

## GOOD GOVERNANCE OF SOCIAL ENTREPRENEURSHIP WITH WASATIYYAH FROM MAQASID AL-SHARI'AH

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### ABSTRACT

*The study explores the management of good governance of social entrepreneurship from Maqasid al-Shariah perspectives. Management of good governance of social entrepreneurship from Maqasid al-Shariah implies moderation (wasatiyyah). This framework allows social entrepreneurship with profit and non-profit agenda to be managed with moderate approach of Maqasid al-Shariah. The regulatory framework under traditional maqasid is perceived to be of rigid and reduces flexibility and the hybrid model of corporate entities in social entrepreneurship. Wasatiyyah enables moderate guidelines, just and balanced in formulating, executing and evaluating strategies, plans, and activities. The presence of wasatiyyah of Maqasid al-Shariah is apparent in Malaysian economic contexts have incorporated the essence of wasatiyyah through the consistent objectives to eradicate poverty, maintain national unity and increase wealth of the nation. Theoretically, good governance with Maqasid al-Shariah and wasatiyyah approaches allows flexible and focused for all enterprises to perform better. Social entrepreneurship with the hybrid corporate objectives require corporate governance with Maqasid al-Shariah regulatory framework and wasatiyyah approach.*

**Keywords:** Maqasid al-Shariah, Wasatiyyah, Corporate Governance, Sustainable Competitive Advantage.

### INTRODUCTION

Today's competitive world has been witnessing declining trust and credibility in the corporate sector. Governance of companies has therefore become ever essential (Rose, 2016; Van Aaken, Splitter, & Seidl, 2013; van Essen, Van Oosterhout, & Carney, 2012). Good governance is important because it provides source of trust and credibility to stakeholders

(Faber, 2005; Boivie, Bednar, Aguilera, & Andrus, 2016; Rose, 2016). Having good ethical standard, standard operating procedure, ISO, and so on furnish tangible evidence of good governance (Rodriguez-Dominguez, Gallego-Alvarez & Garcia-Sanchez, 2009; Pae & Choi, 2011). This is applicable to both for-profit and not-for-profit organizations.

Social entrepreneurship has both dimensions, profit and social. While making profit is the reason for existence, fulfilling social end is another important agenda for both types of organizations. With this perspective, the governance of social entrepreneurship needs both types of governance.

The study aims to examine good governance of social entrepreneurship from Islamic legal framework of *Maqasid al-Shariah*. Good governance is referred as the administration and management process and activities that adhered to legal, norms and standard code of practice. When good governance refers to adhere to the legal, norms and standards, bad governance is the opposite. In study, good governance of social entrepreneurship refers to the administration and management of social enterprises that adhered to the legal, norms and standards. When the governance is based on *Maqasid al-Shariah*, the adherence is to the legal, norms and standards guided by *Maqasid al-Shariah*. The governance of profit-oriented enterprises is based on existing commercial and company legal framework. When social end is emphasised, the governance has two dimensions, namely legal and social dimensions. The socioeconomic and legal framework from conventional perspective is inadequate to meet both social and profit aim into a legal framework. This study uses Islamic legal framework under *Maqasid al-Shariah* to consolidate and enhance both framework.

In terms of contribution to business discipline, this paper contributes towards the study social entrepreneurship, a discipline in entrepreneurship, and also the study of corporate governance. Corporate governance is a study on the administration of business entities that enhances accountability, transparency, and competitive advantage of business as well as socio-business entities.

### SOCIAL ENTREPRENEURSHIP

Entrepreneurs have different motivations for engaging in business, besides making profit. Research on social entrepreneurship has focused on distinguishing qualities that that make such individuals stand out (Dees, 2001; Fiet et al., 2006). Social entrepreneur initiatives face two types of tensions in their attempt of value creation, that is, to achieve social and profit objectives.

While Fowler (2000) sees social entrepreneurship not because of earnings respect in developing a "surplus" by competing in the market, Robinson's (2006) view of social entrepreneurship includes social enterprises, social venture capital, and social purpose organizations. Social entrepreneurship may include for-profit companies developing financial, social, then environmental returns, as well as the financial return (Mair, 2006; Austin, 2006).

Although social entrepreneurship is often viewed as business with a social purpose that earns income for the non-profit sector, Dees (2003) said he is inclined toward additional definition of social entrepreneurship, whereby a person deemphasizes income,

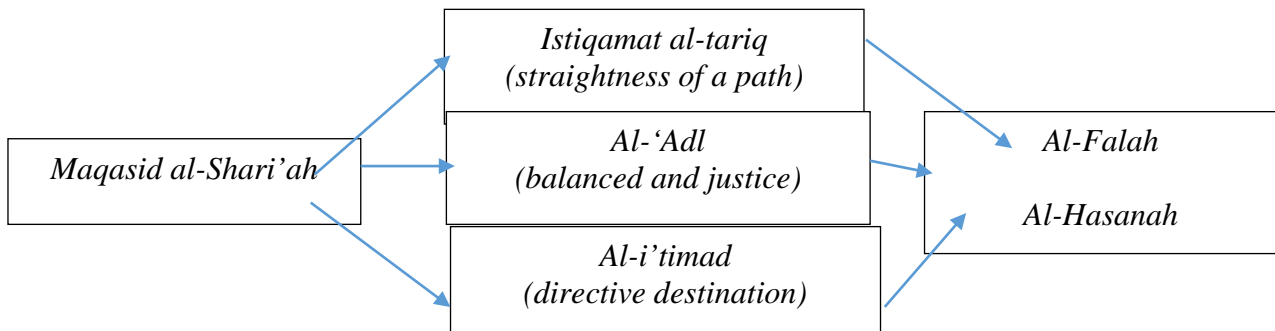
but pursues in managing social issues. According to Dees (2003), over time these two approaches of thinking intersect, when people with business-like approaches meet up with inventive answers for social issues. Therefore, in contrast with business entrepreneurs, who are “for” the economy, social entrepreneurs are “for” social transformation consisting of “creative individuals who question the status quo, exploit new opportunities, refuse to give up, and remake the world for the better” (Bornstein, 2004, p. 15).

Social entrepreneurship addresses two objectives, namely social and profit objectives. Since the entity of social entrepreneurship is based on for-profit business model, it uses business tools to position, strategise and mobilize the social-oriented business (Doherty, Haugh, & Lyon, 2014; Rae, 2010). The social driven business model has advantages to remain competitive despite the negative or unattractive business environment such as deregulation of trade policy, slow economic growth, high inflation rates, high turnover rates, aging society, and digitized economy and so on (Parthasarathy, Momaya, & Jha, 2017; Doherty, Haugh, & Lyon, 2014; Rae, 2010; Sauvart, Maschek, & McAllister, 2010). In each of the unattractiveness in the macro environmental forces, social enterprises are capable of creating business opportunities (Doherty, Haugh, & Lyon, 2014; Rae, 2010). For instance, when the economy is under recession, social enterprises will go back to the resource-based economy at various locations that close to the society. In the food industry, for instance, this is the opportunity to encourage for local agricultural sector to localise its economic activities. Subsequently, it created economic impact through various business activities.

**MAQASID AL-SHARI’AH**

*Maqasid al-Shari’ah* is translated as the goals and objectives of the *Shari’ah*. The word *maqasid* is the plural of *maqad*, which denotes the straightness of a path (*istiqamat al-tariq*), balance and justice (*al-’adl*), and directive destination (*al-i’timad*) (Al-Kaylani, 2009, p. 53). *Maqasid al-Shari’ah* in this perspective comprises the goals upon which the *Shari’ah* is established and to which all actions of human being are directed. Figure 1 illustrates key elements of *Maqasid al-Shariah*.

Figure 1: Key elements of *Maqasid al-Shariah*



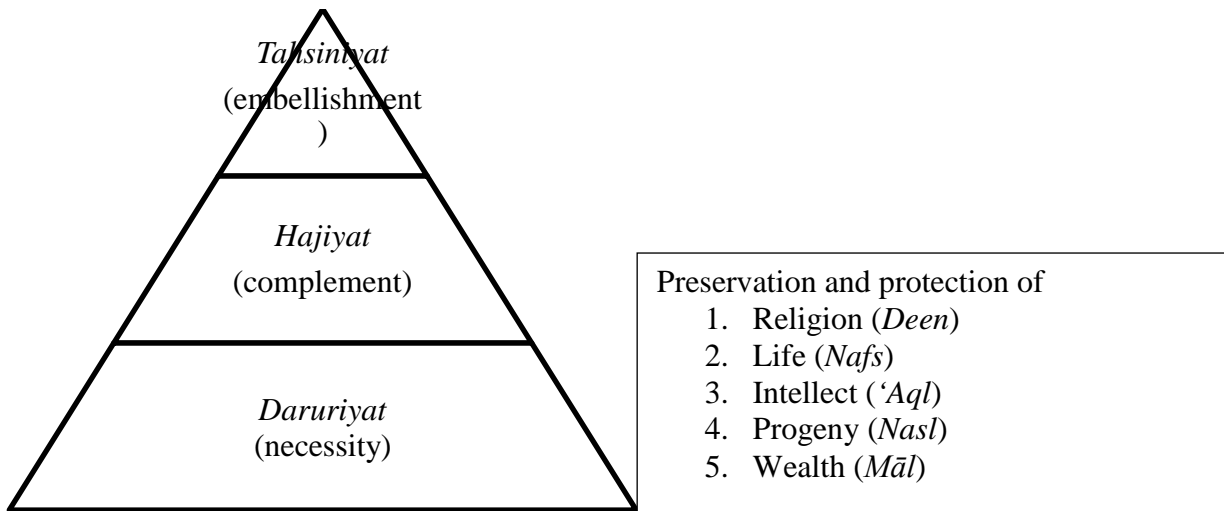
Source: Al-Kaylani (2009, p.53)

*Shari’ah* in this regard is an all-embracing framework that exists to support human existence by providing the necessary principles and means to establish and enhance human wellbeing (*maslahah*). All the *Shari’ah*’s teachings, injunctions and prohibitions are related to the grand wisdom (*hikmah*) of securing human interests in the worldly life and the Hereafter.

*Shari’ah* rules contain obligations and duties that are aimed to bring benefit and prosperity, and their prohibitions prevent from harm and hardship (Qur’an, 2: 30; 3: 191; 6: 165; 38: 27; 44: 38-39; 67: 1-2).

There are a few categories of *Maqasid al-Shariah*. Al-Ghazali (year?) for example categorised *Maqasid al-Shariah* into *Daruriyah*, *Hajjiyat* and *Tahsiniyat*. There are five items under *Daruriyah*, namely, preservation of religion (*al-Deen*), life (*al-Nafs*), intellect (*aqal*), progeny (*Nasl*) and wealth (*mal*). Figure 2 depicts the classification of *maslahah* and five items of *Maqasid* under *Daruriyah*.

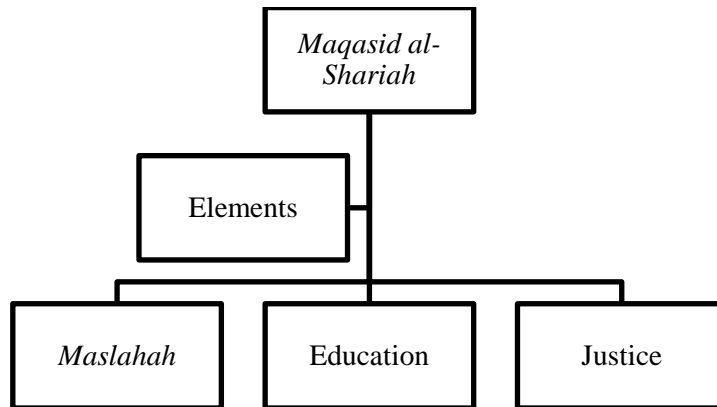
Figure 2: The classification of *maslahah* and five items of *maqasid*



Source: Al-Ghazali (1997)

As for Abu Zahrah (1997), *Maqasid al-Shariah* model, there are three elements, namely *Maslahah*, education and justice. Figure 3 summarises the key elements of *Maqasid al-Shariah* by Abu Zahrah (1997).

Figure 3: *Maqasid al-Shariah* of Abu Zahrah



Source: Abu Zahrah (1997)

**WASATIYYAH CONCEPT**

*Wasatiyah* is a way of life prescribed in Islam to enable the believers to execute the duty and responsibility as servants and vicegerent of Allah. The emphasis is on the best practice, excellence and prestige of work input, process and output. The term ‘*ummatan wasatan*’ or ‘excellent’ community has been used in the Quran, for example, in Surah Ali Imran, verse 110, where Allah said:

“*You are the best nation [ever] brought forth for mankind: you bid what is right and forbid what is wrong, and have faith in Allah*”.

Surah Al-Baqarah, verse 143, Allah mentioned:

“*Thus We have made you a middle nation that you may be witnesses to the people, and that the Apostle may be a witness to you*”.

In Surah Al-Furqan, verse: 67, Allah said:

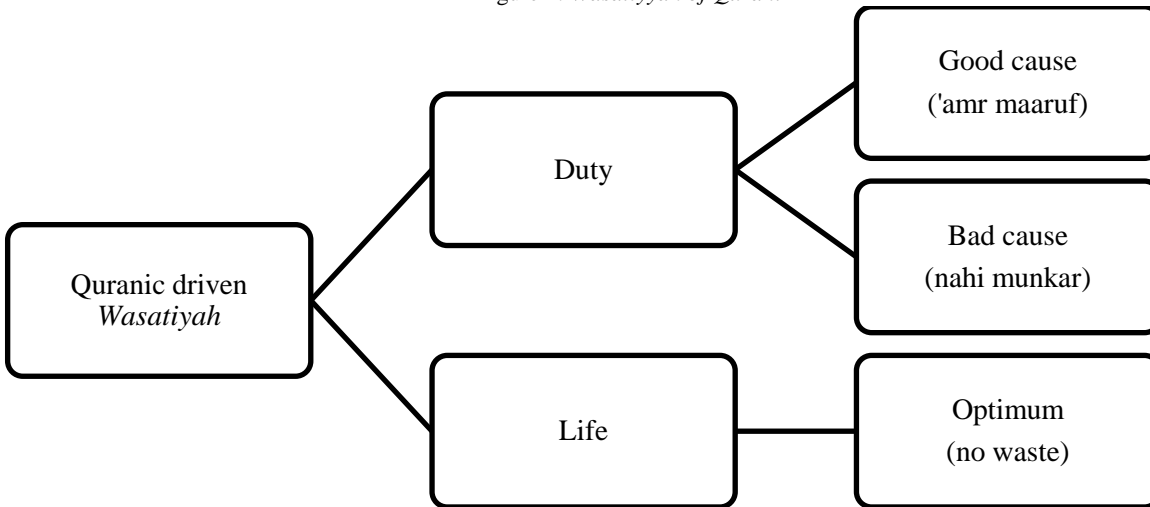
“*Those who, when spending, are neither wasteful nor tightfisted, and moderation lies between these (extremes)*”.

The essence of Surah al-Baqarah (verse 143) is about duty-based moderation in discharging duty as servants and vicegerents of Allah.

The selected verses about *wasatiyah* refer to excellence, moderation, balanced, just, and harmony. Faith driven duty-based governance is built upon two foundations: the call for good cause (*al-ma'aruf*) and prevention of bad cause (*nahi munkar*). As

quality of life, *wasatiyyah* in all aspects of activities implies achieving Pleasure from Allah in a ‘balanced’ way. Figure 4 shows the Quranic version of the elements of *Wasatiyyah*.

Figure 4: *Wasatiyyah of Qurani*



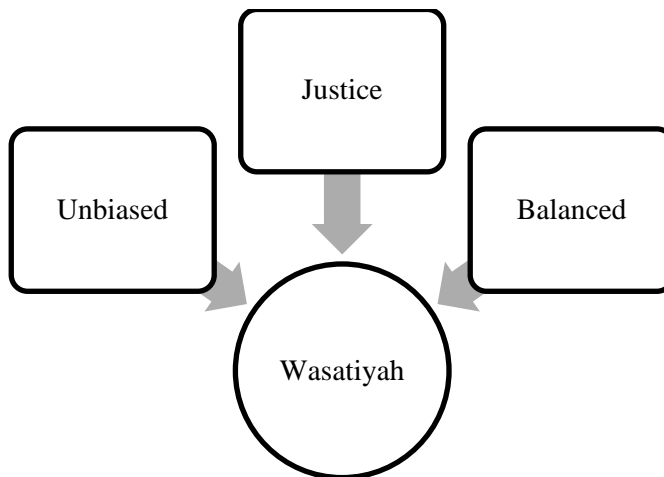
Source: Zin and Jusoh (2011), Zin (2013)

The Tradition of the Prophet has shown the essence of *wasatiyyah* through a *Hadith* narrated by Ali bin Abi Talib, who said that:

*“The best ummah are those who belong in the middle group. Those who are slow would be able to catch up while those who are more advanced would be able to slow down”*. (Source?)

Such quality of nation has prompted many nations emulating the *wasatiyyah* model. Zin and Jusoh (2011) argued that moderate nation practices just, unbiased and balanced of life in the world and the Hereafter. They said that “..practising Islamic teachings in a holistic and perfect manner in each aspect an individual and a community life by increasing the quality of life of the ummah.” Figure 5 shows the key elements of *Wasatiyyah*.

Figure 5: Key elements of *Wasatiyyah*



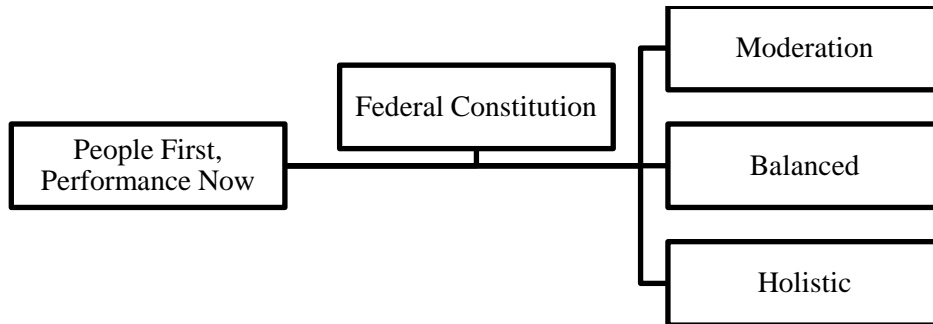
Source: Zin and Jusoh (2011) and Zin (2013).

In Malaysia, the government subscribed to the *wasatiyyah* concept, which has good alignment and spirit with the Federal Constitution, norms and values in Malaysia. In fact, *wasatiyyah* harmonizes all aspects of life for betterment in physical, spiritual and systemic terms. Prime Minister Dato’ Sri Mohd Najid Tun Haji Abdul Razak (2010) says:

*“Wasatiyyah approach emphasizes on Islamic teaching in moderation, balanced and holistic in all activities of an individual and community lives. This is evident by giving priority to the development of the quality of the ummah’s lives from the aspects of education, human capital development, economic and financial system, knowledge and unity”*.(Zin, 2013)

According to Zin and Jusoh (2011), the spirit of *wasatiyyah* is apparent in the spirit of 1Malaysia, a motto: "People First, Performance Now." *Wasatiyyah* has been evident in the economic policies. Figure 6 highlights *wasatiyyah* elements in 1 Malaysia policy.

Figure 6: *Wasatiyyah* Elements in 1 Malaysia Policy

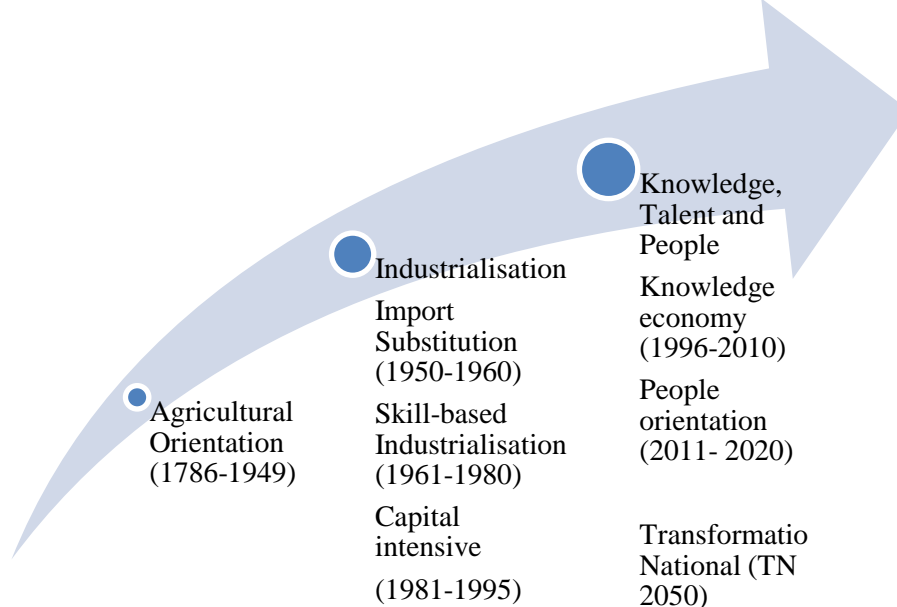


Source(s): Zin and Jusoh (2011) & Zin (2013).

*Wasatiyyah* may be matched with stages of the capital driven economy of the national (Zin & Jusoh, 2011; Zin, 2013; Xavier, Siddiquee & Mohamed, 2016). Malaysia has been consistent with its managing ability to achieve both social and economic results (Siddiquee, 2010; Siddiquee, 2013; Siddiquee, 2014). The country has proven of delivering the results for the people and the nation (Xavier, 2014; Xavier, Siddiquee & Mohamed, 2016).

There are six phases of economic development in Malaysia (Sarif & Ismail, 2011a, 2011b). Based on Sarif & Ismail (2011a)'s examination of six phases of economic development, they may be *wasatiyyah* in each phase of the economic development, social well-being and sustainability of the Malaysian economy. Firstly, *wasatiyyah* through agricultural excellence in the agriculture export scheme (1786-1949). Secondly, *wasatiyyah* through stabilizing income and need for local consumption through import substitution industrialisation (1950-1960). Thirdly, *wasatiyyah* in skill-based industrialisation (1961-1980). Fourthly, *wasatiyyah* through capital intensive industrialisation (1981-1995) with the emphasis of high technology. Fifthly, *wasatiyyah* in human capital and knowledge-based economy development (1996-2010), and finally, people-oriented economic development that emphasises on values, relationship, family, work-life balanced and holistic human development (2011-2015). Figure 7 depicts the phases of *wasatiyyah* in socio-economic development in Malaysia (1786-2016).

Figure 7: The phases of *wasatiyyah* in socio-economic development in Malaysia (1786-2016)



Source: Sarif & Ismail, 2011a, 2011b

According to Sarif & Ismail (2011a), each Malaysia Plan has emphasised on eradication of poverty, national unity and increasing of national income. If based on the elements of *maqasid al-Shariah*, eradication of poverty, national unity and increasing of

national are essential (Ahmad, 2011; Alam, Hassan & Said, 2015). Each Malaysia Plan including its annual budgets incorporated the essence of *wasatiyyah* (Ibrahim et al, 2013; Noh, 2014). Table 1 summarizes the development planning documents for Malaysian economic plans (1950-2010) with the emphasized on *wasatiyyah*.

Table 1: Development Planning Documents for Malaysian Economic Plans (1950-2010)

Plan Title	Duration	Date Tabled
<b>First Malaysia Plan</b>	<b>1966 – 1970</b>	<b>25 Nov 1965</b>
MTR First Malaysia Plan	1966 – 1970	25 Jan 1969
<b>Second Malaysia Plan</b>	<b>1971 – 1975</b>	<b>25 Jun 1971</b>
MTR Second Malaysia Plan	1971 – 1975	20 Nov 1973
<b>Third Malaysia Plan</b>	<b>1976 – 1980</b>	<b>5 Jul 1976</b>
MTR Third Malaysia Plan	1976 – 1980	3 Sept 1997
<b>Fourth Malaysia Plan</b>	<b>1981 – 1985</b>	<b>16 Mar 1981</b>
MTR Fourth Malaysia Plan	1981 – 1985	29 Mar 1984
<b>Fifth Malaysia Plan</b>	<b>1986 – 1990</b>	<b>21 Mar 1986</b>
MTR Fifth Malaysia Plan	1986 – 1990	23 Jun 1989
Outline Perspective Plan (OPP) 2	1991 – 2000	17 Jun 1991
<b>Sixth Malaysia Plan</b>	<b>1991 – 1995</b>	<b>7 Oct 1991</b>
MTR Sixth Malaysia Plan	1991 – 1995	16 Dec 1993
<b>Seventh Malaysia Plan</b>	<b>1996 – 2000</b>	<b>5 Jun 1996</b>
MTR Seventh Malaysia Plan	1996 – 2000	22 Apr 1999
Outline Perspective Plan (OPP) 3	2001 – 2010	3 Apr 2001
<b>Eight Malaysia Plan</b>	<b>2001 – 2005</b>	<b>23 Apr 2001</b>
MTR Eight Malaysia Plan	2001 – 2005	30 Oct 2003
<b>Ninth Malaysia Plan</b>	<b>2006 – 2010</b>	<b>31 Mar 2006</b>
MTR Ninth Malaysia Plan	2006 – 2010	26 June 2008
Tenth Malaysia Plan	2011 - 2015	10 June 2010
<b>Eleventh Malaysia Plan</b>	<b>2016 - 2020</b>	<b>21 May 2015</b>

Note: MTR- Mid Term Review

Source: Government of Malaysia (1965, 1971a, 1971b, 1976, 1981, 1986, 1991a, 1991b, 1991c, 1996a, 1996b, 1999, 2001a, 2001b, 2003, 2006, 2010, 2015)

The concept of *wasatiyyah* can be examined from organizational, institutional and individual perspectives. In general, both formal and informal institutions defined *wasatiyyah* as moderate path that consider the stakeholders in achieving goals of all stakeholders. Mujani, Rozali and Zakaria (2015) defined *wasatiyyah* as middle approach with a wider scope of meaning that suits for many situations within the parameters of acceptable manners. Middle approach does not subscribe to mediocre standards, which is not acceptable to majority stakeholders.

At institutional level, middle approach or moderate stance refers to the use of the excellent mechanism to achieve institutional end. The middle path is not sub-standard or mediocre, but the best, just and chosen one (Kling, 2011, p.1). This is in line with the economic and social orientation that emphasised on excellence in community through the concept of 1 Malaysia.

Happiness is related to harmonious and industrious society. Every citizen contributes to the nation with full of respect and tolerance towards fellow citizens. *Wasatiyyah* provides a thinking of moderation and act consistent with acceptable values. *Wasatiyyah* emphasised on justly balanced worldview (Hassan, 2010), a widely acceptable proposition.

In fact with *wasatiyyah* paradigm, everyone with this understanding will work for the betterment of the society within his specific task and responsibility (Othman & Sulaiman, 2014). All work must be universally acceptable that promotes justice and moderation and excellent achievement (Choudhury, 2016). In actual practice, *wasatiyyah* can be operationalised as middle course, justice, excellence and honourable with positive meaning (Salleh, Abidin, Usman, Haridi, 2015, p. 482).

*Wasatiyyah* in social entrepreneurship allows for everyone to participate in the socio-economic activities. The localised economic orientation allows for just and balanced development (Sarif & Ismail, 2011). The transformation initiative enhances spiritual capability to remain resilience in producing goods and services.

*Wasatiyyah* allows women and minority group to participate as decision and policy makers in both public and private sectors. More women are given leadership and decision making role beyond higher education sectors (Morley, Berma & Hamid, 2017). Both private and public stakeholders are able to see improvement (Xavier, Siddiquee & Mohamed, 2016).

*Wasatiyyah* in social economic sectors allow for more successful delivery of services, racial integration, harmonious relationship, and moderate consumption. According to Xavier, Siddiquee and Mohamed (2016), the transformation initiative with *wasatiyyah* concept that emphasised on just, balanced and beneficial has increased value of public service for betterment of life. Efficiency in important agencies such as immigration, registration, licensing, transportation, health services and local councils able to make people life more comfortable.

*Wasatiyyah* allows for integration and harmony. Malaysia has gone through a few phases of socio-economic development that emphasised on social welfare and well-being. Awang, Sheikh, Lokman and Saifuddin (2016) argued that racial integration for social and economic harmony has been one of the national thrusts. From its agricultural-based socio-economic orientation to people-based economy, racial integration, harmony, social welfare and social well-being are always in the economic agenda. According to an author (Kling, 2011, p.1), the moderate or *wasatiyyah* approach subscribed by Malaysia has proven it is not sub-standard or mediocre, but the best, just and chosen one.

There is increasing awareness on *wasatiyyah* in consumption. According to Kassim and Zain (2016), consumers are paying attention on *wasatiyyah* in consumption in terms of life style and purchase decision.

*Wasatiyyah* provides moderate worldview. This worldview invites people to widespread mercy, love and justice to the society. The spirit of sharing benefit and burden enhances the charitable societal institutions like *zakat*, *sadaqah* and *waqaf*. *Zakat* is mandatory religious act provides minimum societal protection to the Muslims through the distribution to the specified eight recipients (*asnaf*). In addition, to *zakat*, Muslims are encouraged to share the bounties through charity like *sadaqah* and *waqaf*.

## GOOD GOVERNANCE

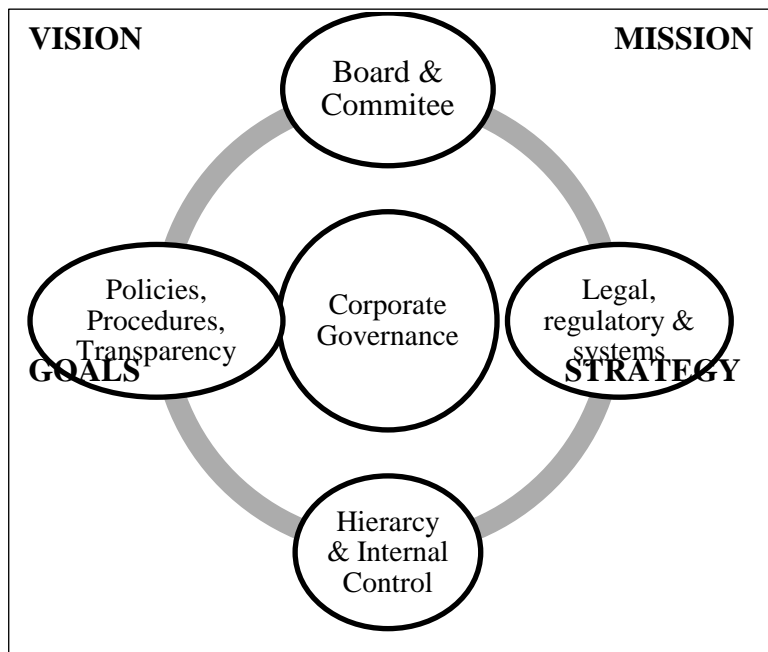
Governance is a mechanism to control the use of power with policies and monitoring to enhance the prosperity and viability of the organization (Web Finance, 2016).

The importance of governance has been acknowledged by academics and policy-makers alike in recent years. Academic research has been wide-ranging and not confined to any particular sector of the economy, with public, private and voluntary organisations all being analysed. The issues dominating each have varied. The public sector has been subject to debates over the decentralising of decision-making resulting from policies of outsourcing service provision. This has promoted analyses that have examined the role played by citizens, rather than solely government officials, in formulating services and monitoring their quality (Rhodes, 2000).

UNESCO (2016) defines corporate governance as the executing duty within the authority framework to ensure good values in implementing strategies for better service delivery and outcome of the stakeholders. The term has been always equated with management. In fact, governance provides the measurement and control mechanism to ensure organizations implementing strategies within the systems to achieve goals through people and institutions with efficiency and effectiveness.

Institute on Governance (IOG) (2016a) defines governance as “**Governance determines who has power, who makes decisions, how other players make their voice heard and how account is rendered.**” There are three elements of governance, i.e., the personnel with authority, decision makers, and stakeholders. This situation makes governance complicated. The complication is addressed through five principles of good governance, namely, legitimacy, direction, performance, accountability and fairness. Figure 8 highlights key elements of corporate governance.

Figure 8: Key elements of corporate governance

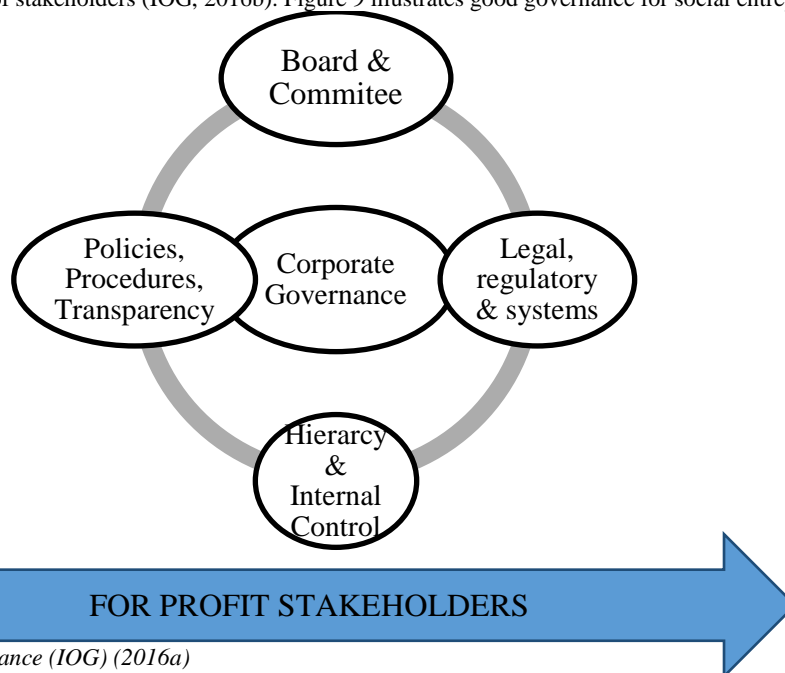


Source: Institute on Governance (IOG) (2016a)

**GOOD GOVERNANCE FOR SOCIAL ENTREPRENEURSHIP**

The primary purpose of good governance is to assure the stakeholders that the company is making optimize performance. In other words, it ensures a person or an organization delivers beyond both efficiency and effectiveness to achieve sustainable competitive advantage.

A social enterprise, Yukon Development Corporation which began in 2013 has own internal governance structure besides the good practice of Board of Directors to ensure the company is always performing at optimum level. Likewise, North West Local Health Integration Network that began in 2013 applied governance policies to allow them providing better health care services at North West Ontario. Based on these social enterprises, the importance of good governance is beyond profit and good services, but to beat the expectation of stakeholders (IOG, 2016b). Figure 9 illustrates good governance for social entrepreneurship.



Source: Institute on Governance (IOG) (2016a)

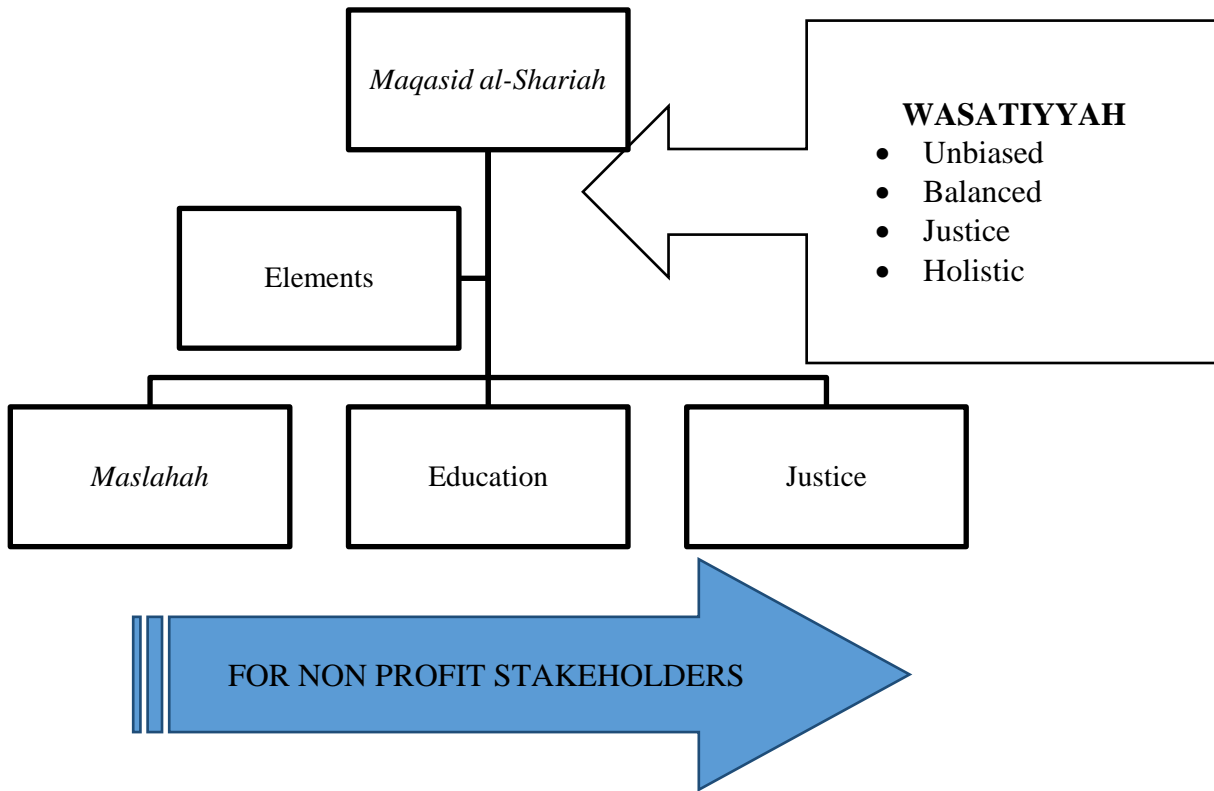
**EXTENDING THE WASATIYYAH APPROACH TO MAQASID**

Wasatiyyah enables excellent, just, holistic way of life to achieve efficiency and effectiveness in this life and the Hereafter. Maqasid al-Shariah provides the path, guidelines, and compass to execute task and responsibility as servants and vicegerent of



Allah. The *wasatiyyah* approach to *Maqasid al-Shariah* provides moderate, just, holistic and balanced paradigm on the application of *Maqasid al-Shariah* in life. *Wasatiyyah*-driven *Maqasid al-Shariah* incorporates moderate and best practice into regulatory framework for compliance and optimum benefits. Figure 10 shows the extension of *wasatiyyah* approach to *maqasid*.

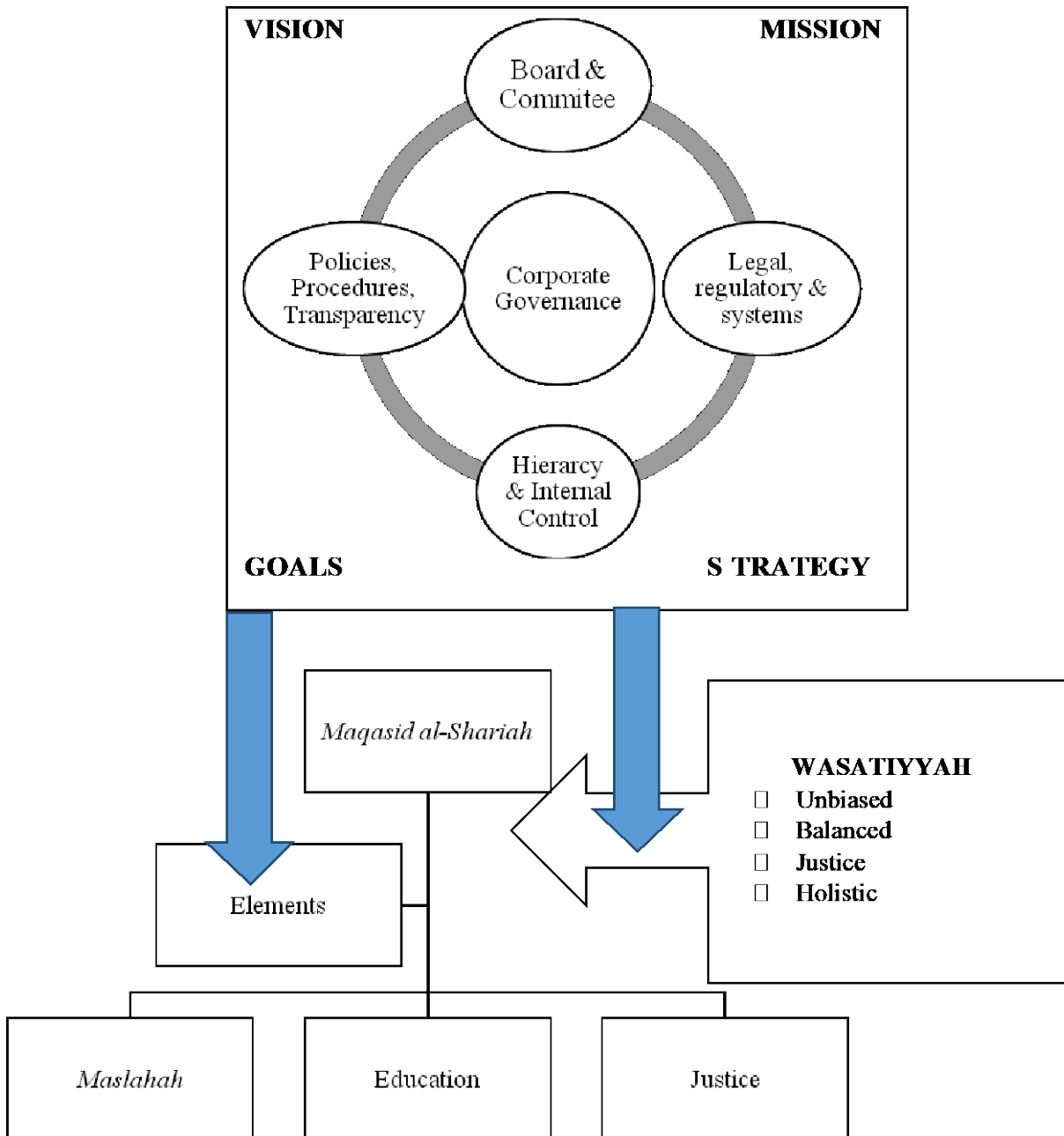
Figure 10: The extension of *wasatiyyah* approach to *maqasid*



**STATUS OF GOOD GOVERNANCE FROM MAQASID CATEGORY**

Good governance allows for corporate entities to achieve goals with more value and responsibility. A combination of clear vision, mission, goals and strategy allows the corporate organizational systems to achieve goals whether social, for profit or non-profit simultaneously. The *wasatiyyah* approach that emphasises on moderate, just, balanced, and holistic under a moderate *Maqasid al-Shariah* approach will make organization attain sustainable competitive advantage for profit end as well as social welfare end. Figure 11 provides the integration of good corporate governance, *wasatiyyah*, and *maqasid al-Shariah* within social entrepreneurship contexts.

Figure 11: Integration of Good Governance, *Wasatiyyah* and *Maqasid al-Shariah*



**CONCLUSION**

*Maqasid al-Shari'ah* is a comprehensive concept that explicates the purposes of the *Shari'ah* related to human life. As the *Shari'ah* is an all-embracing concept that is concerned with human life and human wellbeing, *Maqasid* should not be reduced to achieve the objectives in the social entrepreneurship activities. The *Maqasid* discussion in the daily scope should always refer to the general objective of the *Shari'ah*, which provides a grand framework and direction for how the methodology should be arranged in an Islamic economic system. Our perspective should not be limited to fulfilling the minimum legal requirements and calling that *Shari'ah* compliant. *Wasatiyyah* provides the guidelines to be moderate, just and balanced in formulating, executing and evaluating strategies, plans, and activities. The six phases of Malaysian economic contexts have incorporated the essence of *wasatiyyah* through the consistent objectives to eradicate poverty, maintain national unity and increase wealth of the nation. Theoretically, good governance with *Maqasid al-Shariah* and *wasatiyyah* approaches allows flexible and focused for all enterprises to perform better. Social entrepreneurship with the hybrid corporate objectives require corporate governance with *Maqasid al-Shariah* regulatory framework and *wasatiyyah* approach.

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