership behaviour was viewed as transformational and transactional style of leaders (Nguyen & Mohamed, 2011; Wells & Peachey, 2011). A study by Rowold (2011) also supported transformational and transactional leadership however he included leadership style of laissez-faire, and the two dimensions from the Leadership Behaviour Description Questionnaire (LBDQ); initiating structure and consideration to describe leadership behaviour. This behavioural theory that was pioneered by the Ohio State University deemed as classical theory because of its emergence prior to the rise of transformational leadership theory. According to Rowold (2011), although LBDQ is a classic theory, there is limited research conducted applying this theory especially in the empirical study.

In Malaysia, leadership behaviour studies was conducted using LBDQ inventory by Mohamad et al. (2012). In their study, out of twelve dimensions of leadership behaviour, they adopted four dimensions that are; initiating structure, consideration, representation, and persuasiveness. The study was to investigate the relationship between leadership behaviour and performance of Takaful agents in Malaysia and it indicated that representation and persuasiveness showed significance towards performance. Another study in Malaysia on leadership behaviour was conducted but with a different theory such as the Path Goal theory (Desa, 2011). The application of participative, nurturing-task (NT), and autocratic were used to measure leadership behaviour. The results showed that NT leadership behaviour would lead to the most effective supervision of a leader in a banking environment.

2.1.3. Contingency

A class of behavioural theory that claims there is no best way to lead an organization or to make a decision advocates that the optimal course of action is contingent upon the internal and external situation. Bedeian & Glueck (1983) have quoted, "...the first and perhaps, most popular situational theory to be advanced was the 'Contingency Theory of Leadership Effectiveness' developed by Fred E. Fiedler". This theory encompasses surrounding environment that act as a mean of contingency for leader to make decisions. This is a consistent system of interaction that takes place between a leader and his work group. This situational approach was expanded by Hershey and Blanchard (1969, 1993) elaborating that leaders style would not lead to effective leadership, but rather how the leader adapt the style to the needs of the follower. According to Fiedler (1964), an individual's leadership style depends upon his or her personality and is, thus, fixed (Bedeian & Glueck, 1983). Furthermore, Fiedler added that the effectiveness of a leader is determined by the degree of match between a dominant trait of the leader and the favorableness of the situation for the leader (as cited in Dunham, 1984). Fiedler (1964) describes situational favourableness in terms of three dimensions; (1) *Leader-member relations*: leaders describe their preferred co-worker in favourable term; (2) *Task structure*: leaders describe their least preferred co-worker in an unfavourable term; and (3) *Positional power*: leaders promote the correct behaviour in employee under his direction. A study using the Least-Preferred Co-Worker (LPC) scales but with different terms used to measure contingency leadership suggested the following terms: relationship-oriented, task-oriented, and independence (Waters, 2013). The study was investigated among public relations practitioners to see how leaders correspond with existing public relations role theory. Other dimensions describing the contingency model are follower development, situational urgency, and task environment. Follower development is used to explain the present level of follower capabilities as the extent that these capabilities are desirable. Situational urgency often rises in a crisis situation of an organization but this approach not able to create reward contingencies or followers' self-leadership capabilities. Usually, in urgent cases, directive or task-oriented instructions are needed. Task environment relates to the degree to which followers' task environment is structured or unstructured. Structured task is when the job is clearly specified, routine, and certain whilst unstructured task requires creativity from the followers and involves high level of uncertainty (Houghton & Yoho, 2005).

An empirical study of contingency model of leadership in Malaysia to date is a study by Lee & Ahmad (2009) on investigating the moderating effect of culture between leadership behaviour and organizational commitment and subsequently job satisfaction and performance. Participants involved were University of Malaya (UM) students and researcher's working peers. In their review, most influential contingency leadership is the Path-Goal theory. However, it was not described as the sole theory as they adopted a combination of leadership behaviour dimensions. One that seemed to be relevant with contingency approach was how they relate task-oriented and people-oriented to initiating structure and consideration respectively.

Another theory of contingency would be the cognitive resource theory which was developed by Fred E. Fiedler and Joe Garcia in 1987. Initially, this theory focused on the influence of the leader's intelligence and experience on his reaction to stress. The core of this theory is the element of stress that is the enemy of rationality. It could damage a leader's ability to think logically and analytically. However, through the leader's experience and intelligence it could lessen the influence of stress on the actions taken. Earlier theory stated that intelligence would be the suitable variable to measure cognitive resource theory and several dimensions indicating multiple intelligences that include emotions, creativity, and the ability to socialize. However, intelligence as a variable is not precise since it was difficult to quantify according to Leadership-Central.com (2010). This was supported in the study on intelligence and leadership by Judge et al. (2004) who mentioned that they had difficulties in identifying the measurement of leader's intelligence. Other qualities that might be useful in this theory would be charisma of a leader which would help assess how he is being greeted. Although a leader could fake intelligence, a charismatic leader, even though unpopular in his decision making, will be portrayed as the preferred leader. Another adjunct theory would involve the role of participation, ranging from collective leadership to a democratic one. From a directive approach it could draw the whole group into a forceful self-direction. Thus, more attention would be paid to the dynamical aspect of the theory, i.e. its evolution, rather than as a static description of relationship.

3. Governance

Corporate governance is about making the right decisions which is not only just for domain companies. Even small businesses need corporate governance practices as well. A good governance structure will allow for a business to have a good start which expected to be run smoothly with minimal confusion over the responsibilities. However, depending on circumstances and environment, the structures may operate differently; which comprises cultural, social, legal, regulatory, business, and economic system (Rezaee, 2009). The corporate governance structure is based on three interrelated components of principles, functions, and mechanisms. In this paper, the focus will be on the principles of corporate governance. The practice of corporate governance in Malaysia has been formalized in the aftermath of the Asian financial crisis in 1997 which caused large outflow of funds from the country. Foreign fund managers claimed their lacked of confidence in Malaysia's corporate governance practice as one of the reason for not returning to the country. In response, Malaysia has put up a formal code of corporate governance through the establishment of Malaysian Institute of Corporate Governance (MICG) in 1999. The Malaysia Code of Corporate Governance is conceptualized from the Cadbury Report 1992 which states that "Corporate Governance is the system by which companies are directed and controlled. Board of directors is responsible for the governance of their companies. The shareholders' role in governance is to appoint the directors and the auditors and to satisfy themselves that an appropriate structure is in place". Since then the corporate best practices are governed by the codes design by MICG.

4. Islamic Governance

The meaning of corporate governance has yet to be defined properly from the Islamic perspective. However, in business, an organization needs to be structured in order to contest for the outcome which is in parallel to the concept of governance (Abu-Tapanjeh, 2009). Furthermore, organizations need to be conducted and guided by the Shariah code of conduct, which encourages being just, fair, and honest to all stakeholders involved in the business. Although in the absence of similar terms for governance from Islamic perspective, there are two aspects that shape Islamic corporate governance according to Lewis (2005); one, Islamic law, the Shariah claims sovereignty over all aspects of life, ethical and social, and to incorporate criminal as well as civil jurisdiction. Every act of Muslims must be in compliance with Shariah law and observe ethical standards derived from Islamic principles. These ethical principles define factual, fair and just, the nature of corporate responsibilities, the priorities to society, along with some specific governance standards. Secondly, is to provide a set of business ethics, certain Islamic economics, and financial principles to have a direct impact upon corporate practices and policies. Also included, is the institution of *zakat* (Islamic tax), the prohibition of *riba* (interest-based), speculation, and calling for the economic system that is based on profit and loss sharing. The elements of governance from the Islamic perspective encompass the values paramount in Islam aimed at enhancing accountability, transparency, fairness and trustworthiness. Thus, respective parties such as directors' management and the auditors should perform their professional duties with the objectives of satisfying the needs of the shareholders and Allah as well.

4.1. Accountability

Corporate governance should foster accountability and responsible decision making throughout the organization. Leaders in the company must be accountable for their decisions, actions, and performance because they have agreed to take the responsibility to lead. Accountability is the cornerstone of corporate governance in continuously monitoring best practices. From the Islamic perspective, Muslims believe that they will be accounted for whatever they do in this world and in the hereafter (life after death). We need to fulfil the will of Allah to seek Allah's pleasure (*redha*). Therefore every action must be in line with Islamic teaching. There should be no fraud and material misstatement existing if the concept could be internalized and reflected in their conducts. The Holy Prophet (peace be upon him) said "Each one of you is a guardian and each guardian is accountable to everything under his care" (Sahih Bukhari 89:252). Abbasi et al. (2010) have separated accountability into two categories; accountability to Allah and accountability to fellow-beings. Accountability to Allah conveys an image of trustworthiness. Islamic value system categorically explains accountability in front of Allah (SWT) in this world and in the hereafter. From the Quran verse on accountability as interpreted by Mufti TaqiUsmani, "So, whoever does any good act (even) to the weight of a particle will see it. And whoever does evil (even) to the weight of a particle will see it." (Al-Quran 99:7-8). Accountability to fellow-beings does not necessarily refer to the corporate actions, in fact, according to Prophet Muhammad (peace be upon him) accountability to fellow-beings by performing duties efficiently and effectively. From organizational perspective, disclosure is a crucial element of accountability of an Islamic financial institution (IFI) to its stakeholders. It is a duty of IFIs to disclose their compliance with the principles and laws of Islam (Farook, 2007). Empirical studies involving accountability were conducted in two countries namely Sweden and United States (USA) to investigate the relationship between the accountability and job satisfaction (Wikhamn & Hall, 2014). Another similar study was conducted on accountability perceptions and job performance of community correction officers also in the USA (Powell, 2009). Both studies used the same concept of felt

accountability as the antecedent for organization accountability. Felt accountability refers the expectation that one's role performance including performing job duties and compliance with organizational norms. From an Islamic context, a study on accountability in a waqf institution in Malaysia discussed the concept of accountability in reporting and accounting practices (Hairul & Hisham, 2011). However, the study was conducted as a case study applying content analysis which does not indicate any measures of accountability.

4.2. Transparency

Transparency operates in such a way that it is easy for others to see what actions are performed. A corporation is responsible to a wide spectrum of stakeholders. Their goals should not strictly be driven by monetary benefits but social responsibility to the *ummah*. As such, it should disclose information regarding its policy and activities. Applying the concept of transparency, a corporation should also disclose information regarding its policy, activities undertaken, contribution to the community and the use of resources and protection of environment. Islamic system urges integrity and honesty in the management as reflected by Bukhari "if he does not strive diligently to promote their welfare, he will not enter paradise with them". The concept of transparency has been divulged by Allah in the following verse: "O ye who believe! When ye deal with each other, in transactions involving future obligations in a fixed period of time, reduce them to writing. Let a scribe write down faithfully as between the parties." (Al-Quran 2:282). The role of transparency for IFI are to disseminate information as well as improving the degree of disclosure particularly in their financial and non-financial aspects such as Shariah board's remuneration and material issues regarding employees (Zulkifli, 2011). Empirically, transparency is measured by the concept of relational transparency (Hughes, 2005; Norman, Avolio, & Luthans, 2010) and communication transparency (Vogelgesang, Leroy, & Avolio, 2013). Relational transparency refers to being open and honest in presenting oneself to others. It is about communicating openly and being real in relationships with others (Northouse, 2013). Communication transparency, on the other hand, is treated as synonymous with listening, honesty, supportiveness, and a variety of other similar concept (Rogers, 1987). Leaders listen to followers' perceptions, do a follow up, make recommendations, and take action while exhibiting open communication (Vogelgesang et al., 2013). Another proven success of transparency in organization is relationship transparency. It is defined as an individual's subjective perception of being informed about the relevant actions of the other parties in the interaction (Eggert & Helm, 2003). The underlying theory used to measure relationship transparency were vendor transparency and buyer transparency in which the vendor perceived a certain degree of buyer transparency, the buyer evaluates his impression of vendor transparency. However, in Malaysia, non-profit organizations (NPOs) applied the disclosure practices to ensure transparency on the continuous flow of resources. A study by Arshad, Bakar, Sakri, & Omar (2012) indicated that the overall extent of disclosure is low based on the content analysis of 213 registered NPOs. This is because these companies only share certain information and not revealing everything to their stakeholders.

4.3. Fairness

Fairness is about the quality of treating people equally or in a way that is reasonable, which is in parallel with the teaching in Islam where people must treat others fairly. In corporate governance, Organization for Economic Co-operation and Development (OECD)'s definition of fairness embraces the equitable treatment of all shareholders. Islam advocates collective decision-making, tolerance, civil and political liberty, and resolving it as stated in the Quran that "So by mercy from Allah, [O Muhammad], you were lenient with them. And if you had been rude [in speech] and harsh in heart, they would have disbanded from about you. So pardon them and ask forgiveness for them and consult them in the matter. And when you have decided, they rely upon Allah. Indeed, Allah loves those who rely (upon Him)." (Al-Quran 3:159). Justice forms the core of Quranic prescriptions and therefore IFIs must be just in all its dealings with employees, customers, and the society. In an organization, employer and employee relationship must be based on Islamic moral and ethical principles of justice. By this, it places a responsibility on the IFI management to ensure that the employees are treated fairly and valued regardless of their position in the company (Farook, 2007). Western literature on organization fairness has been widely studied by various researchers. Colquitt (2001) provided the dimensions of organizational justice from his compilation of previous studies namely procedural justice, distributive justice, interpersonal justice, and informational justice. Using the existing organizational justice theory, from the Islamic viewpoint, only three dimensions were included while informational justice was excluded from the discussion. Firstly, Elamin & Tlais (2015) explained that procedural justice concerns the perception that the process of decision making or task allocations is fair and accurate. Islam advocate that any details of dealings be handled in term of its quantity and quality. Distributive justice refers to the fairness or resource allocation, among other factors such as dispute resolution, among a group of individuals or employees. Islam holds to the concept of 'fair pay for fair work' which means workers should be compensated based on how much efforts they have put into their work. Last but not least, interpersonal justice focuses on interpersonal dynamics and communication processes between employees and employers or managers. Islam encourages managers to consult with their employees first before making decisions. While most studies adopt the concept of organizational justice, a study on perceived fairness was conducted to investigate the distribution of organizational resources in

Malaysia (Ahmad, 2004). Interestingly, the uniqueness of the study was due to its participants involving the multi-racial ethnics in Malaysia; the Malays, Chinese, Indians, and others. Therefore, he presented a different view of fairness comprising equity, equality, and need. Outcome of the study showed that two ethnic groups of Malays and Chinese perceived that the corporate management process in Malaysia as fair in general but with small disagreements by other minority groups on certain issues.

4.4. Trustworthiness

A moral value can be considered to be a virtue. A trustworthy person is someone who can be given trust and assured that the trust shall not be betrayed. Trustworthiness can be proven by fulfilling an assigned responsibility. In addition, it is not to let down expectations. From the governance perspective, the essence for good corporate governance is by ensuring trustworthy relations between the corporations and its stakeholders. Therefore, it is a lot more than compliance (Argüden, 2010). From the Islamic perspective, the concept of trustworthiness the Quran states “O ye who have believed, do not betray Allah and the Messenger or betray your trusts while you know [the consequence].” (Al-Quran 8:27). Virtue is highly regarded in Islam; every individual within an organization is required to subscribe to the ethical conduct while carrying out their commercial activities. Stewardship sense will lead all to utilize the possessions entrusted upon them to the best of their abilities as a form of submission to Him. A leader should be judged by how well wealth is managed using the Islamic principle and not by how big the wealth has grown. According to Abbasi et al. (2010) it is not possible for IFIs to continue with maximizing shareholders’ value without ensuring trustworthiness in its procedures and practices. Those who hold the leadership position is holding a public trust. From previous literature, research on trust has been investigated in various scope such as in leadership (Dirks & Ferrin, 2002; Norman et al., 2010), team performance (Palanski, Kahai, & Yammarino, 2010; Politis, 2003), job performance (Colquitt et al., 2007; Mayer & Davis, 1999) as well as knowledge management (Politis, 2003). The concept of trust is explained as the willingness of a person to be vulnerable to the actions of a trustee based on the expectation that the trustee will perform a particular action (Mayer & Davis, 1999). Antecedents of trust have been operationalized in various ways by some researchers such as trust in peers (Han, 2010), team trust and individual trust (Xiao, Zheng, Pan, & Xie, 2010), adoption of Mayers and Davis (1999) model of trust that consists of propensity of trust and trustworthiness (Knoll & Gill, 2011), and trust in leader (Sendjaya & Pekerti, 2010). From the Malaysian perspective, the application of trust was described and measured using different underlying theories. Trust appears as a multidimensional construct which includes affective trust and cognitive trust (Jain, Sandhu, & Goh, 2015). Affective trust is based on personal emotional bond between individuals and allows the interaction to be based on positive feelings and emotion. Cognitive trust refers to the evaluation of capability and reliability of the one being judged. A study on team effectiveness relating to trust can be categorized into three type i.e. personality-based trust, a type that develops from one’s childhood and nurtured from one’s guardian; institutional-based trust, that exists when one adheres to the rules and regulations of an organization; and cognitive-based trust seems to be similar to Jain et al. above (Pangil & Chan, 2014). Looking from studies from the business perspective, specifically in banking sector, Jan & Abdullah (2014) took the initiative to study the mediating relationship of trust between technology critical success factors and customer satisfaction. This trust was measured as a consumer trust in the context of relational exchanges either between a buyer and a seller or between customer and provider.

5. Leadership and Governance

The collapse of Enron awakes all the industry players on the importance of practicing good corporate governance. Other than the reported incidents that brought about its bankruptcy, one of the factors that contribute to the demise was the leadership factor. Reason being was due to the changes in the leadership hierarchy of Enron (Munzig, 2003; Resick et al., 2006). Previous leaders had brought success to Enron and when sudden changes occurred, it would definitely affect the current structures when the new ones come and lead the organization. Studies on leadership and governance are worth to be explored further since there are not many investigations being conducted on a large scale especially in the context of Malaysia. Leadership and governance has its own unique connotation. Leadership portrays more of a free expression whilst governance act as the restrictive mechanism. Corporate governance is a system and leadership is a motivation or a skill that can assist to make the output more effective. Therefore, leadership and corporate governance will be at their best when they are symbiotic (Davies, 2006). This is supported by Lord et al. (2009) that weak governance can be overcome when the leadership of the organization is effective. When governance is in place, leadership will respond appropriately and subsequently achieves the organizational goals. A summary of the difference between leadership and governance is shown in Table 5 below.

Table 5: Differences between Leadership and Governance

Governance	Leadership Response
Dispersion of power	Empower widely
Accountability	Give and obtain commitment
Openness	Communicate freely
Integrity	Set an example
Honesty	Set and monitor standards rigorously
Objectivity	Establish checks and balances
Selflessness	Use servant leader approach
Fair rewards	Motivate by opportunity rather than money
Look to long-term	Think and act strategically

Sources: Adopted from Davies (2006)

Studies on leadership and governance in Malaysia are yet to be undertaken in greater depth. While this area of study has been investigated in several other countries, the exposures given are still limited. Several theories have been underlined by previous authors on measuring leadership as well as governance. Various domains have been expressed pertaining to leadership. Other than the earlier study of leadership theory based on Bass and Stogdill handbook of leadership Bass (1990), a case study by Nwokah & Ahiauzu (2010) suggested that transformational and transactional leadership would be the appropriate measurement for emotional intelligence approach. However, their study have not discussed the aspect of corporate governance. Other studies have different theories of leadership compared to the mainstream theory of leadership. Setting priorities and accountability have been examined in the health systems sector and this study has been undertaken in seven countries across Europe and Asia Pacific (Smith et al., 2012). Other study focused on the public services sector which discussed on the collaborative leadership (Silvia, 2011). However, the author has theorised that leadership is within the context of collaborative governance structure. In a similar sector, in Africa, the issue of corruption and bad governance was due to the leadership failures in institution. Owoye & Bissessar (2012) used negative leadership as the dimension that explained the institutional environment in African countries. As for governance measurement; voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law, and the control of corruption have been used. This study was empirical, however, its design was conducted using econometric model rather than common survey approach. Other empirical studies used the survey approach but differs in term of its location. Norman et al. (2010) have examined leaders' positivity in an information technology sector. Relational transparency and trust were among the theories included in the study. On the other hand, in Netherlands, a study on rewarding leadership was investigated in the education sector to examine the self-esteem and also the governance practice of fairness of the participants involving undergraduate students and employees of an organization in the other region of Netherlands (De Cremer, van Knippenberg, van Knippenberg, Mullenders, & Stinglhamber, 2005).

Table 6: Author’s Compilation of Studies on Leadership and Governance

Authors	Industry	Country	Type	Theory
Smith et al.(2012)	Health	Australia, England, Germany, Netherlands, Norway, Sweden and Switzerland	Review	Leadership: <ul style="list-style-type: none"> • Priority Setting Governance: <ul style="list-style-type: none"> • Accountability
Owoye & Bissessar(2012)	Public services	Africa	Empirical	Leadership: <ul style="list-style-type: none"> • Dictatorial leadership Governance: <ul style="list-style-type: none"> • Voice & Accountability • Political stability & Violence Absence • Government effectiveness • Regulatory quality • Rule of law • Corruption control
Silvia(2011)	Public services	United States	Review	Leadership: <ul style="list-style-type: none"> • Joint commitment • Resources identification • Shared understanding • Stakeholder support • Trust
Nwokah & Ahiauzu(2010)	–	Nigeria	Case Study	Leadership: <ul style="list-style-type: none"> • Transformational leadership • Transactional leadership
Norman et al.(2010)	Information Technology	United States	Empirical	Leaders’ positivity. Relational transparency. Trust.
De Cremer et al.(2005)	Education	Netherlands	Empirical	Rewarding leadership. Procedural fairness. Self-esteem.
Hall et al.(2004)	–	United States	Conceptual	Leadership: <ul style="list-style-type: none"> • Human capital • Social capital • Leader style Governance: <ul style="list-style-type: none"> • Trust • Accountability

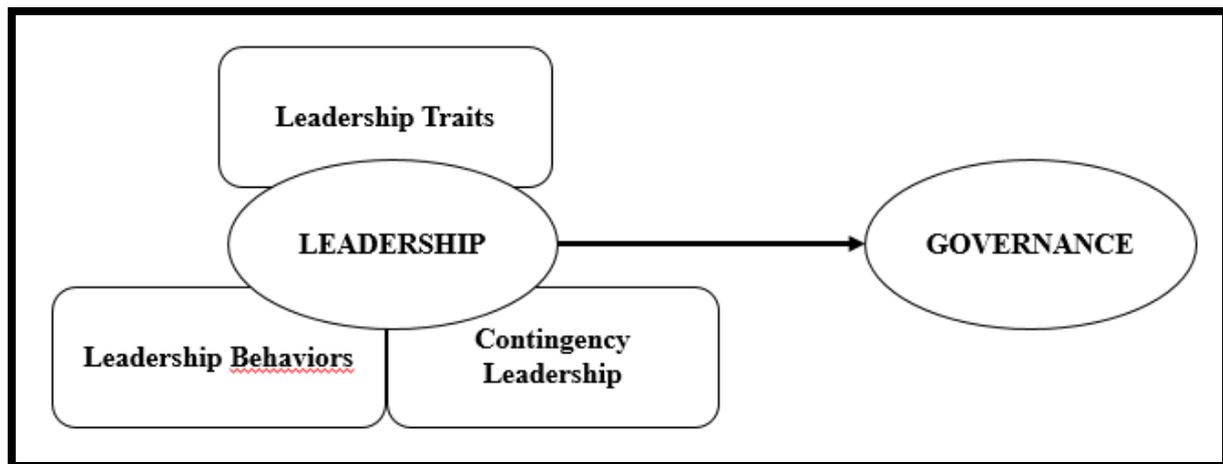


Fig 2: Proposed research framework

6. Conclusion

In conclusion, this study is expected to contribute in terms of providing alternative for other appropriate measurement for effective leadership and governance in financial institutions as compared to previous literature which could provide more meaningful results. Leadership in general, has not been studied much in Malaysia as compared to other countries. Instead, studies on leadership being conducted on a rather micro basis. Previous studies on leadership mainly concentrated on investigating types of leaders on a large scope or globally. Numerous studies specifically on the leadership and governance have been done outside of Malaysia. Therefore, this study suggests that investigations on leadership and governance should be commenced since it has yet to be investigated in Malaysia. This study expects to assist the decision-makers as well as academicians in understanding and solve issues on leadership and governance in the context of Islamic financial institutions based on the proposed research framework as per Figure 2. This is aimed to familiarize the practitioners with the leadership and governance phenomenon that is currently happening in the industry.

7. References

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