Efficiency of Islamic Institutions: Empirical Evidence of Zakat Organizations’ Performance in Malaysia

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Abstract—Measuring performance is an essential element of assessing an organizations ability to meet its goals. Dimensions typically measured are quality, time and cost. The objective of the paper is to propose a multidimensional performance measurement of zakat organizations, incorporating various dimensions such input, process, output and outcome. The model proposes a process approach in measuring the performance of zakat organizations. In the process approach, task accomplished by zakat organizations is cumulative of four components namely input, process, output and outcome. The model employ index as a method of measurement due to its ability to measure magnitude of change over time or place. A total of 303 respondents participated in this survey. The respondents comprise of zakat beneficiaries, staff, and head of departments and stakeholders of two zakat institutions. The finding indicates adequate resources or input were available to organizations. Performances of business zakat assistance showed a remarkable importance of types of programs available. A comparison between the two zakat organizations was also highlighted. In general, this study reports that the concerned zakat organizations through their assistance were able to upgrade their beneficiaries to a better quality of life.

Index Terms—IKaZ model, performance indicators, performance measurement, Zakat management, Zakat organizations.

I. INTRODUCTION

Measuring performance is an essential element of assessing an organization’s ability to meet its goals. Dimensions typically measured are quality, time and cost. In the process of benchmarking, management identifies the best firms in the industry or in other industries where similar process exists and comparison is made in term of process, results and performances to one’s results. In this way, organizations learn how they perform relatively to others and explain the factors behind the success of these organizations. In general, benchmarking is used to measure performance using specific indicators such as cost and productivity.

In this paper benchmarking is used in measuring the performance of zakat organizations. The zakat organizations in Malaysia as a whole have traditionally been somewhat laggard in measuring and improving its organizational performance. The importance of zakat as a source of financing to meet public expenditure in terms of the eight categorizes as mentioned in the Quran. Based on that, the performance of zakat organizations globally needs to be investigated in order to emphasize the need for zakat as financial system to evaluate the growth of economy. Hence, the objective of the paper to propose a multidimensional performance measurement of zakat organizations, incorporating various dimensions such input, process, output and outcome. The paper is organized as follows. The next section explains the needs of benchmarking for non-profit organizations, followed by benchmarking for zakat organizations. Section four highlights the conceptual framework of benchmarking and chapter five concludes the paper.

II. BENCHMARKING AND ZAKAT ORGANIZATIONS

Benchmarking is considered a vital process for organizations to perform excellently. [1] Proposes benchmarking is the process of continually comparing a company’s performance on critical customer requirements against that of the best in the industry (direct competitors) or class (companies recognized for their superiority in performing certain functions) to determine what should be improved.

Benchmarking is a structured process to facilitate the improvement of current organizational standards by adopting superior practices. Based on the measurement of lag downstream performance indicators, traditional benchmarking has been useful in aiding incremental and anticipated planned changes within organizations, a point outlined by [2] who points out there “benchmarking is a managerial technique to identify performance gaps and improve operational performance”.

It is suggested that organizational sustainability and success depends in part on the measurement and benchmarking of predictive upstream dimensions, indicators and measures within organizations [3], [4]. “Upstream” refers to developmental organizational areas, functions and networks that are at the conception stage of an organization’s activities; for example, new product development (NPD), employee development, or technology development, in contrast to more downstream or output orientated activities such as manufacturing or service delivery [5], [6]. This view is supported by [7], [8] who suggest that opportunities for creating value in organizations are shifting from managing and measuring tangible assets to manage and measuring knowledge based strategies that develop an organization’s intangible assets [9]-[11] view this reconceptualization of performance measurement and benchmarking as “building a
knowledge capability”, and having “futuristic potential” rather than solely tackling current problems.

Zakat organizations (ZO) in Malaysia fall under the purview of the state authorities through ZOs. State Islamic Religious Councils (SIRC) have undergone various phases of development, notably in the early 1990s when the process of corporatization started. Corporatization led to better management of zakat organizations. ZOs collection since 1990 has increased nearly tenfold. As far as zakat distribution is concerned, despite the increase in collection, its distribution increase at a slower pace. As shown on Fig. 1, some SIRC were registered as little as less than is of 50% of zakat collection being distributed. On average, only 77% of zakat were distributed annually for the period of 2003 to 2010. There are various factors that contributed to the lower performances of zakat distribution. One reason is the significant amount of zakat is collected toward the end of the year. This is mainly due to the trend of paying zakat at the end of a year does not help ZOs in trying to distribute the fund in the same year. The non-distribution of zakat fund lead to serious concern among stakeholders whether zakat were properly distributed. However, amount of zakat distributed yearly also depend on the distribution budget proposed by the SIRC. Furthermore, the management of zakat organizations allocates themselves a time period of one year to distribute the fund collected. Past incidence on alleged mismanagement of zakat fund further compounded the skeptics among payees.

Other issues in distribution of zakat involve the effectiveness of zakat distribution. It deals mainly on the aspects of fairness, appropriate, channels and methods of zakat distribution, sufficiency etc. Despite the advancement made by ZIs, there a lot of avenues for performance improvement. A non-profit organization’s objective is not as obvious as in the case of profit-based organization. Being a non-profit organization, objectives of ZIs are influenced by its variety of stakeholders.

Performance measurement for zakat organizations. The IKaZ model proposes a process approach in measuring the performance of a zakat organization. In the process approach, task accomplished by a ZI is cumulative of four components namely input, process, output and outcome. In measuring performance, ZIx must be able to demonstrate its capability to operate at optimum and efficient level. For example, collection and distribution of zakat must be implemented as such it yields maximum benefits intended. The collection is important to ensure that zakat is collected duly while distribution must reach the intended and also provides confidence to the payee that zakat is distributed fairly. Such a performance indicator to measure organization effectiveness in collecting and distributing zakat is of a paramount importance.

For zakat organizations, the need for performance measurements is irrefutable. Performance measurement for Islamic based organizations such as zakat organizations are essential to maintain trust between the society and these institutions as mentioned by [12] who stresses that an ideal zakat organizations should be able to synchronize collection and distribution of zakat funds at any given time. He highlights that certain indicators such as percentage of distributed zakat fund reflects the ability these institutions to perform their functions as an agent of distribution from the zakat payers to zakat recipients. [13] Concurs that the main role of ZOs are to facilitate the Muslims to pay zakat and distribute efficiently to the appropriate recipient. However, if the ZOs are unable to distribute efficiently the collected zakat funds, this would bring the feelings of lack of trustworthiness among the Muslims especially the zakat payers. Hence, Muslims would resort to distributing zakat directly to recipients without the intermediation by government controlled ZOs.

The present paper proposes a multidimensional performance measurement in measuring performance for zakat organizations, taking into account dimensions such as input, process, output and outcome. Hence, this paper proposes a multidimensional perspective of performance measurement in the context of ZOs utilizing index as a tool of measurement. The study would employ index as a method of measurement due to its ability to measure magnitude of change over time or place. The usage of index is widely used by policy makers to measure a variety of variables.

![Zakat Index](image)

**Fig. 2. Zakat Index Construction.**

### III. PROPOSING PERFORMANCE MEASUREMENT: ZAKAT INDEX (ZIX)

The present study proposes the IKAZ Model as...
Towards this aim, one of the goals of this performance indicator is to measure the efficiency of ZOs in disembarking their duties. In general, building performance indicators for ZOs in this study, takes into account various aspects or dimensions collection and distribution of zakat. Following the Input, Process, Output, Outcome (IPOLO) model and Zakat Performance Indicator by [14] and [15], performance of zakat organizations is influenced by four dimensions namely; output, input, process and outcome. Fig. 2 illustrates the zakat performance measurement model.

IV. THEORETICAL FRAMEWORK

In general, there are four dimensions of the model. The first dimension involves input or resources allocated to a program. Input is easiest to obtain and simple to measure, but contribute little in measuring performance [16]. Data for input includes from the perspective of asnaf, staff and the institution. To assess the level of input of an organization, the following items are considered, namely: the availability of infrastructure, number of staff, knowledgeable staff, and data availability and distribution annual budget. The second dimension encompasses, among others, one of the important factors in distribution that is, the process of identifying those having the right to receive zakat. Process are activities generated by a program. Processes within an organization are one of the components to measure performance. There are many processes in distributing zakat fund, for example it involve budgeting process. Process here also refers to distribution procedures. [17] Noted that measuring process is done frequently by organizations. The third dimension involves output. Output refers to activities completed by organizations. Output refers to the recipients of zakat fund, activities completed and fund disbursed. Measuring output is challenging due to the difficulty in attributing output to the production process when there are multiple goals and diverse recipients. Finally, outcomes are consequences of the process and outputs [14]. It should the status of the recipients due to their involvement in the programs. Measuring outcome, though possible, must take into account that achievement is not exclusively due to the program. Issues of selection bias and lack of counterfactual must be considered in assessing the outcome. Proxy for the outcome would include, for example, number of asnaf who are paying zakat instead of receiving it. Zakat fund should enable past recipients to increase their income. Other outcome proxies include whether zakat given would fulfill their necessities, perception of asnaf on the organization and the satisfaction of the amount and type of zakat received by the asnaf. This would indicate success of the institution in the distribution of zakat.

Table I illustrates relative weight of the model.

Table 1: Indicators and Weightage of Organization Performance

V. DATA COLLECTION

Data for this study comprises of two surveys held in the state of Selangor and Negeri Sembilan. Respondents were selected from beneficiaries who receive financial assistance from zakat fund. Zakat institutions of two states are independent of each other. Selangor recorded the highest zakat collection amounting to nearly 1/3 of total zakat collected in Malaysia. This is expected since Selangor the wealthiest state in Malaysia. Meanwhile Negeri Sembilan is one of the smaller states with an average zakat collection. As for organizational structure, Selangor has corporatized its collection and distribution department now known as Zakat Selangor Board. While Negeri Sembilan corporatized only its collection department, its distribution department still maintains its conventional organizational structure.

A total of 303 respondents participate in this survey, 182 of them from Selangor while 121 from Negeri Sembilan. The respondents comprise of zakat beneficiaries, staff, head of departments and stakeholders. Four different sets of questionnaires were specially designed for each category of respondents. Respondents list for Selangor were provided by MAIS Zakat Sdn. Bhd, a subsidiary of Zakat Selangor Board. While for Negeri Sembilan, Baitulmal MAINS provide the respondents list. The survey was carried out April and May of 2013. The questionnaires were administered by trained enumerators.
VI. FINDINGS AND ANALYSIS

The findings would be presented using the four components of the Performance Indicator (ZIx), namely input, process, output and outcome. The findings would be concluded with the overall index (ZIx).

A. Input and Process

The finding indicates adequate resources or input were available to organizations. This is reflected by full index value obtained by both organizations in input components. Inputs are the necessary resources in assisting organizations achieving their objectives. Participating asnaf were well qualified monetarily and non-monetary aspects. They also possessed the right attitude that is necessary if they are to succeed in the business projects. As far as staffs are concerned, the findings indicate they are well equipped to undertake the task given to them. One of the main components of a successful program is the ability to monitor the progress of participants. Process of monitoring includes advising roles and motivating participants to meet preset targets. However the findings reports conflicting assessments on monitoring, recipients provided lower assessments on monitoring done by organizations as compared to self-assessment made by staff. Higher self-assessment results would likely be a result of biases and inaccuracy. The finding also suggests that differences in organizational structure do play an important role influencing performance of institutions. Corporatizing both collections and distributions departments and comprehensive corporatization seemed to yield a better performance vis a vis partial corporatization.

B. Output

Performances of business zakat assistance showed a remarkable importance of types of programs available, for instance state of Selangor registered higher rating on their programs. State of Selangor is well known for the variety of programs to cater different needs of their recipients. Variety in programs enhanced the likelihood of programs compatibility with recipients’ needs and requirement. Meanwhile, state of Negeri Sembilan utilized a different approach in assisting the business needs on their recipients. Due to limited staff and resources, Negeri Sembilan only provided initial assistance for recipients’ business project. Any project advancement will be channeled to other governmental authorities for further assistance. Negeri Sembilan ZO subscribed to an approach of providing assistance to fulfill basic needs or minimum requirement rather than assisting them to earn a higher quality of life at par with the surrounding community. Despite differing approaches, both ZO’s were able to achieve high distribution ratio. This is an indication of an effective fund management.

C. Outcome

Outcome is a result of resources and processes expended on particular programs. Positive outcome reflect effective usage of input, process and output. For not for profit organization such as zakat organizations, expectations of outcomes differ depending on stakeholders. This study reports that the concerned zakat organization through their assistance, they were able to upgrade their beneficiaries to a better quality of life. For example, beneficiaries reported they were able to purchase assets, finance children education and expand their businesses. Stakeholders in this study also were satisfied with the governance levels of zakat organizations. This is a crucial factor in ensuring zakat organizations are effectively managed and it will contribute to achieving zakat’s objectives of enhancing wellbeing of its recipients. Despite the apparent positive findings on governance, public confidence level provided conflicting results. It seemed various stakeholders were still skeptical on the effectiveness of efforts undertaken by ZO. This can be reflected by negative reports, coverage of incidence of poverty and perceived misused of zakat fund in the mass media. As such it is a task of all involved in zakat organizations to provide accurate information to the public.

D. Overall Indicator (ZIx)

The overall score of the index of each of the organizations are presented by Table II. Selangor were able to score higher than Negeri Sembilan with an index of 0.91, exemplifying the overall strength of its organization with better programs.

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Z_{Ix} = 0.083 \text{Asnaf}_1 + 0.083 \text{Staff}_1 + 0.083 \text{Management}_1 + 0.125 \text{Staff}_2 + 0.125 \text{Management}_2 + 0.083 \text{Types of Programs} + 0.083 \text{Distribution Ratio} + 0.083 \text{Asnaf}_3 + 0.083 \text{Confidence} + 0.083 \text{Governance}
\]

VI. CONCLUSIONS

Performances of zakat institutions are dependent on the resources, processes and stakeholders. The proposed index attempted to measure the performance of participating zakat institutions in Malaysia. The finding revealed a two tier performance of zakat institutions involved. Despite adequate input, the managing process and resultant output played a crucial role in influencing performances. Construction of the index is still at a preliminary stage. It requires further enhancement of various aspects that include reviewing the items in dimensions and data collection techniques. Nevertheless, the resulting index does reflect current perceptions on Malaysians zakat institutions scenario.

REFERENCES


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