

HUMAN GOVERNANCE INDEX OF MANUFACTURING SECTOR OF SHARIAH COMPLIANT COMPANIES IN MALAYSIA: A PRELIMINARY ANALYSIS

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ABSTRACT – Human Governance refers to the governors' commitment to improve employees' values and ethical behaviour in the organization. Humans are capital asset and key driver to a successful organisation. The objectives of the study are to explain the development of human governance index and discuss the findings of human governance index when applied to 68 Shariah-compliant companies in the manufacturing sector. Previous study used primary and secondary data. Thus, this study will combine the indices of Human Governance from previous study and will develop a more comprehensive checklist using secondary data. Human Governance Index of this study comprises 37 items which are made up of four (4) main components which are (1) BOD Leadership - which is measured by i) BOD Job Experience Index, (ii) BOD Educational Background Index, (iii) BOD Educational Level Index, (iv) BOD Age Index, (v) BOD Gender Diversity Index; (2) Level of Integrity Index; (3) BOD Quantity of Training Index; and (4) Quality of Internal Control System Index. The index has been validated by panel experts and inter-rater consistency was also conducted. The index was then used to measure the Human Governance Index of 68 Shariah-compliant companies' annual reports for the year 2019. 68 Shariah-compliant companies are from manufacturing companies which comprise 25 consumer products, 3 healthcare, and 40 industrial products. The results of this study revealed that consumer product sector has the highest items compared to industrial product and healthcare sectors. BOD job experience index has the highest mean of 92.9% indicates that BOD has more than 10 years' experience and BOD gender diversity index has the lowest mean of 17.6% which comprises female. Human governance Index can be used to assist companies to improve their human capital who are important assets to the company and have been proven to increase performance of companies if they are better managed.

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INTRODUCTION

There has been an increase in public awareness about the role of companies in social and environmental issues over the last few decades. Globally, as the global economy becomes increasingly integrated, companies have been facing more pressure to disclose their corporate social responsibility information (Li et al, 2011). Therefore, the quality of the information provided by companies in their annual reports has attracted great attention among regulators and market participants around the world.

According to Wibowo (2012), for emerging economies, disclosure in the annual report is one of the challenges faced by companies. Investors and creditors are interested to view the disclosure of employee information and social responsibility and are not solely interested to evaluate the liquidity, profitability, and financial conditions of the company (Bhasin, 2012) in guiding them to make the appropriate decisions. Barnes and Spangenburg (2018) found that when managers make poor decisions and make changes that may have an impact on employees' responsibilities and tasks, they will undervalue employees' contributions, skills, or talents. It demonstrates how the failure of leaders to make a decision for the company has an impact on their employees. Therefore, disclosure of corporate social responsibility (CSR) has become a strategic agenda for all businesses in the early years.

Governance is an important element in achieving higher organizational performance. According to Abdullah et al. (2020), Human Governance (HG) should be prioritised in management compared to other forms of governance as the implementation is related to ethical behaviour in the company. The concept of HG is different than the concept of Corporate Governance (CG) as HG focuses on and is closely connected to employees by establishing quality values in them through ethics, moral conduct, and behaviour compared to CG that is focusing on the process, policies, and other factors (Abdullah et al., 2020). HG can result in beneficial relationships for the company. It can be used to address CG failure or as a form of corporate control. CG focuses on external regulations intended to regulate the company's operations (Hanapiyah et al., 2016). As a result, HG is required to strengthen corporate governance to prevent failure, specifically in

terms of humanity. Furthermore, the development of the HG index is complementing the existing board governance index as established by prior literature such as by Shaukat and Trojanowski (2018) who constructed a board governance index and find a positive association with firm operating performance. The success of the index approach in governance performance studies highlighted that the current study can fill in the gap in the literature by developing the HG index to potentially capture the overall strength of a particular aspect of governance such as the Board of director (BOD) integrity, BOD training, BOD qualification better which have an impact on ethics and value. Previous studies used primary and secondary data to measure HG. Hanapiyah et al. (2016) used a questionnaire to measure HG while Ting et al. (2014), Said et al. (2018), Chebbia et al. (2020), Jamil et al. (2020), Hashim et al. (2020), and Setiawan and Djajadikerta (2017) used secondary data to measure HG dimensions. Thus, this study combines all dimensions of HG from previous studies and used secondary data to measure HG while only focusing on Shariah-compliant manufacturing companies.

HG includes the traits of value, religion, belief system, culture, and ethics as it can help to improve the company's practices in order to achieve its objectives. Salleh and Ahmad (2010) found that a more comprehensive governance framework will be put in place as a result of the HG approach as ethical conduct was originally intended to be in the realm of all professions in order to produce value and protect sustainability. Hanapiyah et al. (2016) and Laverock (2016) found that HG can also help to add value to an employee in the organization and able to maximize company value as a successful organization that comes from a valuable employee that has high ethics and integrity. Husain (2020) found that to maintain and protect the interest of members of any entity or community, a comprehensive principle that promotes good and prohibits harmful acts should be well-established. Hence, the objectives of this study are to develop the HG index through BOD attributes; job experience, education background, education level, age, gender diversity, level of integrity, the quantity of training attended by BOD and quality of internal control system, and to examine the HG disclosure of Shariah-compliant companies in Malaysia based on the developed index.

The study selected Shariah-compliant companies listed in Bursa Malaysia as the sample study. This is because previous studies investigated HG on public listed companies in general. It would be interesting to examine HG in Shariah-compliant companies as studies in these companies are scarce and limited. In addition, besides ensuring the activities and financing are in compliance with the Shariah law and principles, Shariah-compliant companies are also expected to uphold their ethics and values in their overall operations. Islam strongly emphasizes social justice in dealing with humans. The Prophet Muhammad (PBUH) says: "Those who work for you are your brothers. Allah (SWT) has made them your assistant" (Bukhari and Muslim). Due to this reason, this current study is motivated to examine to what extent the Shariah-compliant companies as Islamic business organization is managing their HG.

LITERATURE REVIEW

Human plays an important role in an organization. HG is about internal, inside-out, and value-based conviction to guide humans to behave. HG is a significant element to improve the value and ethical behaviour of employees in the organization. It covers values, religion, belief system, culture, and ethics to nurture a trusting culture that produces high ethical values and moral conduct (Salleh & Ahmad, 2010). Abdullah et al. (2020) also found that HG encourages positive conduct and truthful person which should be performed by all employees in the organization. Abdullah et al. (2020) measured the HG of an organization through having good leadership, integrity, training and development, good internal control policy, religiosity, spirituality, culture and recruitment, and selection. Good HG by an organization will lead to a more ethical organization (Hanapiyah et al., 2016).

Job Experience

Job experience can be defined as former or current professional or personal experiences that may shape the decision-making process of an individual (Zainal, 2012). Westphal and Milton (2000) emphasized BOD's experiences may influence how effectively they monitor and advise the organization as well as how they deal with any business challenges.

Education Background

Education background can be defined as the field in which a subject's most advanced degree was awarded; formal or informal (Carver et al., 2008). Said et al. (2018) measured the board's education background through the level of qualification of the corporate board such as CEO and Chairman. Previous studies argued that education background should be an important determinant to evaluate BOD qualification as the consequences of the education background will affect the accounting values, practices as well as corporate accountability (Haniffa & Cooke, 2002; Grace et al., 1995).

Education Level

Said et al. (2018) measured the board's education level as a measurement of HG. Ting et al. (2014, 2016) measured HG through CEO's attributes such as age, tenure (job experience), and gender diversity. Endraswati (2018) argued that higher education level such as a doctoral degree (Ph.D.) provides a deeper knowledge, wider analysis, and a unique perspective on problem-solving skills for the organization.

Age

Ting et al. (2014) measured HG through CEO age by expressing the age of an executive adjusted by year to identify the influences of HG on a firm's leverage decision through secondary data collected from Bursa Malaysia. Post et al.

(2011) found that age has a positive significant relationship with the environmental corporate social responsibility disclosure and computed the square age term of directors by multiplying the mean age by itself.

Gender Diversity

Gender, age, training, director experience, and expertise increase CSR performance (Harjoto et al., 2015; Ting et al., 2014; Yaseen et al., 2019; Jamil et al., 2020 & Bakar et al., 2019). It was found that the presence of female BOD has a positive influence on sustainability disclosure or management commentary disclosure.

Level of Integrity

Sajari et al. (2017) measured the level of integrity of three different types of Malaysian public sector entities namely state level, state statutory body, and federal statutory body. From the study, they found that the level of integrity in the public sector is in the range of 66% to 71%. Md Som et al. (2019) found the level of integrity of a Malaysian organization is between 50% to 75%. Thus, the results from prior studies indicate that Malaysian organizations are now moving towards the implementation strategy of ethics and integrity in the organization. Hashim et al. (2020) measured ethical commitment by looking at 6 dimensions which are corporate ethical values, action to promote ethics, ethics committee, whistle-blowing policy, code of ethics, and sustainability practices.

Quantity of Training

Abdullah et al. (2020) suggested that training and development should enhance employees' human value, specifically in integrity, moral conduct, and ethics. Storey (2002) found that training is associated positively with firm performance. This result agrees with a study by Bowling (2007) who also found that an effective training and development program will increase job proficiency in the organization through a positive employee with a high value of integrity. Thus, the more training program attended by BOD, the high value of integrity and job proficiency in the organization will lead to better performance of the organization.

Quality of Internal Control System

Setiawan and Djajadikerta (2017) measured the internal control system using 6 dimensions which are the content of internal control disclosure, implementation of internal control, the role of internal control, the objective of internal control, internal control framework, and a separate section of internal control. Leng and Ding (2011) found the quality of the internal control system of Chinese listed non-financial companies to be 63.67%. Mohamud (2013) measured the level of internal control system through a questionnaire and found that the level of the internal control system of the selected companies in Somalia is high with an overall mean of 2.85. Fadzil et al. (2005) found that the average level of the internal control system of companies listed in Bursa Malaysia is 4.196. From the study, risk assessment is the highest rated item of the internal control system followed by control activities, monitoring, control environment, and information and communication. Ling (2011) found the mean quality internal control system of Malaysian Public Hospitals to be 2.96 through the measurement of service quality and patient satisfaction.

RESOURCE-BASED THEORY

All firms have a wide variety of resources and capabilities. Barney (1991) categorizes resources into three types: 1) physical capital resources (physical, technological, plant, and equipment), 2) human capital resources (training, experience, insights) and 3) organizational capital resources (formal structure). Grant (1991) classified resources as financial, physical, human, technological, and organizational. Resources and capabilities act as the foundation of strategy and the internal resources and capabilities provide the basic direction for a firm's strategy. According to Snell et al. (1996), the resources of firms comprised of human capital, social capital (i.e., internal/external relationships and exchanges), and organizational capital (i.e., processes, technologies, databases).

The resources of the firm include both tangible and intangible resources of the firm that could give a competitive advantage to the firm. Tangible resources include physical assets which are tangible assets such as property, plant, equipment, cash, and equipment. Intangible assets and resources include the knowledge and skills of employees, a firm's reputation, and a firm's culture. The resource-based theory is used in this study as HG components; Leadership, Integrity, Quantity of Training, and Quality of Internal Control systems are considered intangible resources and are included as a part of the HG index that could provide a competitive advantage to the company. This theory focuses on the fact that internal resources can be used to help guard against competitors and other external market forces and in so doing will assist the firm to achieve its competitive advantage (Campbell & Park, 2017). Competitive advantage includes being more transparent and accountable through disclosing pertinent information regarding the activities of the organization.

COMPONENTS OF HUMAN GOVERNANCE INDEX

Based on previous literature, the study measures the HG Index using 4 components which are (1) BOD Leadership, (2) Level of Integrity Index, (3) BOD Quantity of Training Index, and (4) Quality of Internal Control System Index.

BOD Leadership is measured by 5 indices which are (i) BOD Job Experience Index, (ii) BOD Educational Background Index, (iii) BOD Educational Level Index, (iv) BOD Age Index, and (v) BOD Gender Diversity Index.

As for the Level of Integrity Index, BOD Quantity of Training Index, and Quality of Internal Control System Index, each is measured by one index, thus making the HG index consist of 8 indices.

The BOD Leadership Index comprises 5 items, the Level of Integrity Index comprises 10 items, the BOD Quantity of Training Index with 1 item, and the Quality of Internal Control System Index comprises 21 items, making the HG index comprise 37 items. Figure 1 shows the HG Index which comprises 4 components, 8 indices, and 37 items.

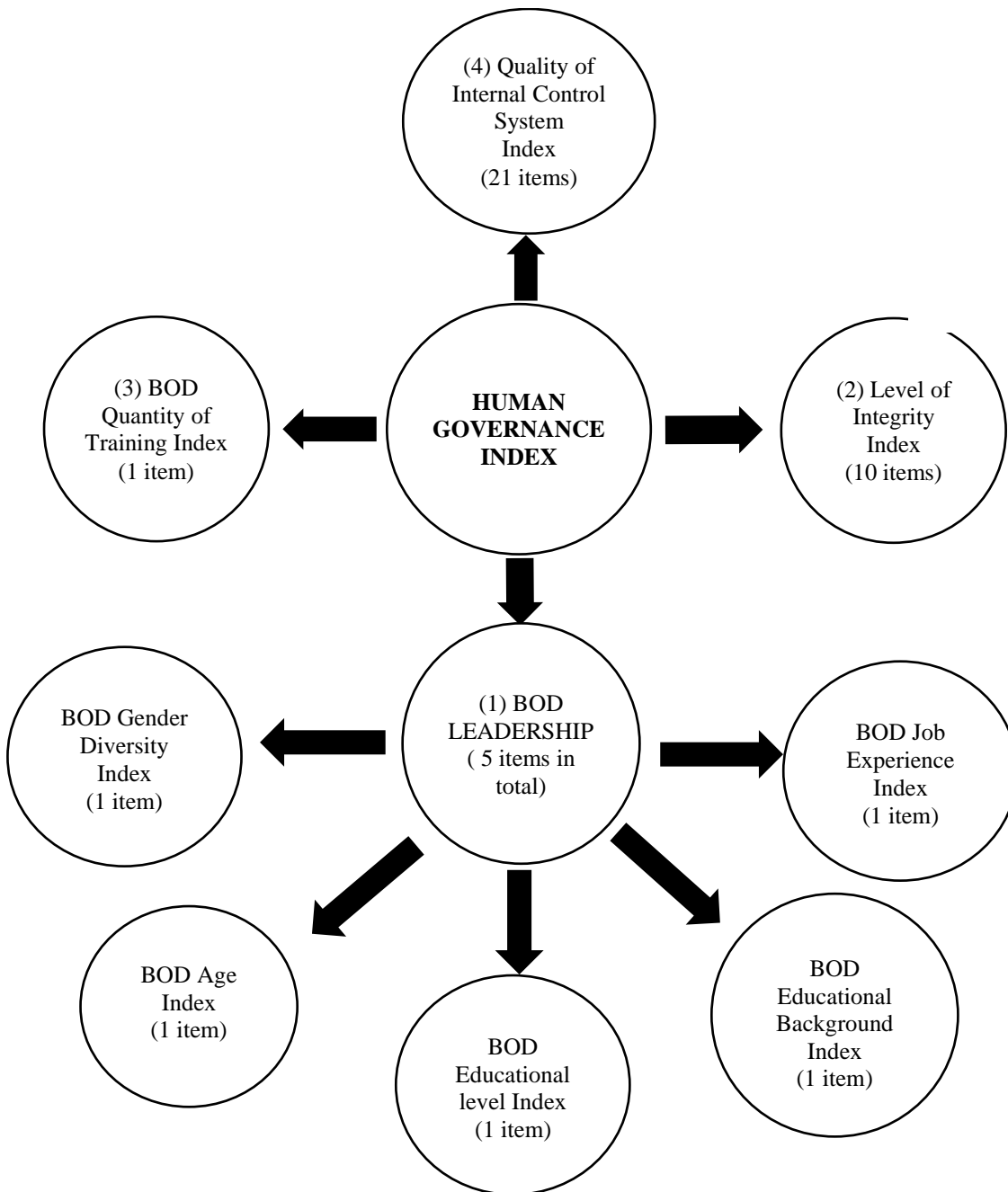


Figure 1. The 4 Components of Human Governance Index

METHODOLOGY

Development of Human Governance Index

This study measures HG Index using secondary data from annual reports and related websites that are publicly available. Based on prior literature, the study measured Human Government Index using 37 items which are made up of four (4) main components which are (1) BOD Leadership - which is measured by i) BOD job experience index, (ii) BOD educational background index, (iii) BOD educational level index, (iv) BOD age index, and (v) BOD gender diversity index; (2) Level of Integrity Index; (3) BOD Quantity of Training Index; and (4) Quality of Internal Control System Index

which was developed and has 8 sub-indices. These indices are adapted from Ting et al. (2014); Said et al. (2018); Chebbia et al. (2020); Jamil et al. (2020); Hashim et al. (2020); and Setiawan and Djajadikerta (2017) respectively. Table 1 shows the detailed measurement of the 8 indices of the Human Government Index.

Table 1. Development of Human Governance Index

Human Governance	37 Items		
(1) BOD LEADERSHIP (5 items)			
(i) Job experience Index	More than 10 years, 1, Less than 10 years, 0		Adapted from Ting et al., 2014
	100% is assigned for a score of 1 and 0% is assigned for a score of 0. Job experience index is calculated by taking the total score divided by total number of BOD.		
(ii) BOD Educational Background Index	Business 1, Non-Business 0		Adapted from Said, R., Rahim, A. A. A., & Hassan, R. (2018)
	100% is assigned for a score of 1 and 0% is assigned for a score of 0. Education background index is calculated by taking the total score divided by total number of BOD.		
(iii) BOD Educational Level Index	PhD	4	Adapted from Said, R., Omar, N., & Abdullah, W. N. (2013).
	Master	3	
	Professional Certification	2	
	Degree	1	
	Below Degree	0	
	100% is assigned for a score of 4, 75% is assigned for a score of 3, 50% is assigned for a score of 2, 25% is assigned for a score of 1 and 0% is assigned for a score of 0. Education level index is calculated by taking the total score divided by total number of BOD		
(iv) BOD Age Index	> = 60 years	3	Adapted from Ting et al., (2014) and Said, R., Omar, N., & Abdullah, W. N. (2013).
	50 - 59 years	2	
	40 - 49 years	1	
	<= 39 years	0	
	100% is assigned for a score of 3, 67% is assigned for a score of 2, 33% is assigned for a score of 1 and 0% is assigned for a score of 0. Age is calculated by taking the total score divided by total number of BOD		
(v) BOD Gender Diversity Index	Female 1, Male 0		Adapted from Ting et al., (2014) and Said, R., Omar, N., & Abdullah, W. N. (2013).
	100% is assigned for a score of 1 and 0% is assigned for a score of 0. Gender diversity index is calculated by taking		

the total score divided by total number of BOD.

(2) LEVEL OF INTEGRITY INDEX (10 items)		
	Disclose, 1, Not Disclose, 0	
Corporate Ethics Value	1 item	Adapted from Hashim, H. A., Abidin, A. F. Z., Salleh, Z., & Devi, S. (2020). Adapt from Hanapiyah, et al. (2020)
Action to promote ethics	3 items	
Code of ethics	2 items	
Ethics Committee	2 items	
Whistleblowing policy	2 items	
Each item is given a score of 1 if it is disclosed, and 0 if otherwise. In total there are 10 items. Level of integrity index is obtained by dividing the number of disclosed items, by 10, which are the items that should be disclosed.		
(3) BOD QUANTITY OF TRAINING INDEX (1item)		
	More than 5, 1, Less than 5, 0	Adapted from Hanapiyah, et al. (2020)
100% is assigned for a score of 1 and 0% is assigned for a score of 0. Quantity of Training index is calculated by taking the total score divided by total number of BOD.		
(4) QUALITY OF INTERNAL CONTROL SYSTEM INDEX (21 items)		
	Disclose, 1, Not Disclose, 0	
Content of internal control disclosure	5 items	Adapted from Setiawan & Djajadikerta (2017)
Implementation of ICS	6 items	
ICS and its role	5 items	
Objective of ICS	3 items	
Framework of ICS	1 item	
A separate section of ICS	1 item	
Quality of internal control system index is obtained by dividing the number of disclosed items, divided by 21, which are the items that should be disclosed.		

Table 2 illustrates the calculation of HG index in a company with 3 BODs.

Table 2. Illustration for calculation of Human Governance Index

Dimension		Items			Total Score/Interpretation
1. BOD Leadership		BOD 1	BOD 2	BOD 3	
(i)	BOD Job experience Index	More than 10 years (100%)	5 years (0%)	More than 10 years (100%)	200% / 3 = 66.67% / Majority BOD have more than 10 years job experience
(ii)	BOD Education Background Index	Business (100%)	Business (100%)	Non-business (0%)	200% / 3 = 66.67% / Majority of BOD have business background
(iii)	BOD Education Level Index	Master (75%)	Professional Certificate (50%)	Professional Certificate (50%)	175% / 3 = 58.33% / Majority BOD has professional certification
(iv)	BOD Age Index	50 (67%)	65 (100%)	52 (67%)	234% / 3 = 78% / Majority BOD are 50 -59 years old
(v)	BOD Gender Diversity Index	Female (100%)	Male (0%)	Female (100%)	200% / 3 = 66.67% / Majority BOD are female
2. Level of Integrity Index (10 items)		8 out of 10 items disclosed = 80% / level of integrity index is 80%			
3. BOD Quantity of Training Index		More than 5 times (100%)	More than 5 times (100%)	More than 5 times (100%)	300/3 = 100% / BODs have attended training more than 5 times
4. Quality of Internal Control System Index (21 items)		10 out of 21 items disclosed = 47.62% / Level of internal control is 47.62%			
Human Governance Index		563.96% / 8 dimensions = 70.50% / Human governance index is 70.50%			

Process of Developing Human Governance Index

3 academics who are experts in the area of research and an industry practitioner were invited to comment on the measurement of the HG Index. The experts suggested that the measurement of BOD Leadership should include all board members, executives, and non-executives rather than just the Chairman of BOD as was initially proposed. The reason why it was initially proposed to include only the Chairman of BOD was that he will make the final decision which was also done in previous studies. For example, Ting et al. (2014) measured HG by examining the CEO of the company.

Validation of Checklist of Measurement of Human Governance Index

Inter-rate consistency was also conducted where the checklist and one annual report were given to three academics to check the consistency of the measurement. It was found that they are quite similar except for the measurement of the Internal Control Statement where comments made was whether they should be referring to only the Statement of Risk Management and Internal Control System or throughout the report.

Another comment was concerning BOD Training whether it should include all training that the BOD attended or only specific to Ethics Training. Thus, changes were made to the measurement where the Quality of Internal Control system should only be referring to the particular Statement of Risk Management and Internal Control System, and BOD Training should include all training and not only Ethics Training.

Preliminary Analysis of a Sample Population

As a preliminary study, the only manufacturing industry will be focused on different industry sectors that might be subjected to different demands and it is best to control for the different demands by focusing on a particular sector. As of November 2019, the number of firms listed as Shariah-compliant companies is 696 firms (Security Commission of Malaysia, 2019). This study focuses on companies that are consistently listed in Bursa Malaysia and have issued annual reports from 2016 to 2019. This study focuses on three (3) sectors in Bursa Malaysia, namely Consumer Products, Industrial Products, and Health Care. The three sectors are chosen as a population due to the fact that these sectors can be classified as the manufacturing industry. Using systematic random sampling, the final sample of the study consists of 70

firms comprising 26 consumer products sectors, 41 industrial products sectors, and 3 healthcare sectors. There were 2 outlier companies as they were listed in the PN17 list. These companies were omitted to leave 68 companies for the purpose of the study

This study employs content analysis, a technique that has been widely employed in research on voluntary disclosure. It is a research strategy used to ascertain the presence of specific concepts or terms within the text that are relevant to the study's aims. Bauer (2000) described the content analysis as a methodological approach for categorising the symbolic contents generated by all forms of recorded communication. It enables the analysis of yearly reports to be conducted in a methodical, repeatable, and uniform manner (Gray et al, 1995).

RESULT AND ANALYSIS

Table 3 displays the descriptive statistics for the HG indices used in the analysis. HG comprises 8 indices: (i) BOD job experience index, (ii) BOD educational background index, (iii) BOD educational level index, (iv) BOD age index, (v) BOD gender diversity index, (vi) Level of integrity index, (vii) Quantity of training attended by BOD index, and (viii) Quality of internal control system index. HG index is 60.2% (mean of 0.602) and it is determined by taking the average of 8 indices.

From the results, the BOD job experience index is the highest with a mean of 0.929 or 92.9% for the BOD who has more than 10 years of experience. Meanwhile, the results show that more than half (mean of 0.576) of their BOD have a business background and the majority (mean of 0.409) of BOD companies are degree holders. BOD Age level index shows a mean of 0.705. It shows on average, companies, that have BOD who are between 50-59 years old. As for the Gender Diversity index, on average, 17.6% of BOD comprises female BOD.

The level of integrity index has a mean of 0.471, which shows that on average, the companies have a 47.1% level of integrity. On average, 85.3% of BOD of companies attended at least more than 5 times training. The quality of the internal control system index shows a mean of 0.70, which shows that on average, the quality of the internal control system of the companies is 70%.

Table 3. Descriptive Statistics

Human Governance Index:	N	Minimum	Maximum	Mean
(1) BOD Leadership				
BOD Job experience Index	68	0.500	1.000	0.929
BOD Education Background Index	68	0.100	1.000	0.576
BOD Education Level Index	68	0.100	0.675	0.409
BOD Age Index	68	0.277	1.000	0.705
BOD Gender Diversity Index	68	0.000	0.622	0.176
(2) Level of Integrity Index	68	0.10	0.70	0.471
(3) BOD Quantity of Training Index	68	0.000	1.000	0.853
(4) Quality of Internal Control System Index	68	0.33	0.952	0.700
HG INDEX				0.602

Table 4 shows the descriptive statistics for the HG indices for the 3 sectors: consumer products sector, healthcare sector, and industrial product sector. It can be seen that the HG index for the health sector is highest (65.2%) as compared to industrial products and consumer products. The result, on average, shows that the BOD for the 3 sectors has experience of more than 10 years.

It can be seen that overall healthcare sector scores the highest value mean in BOD education level, BOD age, BOD gender diversity, and level of integrity. It shows that the majority (mean of 0.580) of BOD companies have professional certificates, between 50 – 59 years old (mean of 0.870) and female (mean of 0.306). Level of integrity index is 53.3%. This could be because the healthcare sector is many sought-after products, and they need to ensure much higher integrity. Moreover, Fasterling (2006) referred to the importance of honesty and accurate reporting as a fundamental value for the effectiveness of integrity rules which becoming important factors for companies to disclose more to maintain their reputation and trust among the customers.

As for BOD job experience, it shows that BOD of consumer products has the highest number (mean of 0.948) of BOD who have more than 10 years of job experience. As for the BOD education background index, it shows that the BOD of an industrial product has the highest number (mean of 0.604) of BOD with a business background. This is consistent with

prior literature done by Bhagat et al. (2010) when the result showed that the leadership of a CEO having an MBA degree from a top 20 business school enables better operating performance. Meanwhile, it can be seen that consumer product shows the highest mean in BOD quantity of training by 88.0% which means that majority of BOD of companies have attended at 5 times of training. The quality of the internal control system also shows healthcare sector has the highest mean with 78.5%. It can be seen that it has a very high-quality internal control system which is much higher than Leng and Ding's study which was 63.67%.

Table 4. Descriptive Statistics based on Sectors

Human Governance Index:	Consumer Products (N=25)			Industrial Products (N=40)			Health Care (N=3)		
	Min	Max	Mean	Min	Max	Mean	Min	Max	Mean
BOD Job experience Index	0.667	1.000	0.948	0.500	1.000	0.917	0.875	1.000	0.931
BOD Education Background Index	0.222	0.900	0.531	0.100	1.000	0.604	0.500	0.625	0.569
BOD Education Level Index	0.107	0.675	0.399	0.100	0.667	0.403	0.469	0.646	0.580
BOD Age Index	0.444	0.917	0.709	0.278	1.000	0.691	0.833	0.917	0.870
BOD Gender Diversity Index	0.000	0.333	0.167	0.000	0.500	0.169	0.250	0.417	0.306
BOD Quantity of Training Index	0.000	1.000	0.880	0.000	1.000	0.850	0.000	1.000	0.667
Level of Integrity Index	0.300	0.600	0.472	0.100	0.700	0.465	0.400	0.700	0.533
Quality of Internal Control System Index	0.571	0.952	0.785	0.333	0.905	0.644	0.714	0.810	0.762
HG INDEX			0.611			0.593			0.652

DISCUSSION AND RECOMMENDATIONS

Previous studies used primary and secondary data to measure HG. This study has combined the measurement of the HG index from the previous studies using secondary data. HG index comprises four components which are BOD Leadership, Level of Integrity, BOD Quantity of Training Index, and Quality of Internal Control Index, and also 8 indices. As a preliminary analysis, the index is used to measure the HG of the manufacturing sector of Shariah-compliant companies. HG index for the manufacturing sector is 60.2%. From the results, it can be seen that for the manufacturing sector, BOD has more than 10 years of experience, the majority are female, degree holders, have a business background, have attended more than 5 times training, and are between 50-59 years old. The quality of the internal control system index is 70%, however, the level of integrity index is 47.1% which is below average. Shariah-compliant companies should take more effort to improve the level of integrity by instituting a whistleblowing policy, code of ethics, and efforts to promote ethics in their companies.

The health sector has the highest HG index of 65.2%, followed by consumer products with an HG index of 61.1%, and industrial products with an HG index of 59.3%. It can also be seen that the BOD of an industrial product has the highest number (mean of 0.604) of BOD with a business background. Meanwhile, in the healthcare sector, the majority of BOD have professional certificates.

Thus, this study has shown that the HG index is applicable to be measured using secondary data (annual reports) of companies. The index can assist companies to improve their human capital are an important asset of the company and has been proven in previous studies to increase their performance.

LIMITATIONS AND SUGGESTIONS FOR FUTURE STUDIES

Like any other study, this study has its limitations. It is confined to the only manufacturing sector and only for the year 2019. Future studies might extend to other sectors and could compare with other sectors between years. The sample size comprises 68 companies: 25 consumer products sectors, 3 healthcare sectors, and 40 industrial products sectors. Although it is within the acceptable sample size for this study, future studies could expand the sample size to larger sample size to increase statistical capacity.

From the results, the healthcare sector shows the highest mean in the BOD education level index, BOD age index, BOD gender diversity, and level of integrity index. Consumer products show the highest mean in the BOD job experience index and BOD quantity of training index and quality of internal control system index. Meanwhile, the industrial product sector shows the highest mean in the BOD education background index. However, it is recommended to read this result with caution as the comparison of HG items in the healthcare sector sample is small. Thus, this study is an attempt to

measure HG using secondary data and future studies can study the relationship of HG with other dependent variables such as fraud, governance, sustainability reporting, the performance of the organization, and employee satisfaction as HG has been proven to increase the performance of the organization through value, norms, and ethics implemented within the organization.

Moreover, building the HG index depends on the secondary data, which were collected from various public resources. The use of primary data such as interviews and questionnaires may be very useful and give more power to the constructed index. In addition, including other explanatory variables such as behavioral issues of the Board of Directors might play a significant outcome in the results.

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CONFLICT OF INTEREST

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