

A STUDY OF THE SUCCESS FACTORS OF AN ISLAMIC COOPERATIVE AS AN ISLAMIC MICROFINANCE INSTITUTION

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Abstract: *This qualitative analysis seeks to investigate the factors that contribute to the success of a Sharia cooperative as an Islamic microfinance institution. This study utilized primary data collected from various articles, websites, books, etc. The data was then subjected to victimization thematic analysis. The first section provides an explanation of the concept of Islamic cooperatives. The following section provides an overview of Islamic microfinance institutions. Focusing on elements such as organizational attributes; management and operational excellence; human capital capability, effective internal control, and supervision; level of support; and spirituality, the study was able to identify the critical success factors of Islamic cooperatives. The study concludes the discussion at its conclusion.*

Keywords: Islamic microfinance, Success factors, Islamic institutions

1. INTRODUCTION

1.1 Concept of Sharia Cooperative

According to Rosita & Buchori [1], Islamic Cooperatives are well-organized, democratic, autonomous, participatory, and social economic enterprises whose operations rely on morally-responsible principles by taking into account the Halal or Haram law of a business run according to Islamic values. A Sharia cooperative is a type of enterprise consisting of individuals or cooperative legal organizations structured according to Sharia, cooperative, and kinship principles, as well as an economic movement structured according to these principles [2]. According to Sharia, a group of individuals can form a cooperative through unanimity. In order to establish a cooperative, the members must determine their objectives and guiding principles. Additionally, they must determine the function of the leaders and members in the implementation of the decisions. To formalize their plan, they must then adopt a Memorandum of Association and Members' Constitution. If a cooperative carefully follows these procedures, it will be successful.

Periodically, members must elect new trustees to ensure that all members are treated equitably and that the organization operates effectively. Members must also select new board members, including the president, vice president, and secretary, in order to make changes at the top. The board also selects administrators to oversee each department of the cooperative's operations. The managers supervise both the business operations and the employees to guarantee that everything operates smoothly. To hire new employees or fire current ones, the board must also give its sanction; all approvals are based on the business's best interests. With the appropriate management structure, a successful Sharia cooperative benefits both its members and its businesses. Members have complete control over their enterprises, but when they work for other businesses, they are afforded legal protection. Cooperation between business owners and consumers will yield positive results for both sectors [3] given that all businesses depend on loyal customers.

1.2 Islamic Microfinance Institutions

Islamic microfinance is a must-read for anyone interested in microfinance and development in the Muslim world,

including researchers and students, microfinance practitioners, non-governmental organizations, multilateral and bilateral development agencies, and development bank staff. The goal is to provide insight into findings from studies published in reputable international journals, as well as lessons to be learned by stakeholders in the future, particularly academics, and practitioners in Islamic Microfinance Institutions (IMFIs) [4]. According to the theme, Islamic microfinance could be developed if Islamist banks and financial institutions adopt less business-like approaches and develop efficient courses of action to develop the Islamic Microfinance Industry, introducing various Sharia-compliant funding modes for providing funds either to Islamic microfinance institutions or directly to poor people as an Islamic microfinance product to alleviate poverty and social development. First, Waqf-based microfinance institutions may be the answer to providing finance at a low-to-middle-income level. Unlocking this potential could be the key to gaining financial access for millions of Muslim poor people who are currently turned down by microfinance products that are incompatible with Islamic law [4].

Today, microfinance banks serve hundreds of millions of consumers in the Global South, but the specific needs of Muslim borrowers and savers who seek to avoid any type of fixed interest are unmet. Islamic rural banks, the majority of which are controlled by non-representatives, have failed to establish that they are successful, dynamic suppliers of microfinance services. Only commercial banks have acquired Islamic banking capabilities and trained energetic, young people, but they lack expertise in microfinance [5]. One of the reasons is that traditional microfinance institutions continue to use the interest system, which is prohibited under Islamic teaching because it is a component of usury. While Islamic microfinance is gaining traction, it is still dominated by a small number of service providers in a few countries (mostly Indonesia, Bangladesh, and Afghanistan) who offer primarily two products, two mainstream Islamic tools for poverty alleviation, Zakat, and Awqaf. There will always be a place for charity, regardless of the formation and maintenance of more effective Islamic microfinance organizations [4].

2. AIM OF THE STUDY

This research aims to study the success factors of Islamic Cooperatives as Islamic microfinance institutions

Figure 1. Conceptual Framework

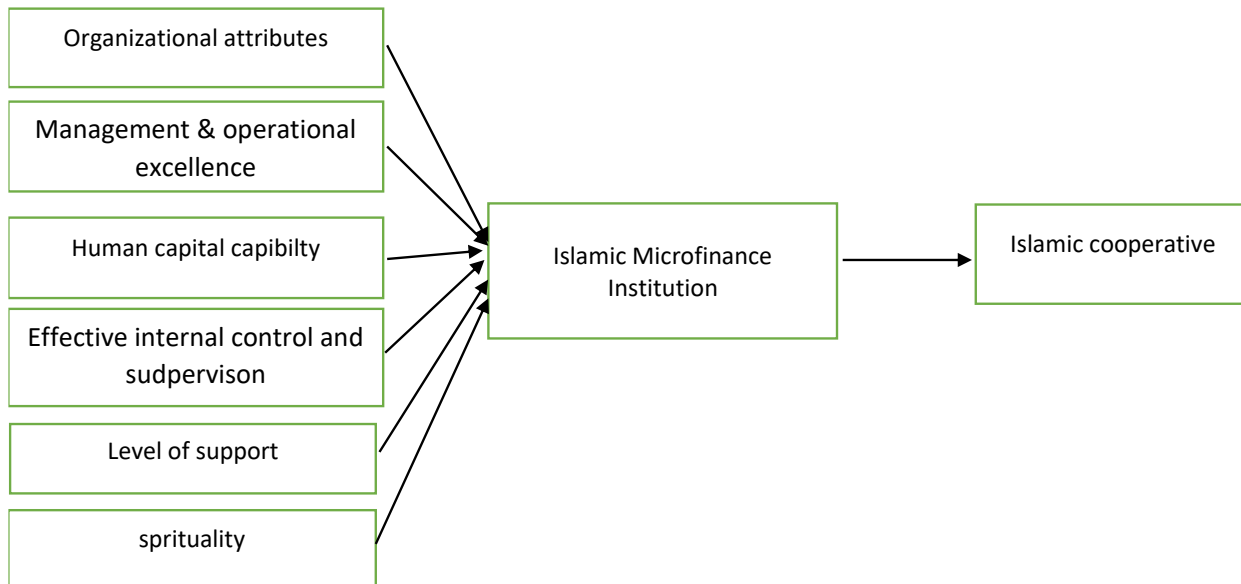


Figure 1: Conceptual Framework

2.1 Success Factors of Islamic Cooperatives

2.1 Organisational Attributes

The size, nature of services, and diversity of activities are identified as crucial factors in mosque collaboration [6]. The size of cooperative assets has a substantial favourable effect on credit cooperative financial performance [7]. Larger credit cooperatives have better cost-to-income ratios and benefit from economies of scale than smaller credit cooperatives [9]. The types of businesses and services that cooperatives offer have an impact on their financial performance. Cooperatives that provide finance, agricultural, and related services, as well as transportation, have outperformed other cooperatives in terms of financial performance [7]. Similarly, cooperatives that provide Sharia-compliant products contribute to the success of credit cooperatives [8]. Furthermore, a cooperative that provides a variety of services to its members and societies has resulted in a wide range of activities [9].

Diversity enables cooperatives to execute a wide range of economic operations, decreasing the risk of concentrating on a single activity to suit the unique demands of its members and negatively impacting the cooperative's performance [10]. Cooperatives can expand their membership, size, and resources by diversifying [11]. A successful cooperative diversifies and integrates its businesses while focusing on core activities [12]. SKM has also highlighted the diversity of cooperative approaches through the NCP2 policy and anticipates more cooperatives to be enrolled in high-value economic sectors such as tourism, health care, real estate, wholesale and retail, and financial services [9].

2.2 Management and Operational Excellence

Management and operational excellence are other characteristics that contribute to cooperative success [13],

which include long-term objectives, entrepreneurial culture, operational costs, management, and full-time support staff [9]. Planning is a crucial component of management excellence, and it has a substantial impact on cooperatives' financial performance in achieving strong sales growth. Appropriate planning is necessary to guarantee cooperatives stay competitive, can react to dynamic changes in a business environment, and handle uncertainty correctly [12]. Inadequate planning, particularly long-term planning, is one of the factors contributing to the demise of various cooperatives in Fiji. Operating costs have a substantial impact on cooperative financial success [14]. Low running costs, cautious spending, and accurate financial records allow cooperatives to create more revenue and benefit members indefinitely. Four factors were used to assess the impact of entrepreneurial culture on a cooperative's financial performance: risk-taking mentality, inventive leadership style, flexible organizational linkages, and emphasis on proactive strategy. Entrepreneurial culture has a significant impact on cooperative performance and is a success factor for retail cooperatives in Sarawak [16]. Full-time management improved cooperative performance by employing managers and support staff on a full-time basis vs less-performing cooperatives [8].

2.3 Human Capital Capability

Human capital competency is a vital component of cooperative success that includes board members, managers, and members. Cooperative management requires a variety of skills, abilities, and work experience. There is a positive or direct association between the working experience of its board members and managers and cooperative performance [14], as well as between managers' technical and interpersonal abilities and cooperative performance [15]. Continuous training for cooperative board members and managers can improve their competencies and management skills, which affects the

cooperative's performance [14]. The quality of management training programs also had a substantial impact on cooperative performance [15].

When compared to achievers' cooperatives, cooperatives that perform have considerable working experience of its board members, are older in terms of age, and have elements of continuity [8]. Board members of a functioning cooperative have learned the skills, competencies, talents, and specific knowledge required to face and deal effectively with all of the cooperative's issues. Human capital is also quantified through cooperative member participation and education [6]. Members' active participation has a substantial impact on cooperative performance. Cooperative members' significant capital investment is also a contributing factor to cooperative success [14]. The level of education is also a determining element in the performance of a cooperative. Members' rights and obligations, as well as their continuing education and awareness, must be prioritized [9].

2.4 Effective Internal Control and Supervision

Effective internal control and supervision are the most important success factors for cooperative performance, which include risk management, risk control, and record or document control [8]. It enables cooperatives to take proactive measures to maintain continuity in the face of threats and challenges to their position [9]. Measuring internal control and supervision entails examining the existence of cooperative internal control policies, investment and expenditure policies, and appropriate financial accounting and reporting policies [8]. Performing cooperatives have a correct system of financial reporting and records, but more work is required to enhance internal control and risk management, particularly in the areas of investment and expenditure [9].

2.5 Level of Support

The mosque cooperative requires financial and non-financial support to be effective. SKM is in charge of regulating cooperatives, and the cooperative sector supervises registration, member satisfaction, and rule and regulation compliance. As a driver, it provides financial and non-financial help to cooperatives, such as funding, operating capital, and grants, as well as technical advice and experience. SKM is very important in mosque cooperatives. Federal and state authorities provide technical, financial, and moral assistance to performing cooperatives [8]. Angkatan Koperasi Kebangsaan Malaysia Berhad (Angkasa), an umbrella group representing Malaysia's cooperative movement, also provides various sorts of support to cooperatives, including mosque cooperatives. Several initiatives have been developed to aid cooperatives, particularly mosque cooperatives, in areas like research and development, management consultancy, and program finance. It also hosts an annual conference for mosque cooperative board members and managers and collaborates with the Malaysian Cooperative College (MKM) to provide knowledge, training, and learning opportunities to mosque cooperative executives [9].

As the management of Malay customs and mosques is under the jurisdiction of the state government, mosques in Malaysia are controlled by a mosque committee selected by the community (parishioners) and recognized by state religious authorities [17]. The State Islamic Religious Council (IRC) and State Islamic Religious Departments (IRD) are two key

State agencies in charge of Islamic matters. IRC is in charge of policy formulation, whereas IRD is in charge of policy implementation through programs and processes. Mosque cooperatives are inextricably linked with mosque institutions [9]. It requires the support of the mosque committee, the state IRC, and the IRD to be successful. State IRC permits mosques to manage funds, assets, and economic operations to raise revenue through the Islamic Religious Administration Enactment. As a result, the mosque committee and state religious authorities must promote the development and functioning of mosque cooperatives [9].

2.6 Spirituality

Spirituality is defined as a sense of relatedness or interconnectedness with others, a provision for meaning and purpose in life, the promotion of prosperity, and belief, trust, and a relationship with a power greater than oneself. Spirituality influences the performance of an organization and the behavior of its members, resulting in an increase in profit or wealth and productivity. Increased interest in spirituality in business literature parallels the refocus on spirituality in the workplace by major corporations such as Intel, Coca-Cola, and Boeing [9]. The vertical relationship refers to the well-being of individuals in relation to Allah as the ultimate authority, whereas the horizontal relationship refers to the interaction of individuals with self, society, and environment. Due to their close relationship, a spiritual effect is imminent in order to assure the success of the mosque cooperative. A mosque is a place of worship where Muslims perform their daily prayers, congregational prayers, and Friday prayers each week. In addition to Mawlid celebrations, Awal Muharram, Aidil Fitri, and Idul Adha, the institution organizes significant Islamic calendar events such as Awal Muharram, Aidil Fitri, and Idul Adha. In administering mosque cooperatives, the board members, managers, and members are accountable to God (vertical relationship), while the community is viewed as a caliphate or vizier (horizontal relationship). As a caliphate, they are entrusted to manage the financial and non-financial resources of mosque cooperatives by Allah as the absolute owner of all resources, and they are expected to use these resources for the benefit of mosque institution, community, and particularly improving the local economy, consistent with the history of Prophet Muhammad S.A.W. where the mosque serves as the economic hub [17]. Therefore, it is anticipated that spirituality will contribute to the financial and non-financial performance of cooperatives and mosques [9].

CONCLUSION

According to Volz and Storz, a basic structure of cooperatives (the implementing framework) is critical to their success (the democratic framework). In short, a strong interinstitutional culture appears to be required for cooperatives to manage accumulation over time [18]. Cooperative collection management is particularly possible in repositories where participating institutions have a history of cooperation and strong inter-institutional ties. The success of cooperative collection management raises the prospect of more centralization [22]. The efficiency and efficacy of co-op leaders, officers, and staff fulfilling co-op leadership roles would very certainly increase member confidence, trust, patronage, and loyalty to the cooperative's services [19].

Members who understand a cooperative's policies, regulations, values, and principles can all contribute more effectively to its growth. Members are in a position to teach people about the benefits of cooperative enterprise and to generate interest in their organizations. Continuous member education assists co-ops in growing, progressing, and adapting to new technology, ultimately assisting them in becoming stronger enterprises [20].

Having a skilled, committed leader is a crucial component of cooperative success. Good governance is important, and having directors who understand governance is critical to the long-term success of any organization. Having a board that knows their roles, why involvement is vital, and how they may govern more effectively in the future will help your cooperative succeed [19]. There are some things that shareholders, members, directors, and you can all do to assist your co-op to prosper more - regardless of the industry or structure in which it operates [21]. It is a member's responsibility to select someone with whom they can put their trust to run co-ops operations. Maintaining anonymity may be problematic in a cooperative because the leadership and board require member permission. Some businesses we spoke with stated that they avoid doing business with cooperatives owing to confidentiality issues [19].

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