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# Classification of Islamic Social Enterprises (ISE) in Malaysia Based on Economic Sectors

Muhammad Iqmal Hisham Kamaruddin<sup>a</sup> and Sofiah Md Auzair<sup>a</sup>

Faculty of Economics and Management,  
Universiti Kebangsaan Malaysia, Malaysia

## ABSTRACT

*Based on the Islamic social enterprise (ISE) concept which is a combination of both social and economic objectives embedded with Islamic principles and values, this study aims to classify ISE based on economic sectors namely public, private and non-profit sectors. In addition, eight organisations that represent ISEs in Malaysia are also discussed to support the classification of ISE based on economic sectors. To examine these eight ISEs, this study reviewed professional documents, online information and comprehensive literature to analyse selected ISEs in Malaysia. Based on the findings, this study concludes that ISEs in Malaysia can be classified based on all the three economic sectors identified. Therefore, this study contributes to the body of knowledge as the pioneer study that examines and explores classification of ISEs based on economic sectors specifically within Malaysia.*

**Keywords:** *Islamic Social Enterprise (ISE); Social Enterprise (SE); Economic sector; Islamic social accounting*

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## INTRODUCTION

Economic activities were developed from a simple trading activity into an international commercial business. The development was contributed by various factors such as innovation in technology, expansion in communication and enhancement of the standard of living. Although economic development is emerging, its basic concept to fulfil an unlimited demand by using scarce resources remains unchanged.

In general, economic activities can be divided into three economic sectors which are public, private and non-profit sectors. These sectors consist of various structured organisations that are involved in various economic activities to achieve different goals and objectives. Establishment of an organisation can be under the form of public, private, non-profit or a combination of two or more of these sectors.

One of the forms of organisations is a social enterprise (SE). This ‘new’ trading activity is an example of how two objectives which are social and business are combined under a single organisation which mainly operates under the non-profit sector (Liu & Ko, 2011). Joining objectives under a single organisation to become a SE also means that there is a combination of characteristics, activities and the entity form itself.

From an Islamic perspective, there are several differences between Islamic organisations and non-Islamic organisations. These include Islamic objectives and values embedded within an Islamic organisation which is also known as Islamic practices. Islamic organisations with Islamic practices are believed to exist in all economic sectors such as Islamic state under the public sector (Khomeini et al., 2002); Islamic financial institutions (IFI) under the private sector (Farook, 2007); and Islamic philanthropic institutions under the non-profit sector (Kamaruddin & Ramli, 2017). Therefore, it is believed that there are also have SEs adopting Islamic practices which are known as Islamic social enterprises (ISE).

Based on this fact, this study aims to identify and classify ISE based on economic sectors namely, public, private and non-profit sectors. Several criteria such as concept, characteristics and additional Islamic values embedded within the ISE were discussed. Next, classification of

the SE based on several factors such as objective tendencies or priorities, organisational structure, level of integration between social and business activities, organisational types, dimensions and culture and environment influences are also discussed. The discussion then summarises the possibility to classify the ISE in Malaysia based on economic sectors. This study analysed eight ISEs in Malaysia under three economic sectors as an evidence of possibility for classification of ISE based on economic sectors. In addition, this study also distinguished embedded Islamic values within each selected ISE as 'unique' characteristics that differentiate the ISE from the SE.

Thus, this study is expected to present a new dimension on the classification of ISE based on economic sectors in Malaysia. It is important as evidence to prove that ISE concept is not only exclusively to be adopted by non-profit sector, but also can be adopted by other organisation types in other economic sectors, which is public and private. In addition, another significant contribution of this study is to provide empirical data towards current ISE practices in Malaysia. This study unlocks the potential for the development of an ISE framework or model for research in the future.

## LITERATURE REVIEW

### Islamic Social Enterprise (ISE)

The research on ISEs can be regarded as still at its infancy stage, hence, the scope and definition of this specific entity has not been concluded. Compared to SE, there are a lot of previous studies discussing on SE definition. Generally, SE can be defined as primarily social objectives where its surplus are principally reinvested for that purpose in the business or in the community, rather than being driven for maximising shareholders' wealth as in the private sector (DTI, 2002; Cabinet Office, 2006; Kerlin, 2006; Spear et al., 2009).

As part of SE, ISE may adopt similar definition as SE but it has to be distinguished with additional Islamic practices embedded within the ISE. For Islamic organisations like ISE, some Islamic values such as worship or obedience to Allah and operating based on Islamic teachings or known as *shariah* principles as stated by Ahmad (1991) are highly believed to be

embedded within them. Therefore, it can be concluded that the ISE is an entity which is driven by both social and business objectives according to Islamic principles and values.

As the ISE serves both social and business objectives, its activities also vary. Some social objectives such as welfare, education, humanitarian relief, sport, recreation, health and others can be as part of the ISE social objectives. Additionally, some business objectives such as trading, training, service, recycling and others can also be part of ISE business objectives. Notably, in most cases, social objectives are treated as primary objectives while business objectives serve to support social objectives.

Regardless of differences for both social and business objectives of the ISE, it is believed that these two objectives share similar characteristics. A previous study by Di Domenico et al. (2010) identifies four common characteristics for the SE, which are: (i) revenue generation from trading activities; (ii) aim to achieve social and environmental goals; (iii) generate additional benefits such as social capital and community cohesion; and (iv) closely associated with the target group of the organisation.

Several Islamic principles and values such as *'adala* (social justice), *ihsan* (benevolence), *amanah* (trust), *ikhlas* (sincerity), *rahmah* (compassion) and Islamic accountability are also embedded within Islamic organisations including the ISE (Ali, 2010; Ibrahim & Yaya, 2005; Lewis, 2006; Muhamed et al., 2016). These Islamic principles and values are believed and expected to be practiced within the ISE. Explanation on these Islamic principles and values are as follow:

1. *'Adala* – a principle of cooperating with each other with justice, righteousness and also not exploit others and be exploited by them. *'Adala* is encouraged based on the following verse: “*Indeed, Allah orders justice and good conduct and giving to relatives and forbids immorality and bad conduct and oppression. He admonishes you that perhaps you will be reminded*” (Al-Nahl 16:90).
2. *Ihsan* – a principle of a good behaviour or acts to others' benefits although without any obligation at the same time. *Ihsan* is encouraged based on the following verse: “*And spend in the way of Allah and do*

*not throw [yourselves] with your [own] hands into destruction [by refraining]. And do good; indeed, Allah loves the doers of good”* (Al-Baqarah 2:195).

3. *Amanah* – a form of trust given by Allah to every human and humans need to bear responsible with it. *Amanah* is encouraged based on the following verse: “*Indeed, Allah commands you to render trusts to whom they are due and when you judge between people to judge with justice. Excellent is that which Allah instructs you. Indeed, Allah is ever hearing and seeing”* (An-Nisa’ 4:58).
4. *Ikhlas* – a principle where every act is done ultimately just for Allah without any expectation of compensation or reward. *Ikhlas* is encouraged based on the following verse: “*And they were not commanded except to worship Allah, [being] sincere to Him in religion, inclining to truth, and to establish prayer and to give zakat. And that is the correct religion”* (Al-Bayyinah 98:5).
5. *Rahmah* – a principle that reflects humanity values and concern to others. *Rahmah* is encouraged based on the following verse: “*And We have not sent you, [O Muhammad], except as a mercy to the worlds”* (Al-Anbiya’ 21:107).
6. Islamic accountability is derived from a bond of relationships on both an Islamic organisation and the owner with dual accountability (Ibrahim, 2000; Ibrahim & Yaya, 2005). Dual accountability is derived from *hablum minallah* – accountability to Allah; and *hablum minannas* – accountability among people.

Furthermore, the ISE is also believed to be involved with Islamic charity funds for social activities and Islamic finance for economic activities. There are several types of Islamic charity funds such as *zakat*, *waqf* and *sadaqah*, *hibah* and *qard hasan*. Meanwhile, Islamic finance that are normally used in economic activities are *wadiah*, *wakalah*, *mudharabah*, *murabahah*, *musyarakah*, *bai’ bithaman ajil* and *ijarah* (ISRA, 2011; Htay et al., 2014). Besides, the ISE is also believed to accord with *shariah*-compliant businesses in adherence to *shariah* law.

## **Classification of Social Enterprise (SE)**

It is believed that the SE and ISE can be classified into several categories like other established organisations. As the SE carries both social and business objectives, its formation can be differentiated based on several factors like objective, legal, culture, environment and economic sector. For example, there was a previous study which classified the SE based on objective tendencies or priorities which are: (i) a non-profit organisation with some earned income; (ii) a non-profit organisation or for-profit organisation with the same concerns for social and financial objectives; and (iii) a for-profit organisation with some emphasis on social responsibility (Bielefeld, 2009). In this case, the SE is being classified based on objective tendencies between social and economic objectives.

Previously, Alter (2007) tried to classify the SE based on the organisational structure which consists of: (i) structured internally; (ii) structured as separate entity; and (iii) structured as the same entity. Structured internally refers to when SE is structured as a department or centre for profit for non-profit organisations. Meanwhile, structured as a separate entity is when the SE is established differently into another entity from the same non-profit organisation. Structured as the same entity is when the SE concept is adopted by an original non-profit organisation into their social activities and no changes are made into the organisational form.

In addition, the SE is also can be categorised based on the level of integration between social and business activities (Alter, 2007). There are three categories based on the level of integration between social and economic activities which are: (i) embedded SE; (ii) integrated SE; and (iii) external SE. Embedded SE is a non-profit organisation which has the same social and business activities. In this case, social activities will generate income and both social and economic objectives will be achieved. Meanwhile, an integrated SE is a non-profit organisation which has overlapped between its social and economic activities. In this case, social activities are commercialised into a certain level or other market, or by providing new products or services to existing customers. This will create a synergy by adding values for both social and economic objectives. Next, the external SE is a non-profit organisation which has distinct social and economic activities. In this case, social activities are supported by



receiving funding from economic activities. Normally, economic activities are unrelated to the non-profit organisation's missions and are more likely to act as supporting objectives.

Later, Spear et al. (2009) tried to classify the SE based on organisational type. The SE is classified into four common organisational types which are: (i) mutual business; (ii) trading charities; (iii) public sector-spin off; and (iv) new start SE. Under mutual business, the SE is formed to meet the needs of a particular group of members through trading activities. Meanwhile, under trading charities, the SE is established to meet the charities' primary mission or as a secondary activity to raise funds. Next, public sector-spin off is a situation where the SE takes over the operating of services previously provided by public authorities. Last but not least, a new start SE is a situation where the SE is set up as a new business by social entrepreneurs.

Another study by Nyssens and Defourny (2012) tried to classify the SE into three dimensions which are: (i) economic and entrepreneurship dimension; (ii) social dimension; and (iii) participatory governance dimension. The economic and entrepreneurship dimension, contains a continuous activity producing goods and/or rendering services. In addition, as it is involved with business activities, it also has significant economic risks like private business activities. However, the SE just requires a minimum level of paid workers to run its business activities as its workforce mainly comprises volunteers. The social dimension of the SE, contains explicit aims for community benefits as it is run by non-profit organisations. Besides that, the SE is an initiative run by a group in a community which has limited profit distributions as compared to private entities. From the participatory governance dimension, the SE contains a high degree of autonomy as there are no shareholders acting as its owners. The absence of shareholders causes the decision making process not to be based on capital ownership like private businesses. Furthermore, the decision making process is normally done according to various stakeholders who are affected by the SE activities.

The SE is also can be classified based on cultural and environmental influences. Based on previous studies on SE types in the United Kingdom (UK), United States (US) and other East Asian countries, different organisational types are recognised in each country based on their different cultural and environmental influences. Table 1 below shows the classification of SE in these selected countries.

**Table 1: Classification of Social Enterprise in Selected Countries**

<b>Country</b>	<b>SE Types</b>	<b>Studies</b>
United Kingdom (UK)	Non-profit organisation Cooperative Social firm	Jones & Keogh (2006) Spear et al. (2009)
United States (US)	Non-profit organisation For-profit organisation	Jones & Keogh (2006) Spear et al. (2009)
China	Non-profit organisation Cooperative Company	Defourny & Kim (2011) Yu (2011) Yu (2013)
South Korea	Company Non-profit organisation Association Foundation Cooperative	Bidet & Eum (2011) Defourny & Kim (2011)
Japan	Non-profit organisation Cooperative Profit organisation	Defourny & Kim (2011) Laratta et al. (2011)
Hong Kong and Taiwan	Non-profit organisation Cooperative Company	Chan et al. (2011) Defourny & Kim (2011)

Based on Table 1, the SE in UK is classified into three types which are: (i) non-profit organisation; (ii) cooperative; and (iii) social firm. SE under the non-profit organisation type is normally related with community engagements. It can be formed into various types like philanthropic, religion-based institutions, sports clubs, associations, foundations and others. Meanwhile, the SE under the cooperative type basically is governed by a group of members. On the other hand, the SE under the social firm type is more into company types. This includes Community Interest Company (CIC) and Limited Liability Company (LLC).

Meanwhile, the SE in US is classified into: (i) non-profit organisation; and (ii) for-profit organisation. In US, the SE is dominated by the non-profit organisation type especially for those registered as 501(c)(3) tax-exempt organisations with the United States Internal Revenue Service. Some non-profit organisation formations under this type are religious, educational, charitable, scientific, literary, testing for public safety, to foster national or international amateur sports competition, or prevention of cruelty to children or animal organisations. Meanwhile, the SE under for-profit organisation

can be divided into sole proprietorship, partnership, corporation and LLC. These company formations are similar with a normal business company type. However, the difference between SE under the for-profit organisation and the normal business company type is the SE under the for-profit organisation type has additional social objectives rather than just business objectives in general.

Next, the SE in China is classified into three types which are: (i) non-profit organisation; (ii) cooperative; and (iii) company. This identification is due to the ownership pattern in China. The SE under the non-profit organisation type is based on three formations which are civilian-run non-enterprise units, civilian-run educational institutions and social organisations. The SE under the non-profit organisation type is normally based on government-supervised organisation, which is operating closely under government supervision (quasi government owned). Meanwhile, the SE under the cooperative type is based on member-regulated and not subject to close supervision by government agencies. Unlike common company formations in other countries such as American and European countries, company formation in China is primarily owned by investors who face no legislative constraints on the ownership rights of shareholders to control the organisation and distribution of the profit. The SE under the company type is normally shareholder-controlled which are controlled by shareholders and managers and free from direct state influence.

Moving on, the SE in South Korea is classified into five types which are: (i) company; (ii) non-profit organisation; (iii) association; (iv) foundation; and (v) cooperative. In South Korea, the SE is mostly based on company organisational form especially under LLC's type. This is due to the easy set up process compared to other forms that are subject to stringent regulations. Besides, the SE in South Korea can be found in various sectors such as manufacturing, social services, retail and wholesale, education and research, environment, culture and recreation and health.

Next, the SE in Japan is classified into three types which are: (i) non-profit organisation; (ii) cooperative; and (iii) profit organisation. Earlier, Japan restricts its registration process for the establishment of non-profit organisation and cooperative organisations. This is due to a special treatment embedded with these organisations such as tax-exemption. However, after

the enactment of the Specified Non-profit Activities Promotion Law in 1998, registration for these types of organisations was made easier and as a result, the SE entity is majority based on these non-profit organisation and cooperative types.

Finally, the SE in Hong Kong and Taiwan can be classified into three types which are: (i) non-profit organisation; (ii) cooperative; and (iii) company. These organisational types can be translated into three broad category models which are: (i) employment-oriented initiatives; (ii) empowerment-oriented initiatives; and (iii) business-oriented initiatives. Employment-oriented initiatives refer to hiring disadvantaged groups such as single mothers and disabled people. Empowerment-oriented initiatives focus on community or group support toward community development. Business-oriented initiatives refer to providing products and services for the community and it can be formed into a joint venture with the private sector with shared ownership and governance.

Based on the classification on SE types at these selected countries, it can be concluded that the SE also can be classified into economic sectors. In this case, most of the SE in the selected countries are established either in public, private or non-profit sectors. In addition, it is also concluded that the local environment and culture also gives a significant impact in forming the classification of the SE. Besides, there is also an argument that the SE can be classified under the new economic sector as compared to other three existing economic sectors. In this new sector, the SE adopts some of the elements and characteristics from the previous three economic sectors. From the private sector, several elements and characteristics have been derived such as social responsible investment, corporate philanthropy, social auditing, stakeholder accountability, ethics, company social responsibility (CSR), community relation and cause-related marketing. While, from the public and non-profit sectors, several elements and characteristics shifted into the SE as the fourth sector which are accountability, transparency, effectiveness, privatisations, social investing, measurable impact, social sustainability, market discipline and new public management (Feiss, 2009; Sabeti, 2009).

Therefore, it is believed that SEs and ISEs in Malaysia can also be classified based on economic sectors, specifying by recognising from the legal establishment of the SE and ISE itself. These findings and arguments

reinforce the objective of this study which is to classify the ISE in Malaysia based on economic sectors.

## **METHODOLOGY**

This research aimed to classify the ISE in Malaysia based on economic sectors. Currently, there is no specific classification on the SE and ISE in Malaysia. In addition, there is also no specific authorised database or source that can be considered as the SE and ISE in Malaysia (Zainon et al., 2014). There is no authority responsible for SE and ISE registration and monitoring processes in Malaysia. Consequently, there are limited studies that have been conducted on SE and ISE in Malaysia. For example, there was a previous study on SE in Malaysia conducted by Sarman et al. (2015) that used the Social Enterprise Alliance (SEA) database that was developed by public initiatives, but it is still limited to only about 30 SEs in Malaysia registered in this database. In addition, this database is also incomplete and there are no specific characteristics highlighted in classifying the SE.

Therefore, this study recognised any established entity that adopted the SE concept, which is a combination of both social and economic activities as a SE. Meanwhile, to differentiate between a SE and a ISE, this study recognised any SE that was involved with Islamic charity funds for social activities and Islamic finance for economic activities as a ISE. For Islamic charity funds, there are several types of Islamic charity funds such as zakat, waqf and sadaqah, hibah and qard hasan. Meanwhile, Islamic finance that are normally used by Islamic organisations are wadiah, wakalah, mudharabah, murabahah, musyarakah, bai' bithaman ajil and ijarah (ISRA, 2011; Htay et al., 2014). Besides, as for economic activities, the ISE is also believed to be involved with shariah-compliant businesses as part of the shariah law.

As this research focused on the classification of the ISE based on economic sectors, professional documents and comprehensive literature were reviewed especially on the legal establishment of the selected ISEs in Malaysia. This is to ensure that this study can classify the selected ISEs in Malaysia based on economic sectors whether in public, private or non-profit sectors, specifying based on their legal establishment.

## RESULTS AND DISCUSSION

### Islamic Social Enterprises (ISE) in the Public Sector in Malaysia

In general, the public sector consists of governments and all publicly controlled or publicly funded agencies, enterprises and other entities that deliver public programs, goods or services (IIA, 2011). Currently, organisations in the public sector can be categorised into four levels which are: (i) international level; (ii) national level; (iii) region/state level; and (iv) local level. Besides, organisations in public sector are also can be categorised into three types which are: (i) core government; (ii) agencies; and (iii) public enterprises.

The core government consists of the governing body which is defined as the territorial authority. The core government includes all departments, ministries and others that are accountable to report to the central authority such as the legislature, the cabinet, the parliament and head of state. Agencies consist of public organisations that are part of the government and carry out government programs and activities. Meanwhile, the public enterprise consists of entities that deliver public activities and programs but operate independently.

In Malaysia, the public sector is clearly stated in the Article 132 of the Federal Constitution which stipulates that the public sector shall consist of the federal and state public service, the joint public services, the education service, the judiciary and the legal service and the armed forces. Besides that, local authorities, statutory bodies and public councils are also embedded under the public sector. There are also business entities owned by the government known as government linked companies (GLC). All public organisation types under the public sector aim to maximise public welfare including ISE. Three ISEs that can be classified under the public sector in Malaysia, as follows:

#### **ISE 1: Amanah Ikhtiar Malaysia (AIM)**

Amanah Ikhtiar Malaysia (AIM) is a private trust body that was established on September 17, 1987. The establishment of AIM is through the AIM Treaty instrument and is registered under the Trustees (Incorporation)

Act 1952 (Amended 1981). AIM is intended to reduce poverty among poor households and those in the low income group in Malaysia by providing micro-credit financing to fund activities that can enhance and increase revenues (AIM, 2017). Micro-credit schemes introduced by AIM are based on the *qard hasan* principle, which is one Islamic charity fund type.

AIM is governed by the board of trustees and led by the chairman of the board of trustees. Its operations are run by a management team led by a managing director. AIM commenced its operation based on the success story of the Ikhtiar Project. This project was led by Professor David S. Gibbons and Professor Sukor Kasim with the aim to test micro-credit financing schemes with a close supervision approach. This scheme offers the poor to undertake any economic activity based on their skills that subsequently can support their family income (AIM, 2017).

AIM is driven by a social objective as its main objective. Besides, it also has business objectives to support its main social objective. This has been done by the establishment of Koperasi AIM Berhad. Koperasi AIM Berhad is a cooperative owned by AIM located at Kuala Lumpur. Koperasi AIM Berhad runs various business activities such as investment and real estate development, farming, agriculture and agro-based industries and tourism/ hospitality and service agencies. Revenue from Koperasi AIM Berhad's sales are then utilised to support *sahabat* (member) community social activities. These contributions are mostly contributed by the *sahabat* community (AIM, 2017).

## **ISE 2: Yayasan Wakaf Malaysia (YWM)**

Yayasan Wakaf Malaysia (YWM) is a national charitable entity. It was inaugurated on July 23, 2008 under the Trustee (Incorporation) Act 1952 by the Department of *Awqaf, Zakat and Hajj* (JAWHAR). Located at Putrajaya, its main objective is to build and develop *waqf* property throughout the country for the benefit especially to the Muslim community in Malaysia (YWM, 2017). It focuses on *waqf* funds which is one type of Islamic charity fund.

YWM is governed by the board of trustees and led by the chairman, which is the Minister in the Prime Minister's religion portfolio. Meanwhile, the General Director of JAWHAR acts as the deputy chairman of YWM.

Other members of the board of trustees are one representative from each of the state Islamic Council, one representative from the Ministry of Finance, one representative from the Economic Planning Unit (EPU) and other three representatives are from the corporate sector (YWM, 2017). The board of trustees is responsible to approve various projects and programs by using *waqf* funds.

YWM is driven by a social objective as its main objective. Besides, it also has business objectives to support its main social objective. Among the business activities conducted by YWM are the Terengganu Culinary Academy and three branches of hotels which are Hotel Seri Warisan located at Perak, Hotel Pantai Puteri located at Malacca and Hotel Grand Puteri located in Terengganu (YWM, 2017). These business activities play an important role to support sustainability of the YWM in delivering its objectives and mission.

### **ISE 3: Tabung Haji (TH)**

Tabung Haji (TH) started with the name of Lembaga Urusan Tabung Haji in 1969 under the Act 8, Lembaga Urusan dan Tabung Haji Act of 1969. However, since August 28, 1997, it has been rebranded as TH after a new act was released with is the Tabung Haji Act of 1995. The purpose of this organisation is to render services to Malaysian pilgrims in the *Hajj* affairs and to provide maximum returns to the depositors of TH. It focuses on *wadiah* (deposit) funds which is one type of Islamic charity fund (TH, 2017).

TH is governed by the board of directors (BOD) and led by a chairman. Other members of the BOD comprise of the group managing director/chief executive officer (CEO), one representative from the Ministry of Finance, one representative from the Prime Minister's Department and other six representatives from various sectors (TH, 2017). The BOD is responsible to approve various projects and programs by using *wadiah* funds.

TH is driven by a social objective as its main objective. Besides, it also has business objectives to support its main social objective. Among business activities conducted by TH are investments in shares and equity for various business portfolios, TH Properties (Shell Business Service Centre, Bangsar South, Platinum Park, chain of TH Hotels and TH Convention Centre), TH



Plantations Berhad, BIMB Holdings Berhad, TH Marine Sdn. Bhd, TH Heavy Engineering Berhad, TH Alam Holdings (L) Inc (TH, 2017). These business activities play an important role to support the sustainability of TH in delivering its objectives and mission to the stakeholders.

Based on these three ISEs discussed under the public sector in Malaysia, the following Table 2 summarises the characteristics for these ISEs, which are:

**Table 2: Summary of ISE Characteristics under Public Sector in Malaysia**

	<b>Amanah Ikhtiar Malaysia (AIM)</b>	<b>Yayasan Wakaf Malaysia (YWM)</b>	<b>Tabung Haji (TH)</b>
Legal Establishment	Incorporated on September 17, 1987. Registered as a trust body. Bind with the Trustees (Incorporation) Act 1952 (Amended 1981).	Inaugurated on July 23, 2008. Registered as a trust body by the Department of Awqaf, Zakat and Hajj (JAWHAR). Bind with the Trustee (Incorporation) Act 1952 (Amended 1981).	Incorporated in 1969 and rebranding into TH in August 28, 1997. Registered as a trust body. Bind with Tabung Haji Act of 1995 (previously known as the Lembaga Urusan dan Tabung Haji Act of 1969).
Social Objectives	To reduce poverty among poor households and low income in Malaysia by providing micro-credit financing to fund activities that can enhance and increase revenues.	To build and develop the waqf property throughout the country for the benefits especially to Muslim community in Malaysia.	To render services to Malaysian pilgrims in the Hajj affairs and to give maximum returns to the depositors of TH.
Economic Activities	Koperasi AIM Berhad - investment and real estate development, farming, agriculture and agro-based industries and tourism/hospitality and service agencies.	Terengganu Culinary Academy. Three branches of waqf hotels which are Hotel Seri Warisan located at Perak, Hotel Pantai Puteri located at Malacca and Hotel Grand Puteri located at Terengganu.	Investments in shares and equity for multi-discipline business portfolios such as TH Properties (Shell Business Service Centre, Bangsar South, Platinum Park, chain of TH Hotels and TH Convention Centre), TH Plantations Berhad, BIMB Holdings Berhad, TH Marine Sdn. Bhd, TH Heavy Engineering Berhad, TH Alam Holdings (L) Inc.

<p><b>Islamic Practices</b></p>	<p>Micro-credit financing provided is based on qard hasan (zero interest loan). Governed by Muslim group as its board members. Beneficiaries and members are mostly Muslims.</p>	<p>Involved with waqf funds. Governed by Muslim group as its board members. Beneficiaries are mostly Muslims.</p>	<p>Involved with wadiah (deposit) and issuing sukuk (Islamic bond). Governed by Muslim group as its board members. Beneficiaries and depositors are mostly Muslims.</p>
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Based on Table 2, it can be concluded that ISEs under the public sector share a similar legal establishment as government agencies under specific Acts. Besides, social objectives of ISEs are in line with the public-sector objective, which is to maximise public welfare. Furthermore, ISEs are also involved with economic activities to support their social objectives. Moreover, there is an involvement with Islamic charity funds and its beneficiaries are mostly Muslims. Thus, it can be concluded that ISEs exist in the public sector and have similar public characteristics as shown by ISE 1, ISE 2 and ISE 3 above.

### **Islamic Social Enterprise (ISE) in the Private Sector in Malaysia**

The private sector or known as the business sector consists of private and all individuals or groups of companies, enterprises, organisations and other entities that operate with maximisation profit as their main objective (UNDP, 2012). The private sector covers various economic fields such as manufacturing, property, financial services, plantation, telecommunication, retailing and others.

In general, private organisations in Malaysia can be classified into six categories which are: (i) sole proprietorship; (ii) partnership; (iii) limited liability partnership; (iv) private limited company (Sdn Bhd); (v) public limited company (Berhad); and (6) foreign company. All these types are legally bind either with the Companies Act, 1965 (Amended 2016) or the Limited Liability Partnership Act 2012. All private organisations under the private sector aim to maximise profits by generation of revenue. Although SE does not primarily aim for business objectives, it still generates revenue to support its primary objectives which is social objectives. Discussed below are two ISEs that can be classified under the private sector in Malaysia.

#### **ISE 4: Rumah Pengasih Warga Prihatin (RPWP)**

Rumah Pengasih Warga Prihatin (RPWP) was established in 2006 and it was launched by Tuan Haji Zainal Abidin on January 20, 2007 located at Selangor. The organisation serves as a shelter for orphans, senior citizens, disabled and the poor. Besides, RPWP also provides reformatory and rehabilitation for problematic kids and drug-addicts (RPWP, 2017). It focuses on *sadaqah*, *waqf*, *infak* and *hibah* funds which are part of the Islamic charity funds.

In partnership, RPWP is governed by 20 founder partners who are led by Dr. Masjuki Mohd Musuari. They are responsible for administering and supervising all projects and programs in RPWP. Despite the fact that these 20 founder partners come from various backgrounds, it does not stop them to work hand in hand towards a similar mission, which is to build a family with Islamic values like the 'Imran family' as stated in the Quran (RPWP, 2017).

RPWP is driven by social objective as its main objective. Besides, it also has business objectives to support its main social objective. Among the business activities conducted by RPWP are the Prihatin Garage and Workshop, Prihatin Services (event management, vehicle management) and trading of goods gathered from *hibah* and *waqf* activities. These business activities play an important role to support the sustainability of RPWP in delivering its objectives and mission (RPWP, 2017).

#### **ISE 5: Al-Baghdadi Group Sdn Bhd (ABG)**

The Al-Baghdadi Group Sdn Bhd (ABG) was established in 2009 and located at Batu Caves, Selangor. ABG is established as private limited company (Sdn Bhd), registered with the Companies Commission of Malaysia (CCM) and bound under the Companies Act 1965 (Amended 2016). The purpose of this organisation is to provide Al-Quran teaching for Muslims (ABG, 2018).

ABG is led by its founder, Ustaz Jalaluddin Haji Hassanuddin. As a private entity, the founder is responsible to monitor all of its projects and programs. Besides, he is supported by the top management which consists of three head of departments which are: (i) Head of Operations; (ii) Head of Strategic Development and (iii) Head of Information. ABG provides a

number of services focusing on teachings in the Al-Quran such as the Al-Baghdadi Learning Centre (ALC), Al-Baghdadi Playtime Centre (APC), Al-Baghdadi Prenatal Education Program Centre (APeP), Nadi Al-Baghdadi Centre (NAC), Al-Baghdadi Childcare Centre (ACC) and Sekolah Rendah Islam Al-Baghdadi (SRI Al-Baghdadi). These services use the franchise system where ABG offers these franchise programs to Muslim entrepreneurs who are interested to run ABG programs (ABG, 2018).

ABG is driven by a social objective as its main objective where it aims to become a leader in providing Al-Quran teaching for the public especially the Muslim community. Based on this objective, they offer free Al-Quran teaching for orphanages, native people and *muallaf* (a person who is officially converted to Islam). Other than these three target groups, they provide Al-Quran teaching with affordable fees in order to support their main social objective. In addition, many Muslim entrepreneurs have benefited through the franchise programs held under the Al-Baghdadi branding. These business activities play an important role to support the sustainability of ABG in delivering its objectives and mission.

Based on these two examples of ISEs under the private sector in Malaysia, the following Table 3 summarises the characteristics for these ISEs.

**Table 3: Summary of ISE Characteristics under Private Sector in Malaysia**

	<b>Rumah Pengasih Warga Prihatin (RPWP)</b>	<b>Al Baghdadi Group Sdn Bhd (ABG)</b>
<b>Legal Establishment</b>	Incorporated in 2006 and launched on January 20, 2007. Registered as a partnership business with the Company Commission of Malaysia (CCM). Bind with the Companies Act 1965 (Amended 2016).	Established in 2009 at Batu Caves, Selangor. Registered as a private limited company (Sdn Bhd) with the Company Commission of Malaysia (CCM). Bind with the Companies Act 1965 (Amended 2016).
<b>Social Objectives</b>	To provide shelter for orphans, seniors, disables and poor and also provide reformatory and rehabilitation for problematic kids and drug-addicts.	To provide Al-Quran teaching especially for Muslims – free Al-Quran teaching for orphanages, native people and <i>muallaf</i> .

<b>Economic Activities</b>	Prihatin Garage and Workshop, Prihatin Service (event management, vehicle management) and trading.	Al-Baghdadi Learning Centre (ALC), Al-Baghdadi Playtime Centre (APC), Al-Baghdadi Prenatal Education Program Centre (APeP), Nadi Al-Baghdadi Centre (NAC), Al-Baghdadi Childcare Centre (ACC) and Sekolah Rendah Islam Al-Baghdadi (SRI Al-Baghdadi).
<b>Islamic Practices</b>	Involved with <i>sadaqah</i> , <i>waqf</i> , <i>infak</i> and <i>hibah</i> funds. Governed by a Muslim group as its founder partners. Beneficiaries are mostly Muslims.	Owned by a Muslim (founder) and runs by a number of Muslim entrepreneurs. Beneficiaries are mostly Muslims.

Based on Table 3, it can be concluded that ISEs under the private sector share the similar legal establishment as private entities under the Companies Act 1965 (Amended 2016) or the Limited Liability Partnership Act 2012. Besides, the social objectives driven by ISEs under the private sector are also proven when they provide products and services for the needy. Furthermore, they also have economic activities to support their social objectives. Moreover, there is an involvement with Islamic charity funds and its beneficiaries are mostly Muslims. Thus, it can be concluded that ISEs exist in the private sector and have similar private characteristics as shown by ISE 4 and ISE 5 above.

### **Islamic Social Enterprise (ISE) in Non-Profit Sector in Malaysia**

The non-profit sector consists of civic and all social organisations, institutions, agencies and other entities apart from the public and private sectors (Frumkin, 2005). Non-profit sector organisations or known as non-profit organisations (NPO) a term that is generally used widely especially in explaining the noble work by an organisation in helping others. Anheier (2005) identified four terms that are synonyms for the NPO which charity are, philanthropy, volunteering and giving. Charity is a practice that can be found in all major world cultures and religions. Meanwhile, philanthropy is a practice of ‘love to humanity’ that has been translated into an action to help others. Volunteering is a donation in term of time and labour force dedicated to a community and benefits the public. While, giving is a donation

in terms of money and in-kind goods dedicated to the community and for public benefit.

The United Nations (2003) in its *Handbook on Non-Profit Institutions in the System of National Accounts* states that NPO consists of private foundations including corporate foundations, community foundations and independent public-law foundations. In fact, the non-profit sector itself consists of various organisations such as museums, schools, universities, research institutes, health organisations, human services, environmental and natural resources, human right organisations, religious organisations, foundations, special interest associations and sport clubs. These organisations share a similar interest which is to serve others.

In general, NPO in Malaysia can be classified into four main categories which are: (i) societies; (ii) associations; (iii) foundations; and (iv) company limited by guarantees (CLBG). These different categories are based on legal a perspective where these NPOs are bound by different regulations under the Trustee (Incorporation) Act 1952, the Companies Act 1965 (Amended 2016), the Societies Act 1966 or the States Enactment.

In Malaysia NPOs with a revenue or collection of more than RM1 million per year normally are registered as CLBG under the Companies Commission of Malaysia (CCM). This CLBG category is legally bound by the Companies Act of 1965 (Amended 2016). For a NPO with a revenue of less than RM1 million per year, it can be registered either as an association or society under the Registry of Societies Malaysia (ROS). These NPOs categories are legally bound by the Societies Act of 1966. There is also a foundation form of NPO which is set up mostly by public companies or wealthy philanthropists as part of their corporate social responsibility (CSR). This foundation category is legally bound by the Trustee (Incorporation) Act 1952.

For more specification types, each NPO category can also be classified into a few categorical types based on their objectives, activities and programs. There are political, recreation, social, trade, industry, arts and cultural, science, religion, welfare, pension schemes, professional, and others more which benefit society and the community at large such as health, environment, education, research, social and sports. Discussed below are three ISEs that can be classified under the non-profit sector in Malaysia.

### **ISE 6: Waqf An-Nur Corporation Berhad (WANCorp)**

The Waqf An-Nur Corporation Berhad (WANCorp) began with the name Waqf Clinical Management An-Nur Berhad on October 25, 2000. At that time, WANCorp only managed the KPJ Healthcare Berhad's waqf clinics and dialysis centres which are also part of the Johor Corporation Group of Companies (JCorp). However, since May 18, 2009, it has been restructured to become WANCorp. WANCorp is a Company Limited by Guarantee (CLBG), registered with the Company Commission of Malaysia (CCM) and bound under the Companies Act 1965 (Amended 2016). The purpose of this organisation is to manage waqf shares from JCorp and its revenue from waqf shares are distributed for social benefits (WANCorp, 2017).

WANCorp is governed by the board of directors (BOD) and led by JCorp's CEO as its president. The BOD is responsible to govern all projects and programs of the WANCorp. The BOD is also responsible to grant approvals for the distribution of revenue from waqf shares in various projects and programs such as chain of Waqf An-Nur Hospitals, chain of Waqf An-Nur Clinics, chain of Waqf An-Nur Mosques, Waqf Dana Niaga, Waqf Brigade and Waqf Community Centre. Besides that, another Islamic charity fund used is qard hasan. The Qard hasan principle has been used in Waqf Dana Niaga under the micro-credit financing scheme and has benefited for more than 300 Muslim entrepreneurs (WANCorp, 2017).

WANCorp is driven by a social objective as its main objective. Besides, it also has business objectives to support its main social objective. Among business activities conducted by WANCorp are investment on waqf shares in JCorp and its subsidiaries. This business activity plays an important role to support the sustainability of the WANCorp in delivering its objectives and mission.

### **ISE 7: Dewan Perdagangan Islam Malaysia (DPIM)**

Dewan Perdagangan Islam Malaysia (DPIM) was officially established in 1993 under the Societies Act 1966 and is in Kuala Lumpur. The purpose of this organisation is to gather Muslim businessmen and entrepreneurs for the sake of Islam and economic benefits. Its main goal is to improve the trading industry with an extensive involvement of the Muslim community to uplift the standard and sustainability of the economic success of the Muslim community (DPIM, 2017).

Since its inception, DPIM has been successfully helping its members in strengthening their business by integration of its various members' expertise and knowledge. DPIM is run by the DPIM council that is led by its president. The DPIM council is responsible to govern all the programs and activities of the DPIM. DPIM has 14 branches where each branch is located at each state in Malaysia. In operating its activities and programs, the DPIM gathers funds mainly from members' fees. The most popular activity held is Rakan Jihad Bisnes (RJB). RJB is an organisation program of business networking that is systematic and structured for its fellow members. It instills the concept of community, the spirit of helping each other, discipline and transactions that meet the *shariah* principles (DPIM, 2017).

DPIM is driven by a social objective as its main objective. Besides, it also has business objectives to support its main social objective. This has been done by the establishment of *Awqaf* Holding Berhad (AWQAF). AWQAF is responsible to collect *waqf* funds from corporate entities and the public to build Corporate *Waqf* Park at Putrajaya. This Corporate *Waqf* Park consists of *waqf* buildings that can be used for commercialization of Islamic business and at the same time to support community activities (DPIM, 2017). This business activity plays an important role to support sustainability of DPIM in delivering its objectives and mission.

### **ISE 8: Islamic Relief Malaysia (IRM)**

Islamic Relief Malaysia (IRM) was incorporated on June 25, 2004 as a Company Limited by Guarantee (CLBG) under the Companies Commission of Malaysia (CCM). Located at Selangor, IRM was launched by the Prime Minister of Malaysia – YABhg Tun Dr Mahathir Mohamed on May 3, 2005 at Kuala Lumpur. The purpose of this organisation is to continue Islamic Relief (IR) humanitarian aid in the Asia-Pacific region (IRM, 2017). It focuses on collecting and managing *sadaqah*, *zakat*, *hibah* and *infak* funds which are part of the Islamic charity funds.

IRM is governed by the board of directors (BOD). The BOD members are appointed by the Islamic Relief Worldwide (IRW), the headquarters that act as a parent for all Islamic Relief (IR) branches around the world including IRM. Meanwhile, the operation of IRM is done by the management led by the country director. It has various activities and programs such as Help My Masjid Relief, Gift of Hope, Desa Lestari, Ramadhan Care for Hunger and



the well-known project is mySEDEKAH. MySEDEKAH is a fundraising project that has raised funds and distributed relief and aid to more than nine million beneficiaries all over the world including local beneficiaries (IRM, 2017).

IRM is driven by social objectives as its main objective. Besides, it also has business objectives to supports its main social objective. This has been done by the establishment of the Charity Shoppe IRM. The Charity Shoppe IRM is a charity shop owned by IRM located in Selangor. The Charity Shoppe concept refers to used items or second hand best items sold at discounted prices to the public. All items sold at the Charity Shoppe are contributions from the public. Revenues from the Charity Shoppe sales are then used to support IRM social activities (IRM, 2017). This business activity plays an important role to support the sustainability of IRM in delivering its objectives and mission.

Based on these three examples of ISEs under the non-profit sector in Malaysia, the following Table 4 summarises the characteristics.

**Table 4: Summary of ISE Characteristics under Non-Profit Sector in Malaysia**

	<b>Waqaf An-Nur Corporation Berhad (WANCorp)</b>	<b>Dewan Perdagangan Islam Malaysia (DPIM)</b>	<b>Islamic Relief Malaysia (IRM)</b>
Legal Establishment	Incorporated on October 25, 2000 and restructured to become WANCorp on May 18, 2009. Registered as a Company Limited by Guarantee (CLBG) with the Company Commission of Malaysia (CCM). Bind with the Companies Act 1965 (Amended 2016).	Officially established in 1993. Registered as a society body with the Registry of Society (ROS). Bind with the Societies Act 1966.	Incorporated on June 25, 2004. Registered as a Company Limited by Guarantee (CLBG) with the Companies Commission of Malaysia (CCM). Bind with the Companies Act 1965 (Amended 2016).
Social Objectives	To manage waqf shares from JCorp and its revenue from waqf shares being distributed for social benefits.	To build and develop the waqf property throughout the country for the benefits especially to Muslim community in Malaysia.	To continue Islamic Relief's (IR) humanitarian aid in the Asia-Pacific region.

Economic Activities	Chain of Waqf An-Nur Hospitals, chain of Waqf An-Nur Clinics, chain of Waqf An-Nur Mosques Waqf Dana Niaga, Waqf Brigade and Waqf Community Centre.	Awqaf Holding Berhad (AWQAF) - build Corporate Waqf Park - waqf buildings that can be used for commercialization Islamic business and at the same time to support community activities.	Charity Shoppe IRM concept - used items or second hand best items that is being sold at the discounted price.
Islamic Practices	Involved with investment on waqf shares in JCorp and its subsidiaries.  Waqf Dana Niaga hasan micro-credit financing scheme for Islamic entrepreneurs Governed by a Muslim group as its board members. Beneficiaries and members are mostly Muslims.	Involved with waqf funds Governed by a Muslim group as its board members.  Beneficiaries are mostly Muslims.	Involved with sadaqah, zakat, hibah and infak funds.  Governed by a Muslim group as its board members. Beneficiaries and members are mostly Muslims.

Based on Table 4, it can be concluded that ISEs under the non-profit sector share a similar legal establishment as a non-profit entity such as CLBG and society body. As non-profit entity, social activities conducted by the ISEs under the non-profit sector are becoming the main objectives of the entity. In addition, these three ISEs portray that they have established a controlled entity(s) to run economic activities to support their social objectives and their existence. Furthermore, there is a proof of involvement with Islamic charity funds and its beneficiaries are mostly Muslims. Thus, it can be concluded that ISEs exist in the non-profit sector and have similar non-profit characteristics as shown by ISE 6, ISE 7 and ISE 8 above.

## CONCLUSION

In a nutshell, this study has discussed and recognised ISE as an organisation that combines both social and economic objectives with Islamic principles and values. In this case, several Islamic values such as worship or obedience to Allah, operates based on Islamic teachings or known as *shariah* principles have been included in the definition of ISE. Besides, ISE is also believed

to be embedded with Islamic values such as *'adala* (social justice), *ihsan* (benevolence), *amanah* (custodianship), *ikhlas* (sincerity), *rahmah* (compassion) and Islamic accountability. Moreover, each ISE discussed in this study are also involved with various types of Islamic charity funds and its economic activities are conducted in accordance to *shariah*-compliant principles.

Besides, previous studies have shown different classifications for SE such as objective tendencies or priorities, organisational structure, level of integration between social and business activities, organisational types, dimensions and culture and environment influences. However, these classifications conclude into a fact that SE and ISE have been established whether in public, private or non-profit sector. Thus, this study proposes to classify ISEs in Malaysia based on all three economic sectors identified which are public, private and non-profit sector.

To support such classifications for ISEs in the Malaysian context, eight ISEs were discussed. Under the public sector, Amanah Ikhtiar Malaysia (AIM), Yayasan Waqaf Malaysia (YWM) and Tabung Haji (YH) were explained. Meanwhile, under the private sector, Rumah Pengasih Warga Prihatin (RPWP) and Al-Baghdadi Group Sdn Bhd (ABG) were elaborated. While, under the non-profit sector, Waqaf An-Nur Corporation Berhad (WANCorp), Dewan Perdagangan Islam Malaysia (DPIM) and the Islamic Relief Malaysia (IRM) were explored.

This study has laid the groundwork for several strands for future research. Since this study is based on ISEs in Malaysia, it may not be precise to portray that other ISEs around the world will have the same characteristics as in the Malaysian context. Moreover, this study only focuses on eight ISEs in Malaysia. Other ISEs and SEs in Malaysia can also potentially be researched in the future. Future studies could also propose other types of classification for ISEs which may focus on its management style or strategic orientations.

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