FINANCIAL MANAGEMENT PRACTICES AND PERFORMANCES IN *ZAKAT* INSTITUTIONS

BY

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ABSTRACT

Since the 1990s, cases of misappropriation of funds in Western church institutions have been an issue. In 2012, such rumors spread to involve other religious organizations as well (The Star Daily, 2012; News Karnataka.com, 2014). Conditions are becoming more complex as people start to question and demand transparency and accountability. In Malaysia, rumors of mismanagement in *Zakat* institution have led to public demand for clarification as to how *Zakat* money is managed. Concerns regarding goal achievement of these organizations have been raised. Therefore, *Zakat* management has reflected these concerns by moving towards greater transparency in order to show their accountability. Thus, this study examines current practices of financial management and performances in *Zakat* institutions. The six elements of the Financial Management Accountability Index (FMAI), i.e. organizational management, budget, receipts, expenditures, assets and reporting were used as a benchmark. The suggestions of Said, Ghani, Zawawi and Yusuf (2012) and Berry, Parasuraman and Zeithaml (1994) were employed as indicators to examine performance. The study also attempted to find a relationship between financial performance index (FPI) and financial management practices (FMP). Further, the study employed the census sampling method for 14 *Zakat* institutions, and a sample of 140 employees and 140 customers. Empirical data were collected mainly through three sets of questionnaires. The data were coded and analyzed using Statistical Package for the Social Sciences (SPSS) software. Descriptive analysis and Correlation Bivariates were employed. The findings show that receipts, disbursements and asset management are the most crucial areas reflecting 'good' level practices by *Zakat* institutions. Furthermore, there is a positive relationship between financial management and performance. Thorough and detailed analysis found that certain indicators and practices also have a significant relationship. This research is significant as it gives *Zakat* institutions opportunities to find areas of improvement and determine particular areas which can be enhanced. The benchmark produced will help *Zakat* institutions discharge greater transparency and accountability towards the public in future. This will improve confidence and trust, as well as reduce confusion in Muslim society.

ملخص البحث

شاعت ظاهرة اختلاس الأموال في مؤسسة الكنيسة في الغرب منذ التسعنيات حتى أصبحت قضية، وفي عام ٢٠١٢م تفشت ظاهرة اختلاس الأموال في المؤسسات الدينية الأخرى. فبدأ عامة الناس بالتساؤل عن ذلك ومطالبة الصراحة والتوضيح والشفافية والأمانة في الإدارة المالية. وفي ماليزيا, أدى اختلاس الأموال في مؤسسات الزكاة إلى تساؤل عامة الشعب عن كيفية إدارة أموال الزكاة وصرفها. مما أثيرت مخاوف كبيرة من تحقيق الأهداف المرجوة من قبل هذه المؤسسة. وقد اجتهدت إدارة مؤسسة الزكاة في الاعتماد على صراحة والشفافية كي يطمئن عامة الشعب إلى أمانتها في أداء واجباتها. لذا فإن هذا البحث يبحث عن كيفية الإدارة المالية في مؤسسة الزكاة وإنجازتها. فهناك ستة عناصر للإدارة المالية للنظام المحاسبي (FMAI)، وهي: الإدارة التنظيمية, والميزانية, والاستلام, والتسوق, والإدارة الملكية, والتقارير المستخدمة كمعايير. وهذه مقترحات من سعيد، وغني، وزواوي، ويوسف (٢٠١٢)، وبري، حيث تستخدم كدليل في فحص الإنجازات. كما أن هذا البحث يبحث عن علاقة بين الأداء المالي (FPI) وعملية الإدارة المالية (FMP).

واستخدم هذا البحث طريقة تعداد أخذ العينات، ومجتمع البحث عبارة عن أربعة عشر مؤسسة زكاة، أما عينة البحث فتتكون من ١٤٠ عاملا، و ١٤٠ عميلا. وقد تم جمع المعلومات أو البيانات التجريبية عبر ثلاث مجموعات من الإستبيانات الاستطلاعية، وقد تم تحليل جميع المعلومات بواسطة "حزمة البرامج الإحصائية للعلوم الاجتماعية(SPSS)". ونهج البحث المنهج الوصفي "التحليل الوصفي والارتباط المتنوعة". وأشارت نتائج البحث إلى أن الإستلام، والإنفاق, والإدارة الملكية تعد من أهم الأمور في الإدارة المالية. لحصولها على مستوى "جيد" من مؤسسات الزكاة. إضافة إلى ذلك، وجد البحث أن هناك علاقة إيجابية بين الإدارة المالية و الإنجاز. كما أشارت نتيجة التحليل الدقيق إلى أن الدليل والممارسة لهما علاقة مهمة. فهذا البحث يعد مهما جدا لأنه يرشد مؤسسات الزكاة إلى وسائل عدة لتحسين ممارستها في إدارة أموال الزكاة،كما أن معايير الإنجاز الناتجة من البحث ستؤدي دورا مهاما في إصلاح عملية الإدارة المالية، والشفافية، والأمانة لخدمة المسلمين المستقبلا. مما يؤدي إلى زيادة الثقة بالمؤسسات الزكاة ويزيل الشكوك والشبهات من قلوب المسلمين.

APPROVAL PAGE

I certify that I have supervised and read this study and that in my opinion; it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a dissertation for the degree of Master of Science in Accounting.

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DECLARATION

I hereby declare that this dissertation is the result of my own investigations, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

Fatimah Sakeenah binti Anuar

Signature……. Date ….....

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Affirmed by Fatimah Sakeenah Binti Anuar.

…… ……

Signature Date

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LIST OF ABBREVIATIONS

A	Assurance
AM	Asset management
BG	Budgeting
CEO	Chief executive officer
CPM	Composite performance measurement
CSI	Customer satisfaction performance index
DB	Distribution and disbursements
E	Empathy
ESI	Employee satisfaction performance index
F	Financial benefit
FI	Financial index
FMAI	Financial Management Accountability Index
FMP	Financial Management Practices
FPI	Financial performance index
JAIP	Jabatan Agama Islam Pahang
JAKIM	Federal Government of Islamic Development Malaysia
JAWHAR	Department of Awqaf, *Zakat* and Haji
K	Knowledge advancement
KWSP	Employees Provident Fund
LZS	Lembaga *Zakat* Selangor

MAIDAM	Majlis Agama Islam dan Adat Melayu Terengganu
MAIJ	Majlis Agama Islam Negeri Johor
MAIK	Majlis Agama Islam Negeri Kedah Darul Aman
MAIK	Majlis Agama Islam dan Adat Melayu Kelantan
MAIM	Majlis Agama Islam Melaka
MAIN	Majlis Agama Islam Negeri
MAINS	Majlis Agama Islam Negeri Sembilan
MAIP	Majlis Agama Islam dan Adat Istiadat Melayu Perlis
MAIPK	Majlis Agama Islam dan Adat Melayu Perak
MAIS	Majlis Agama Islam Selangor
MAIS	Majlis Agama Islam Sarawak
MAMPU	Malaysian Administrative Modernisation and Management Planning Unit
MASB	Malaysian Accounting Standard Board
MUIP	Majlis Ugama Islam dan Adat Resam Melayu Pahang
MUIS	Majlis Ugama Islam Sabah
MAIWP	Majlis Agama Islam Wilayah Persekutuan
N	Non-financial benefit
NAD	National Audit Department
OM	Organizational management
PPZ	Pusat Pungutan *Zakat*
PUZ	Pusat Urusan *Zakat*
PZM	Pusat *Zakat* Melaka
PZNS	Pusat *Zakat* Negeri Sembilan

PZS	Pusat *Zakat* Selangor
PZS	Pusat *Zakat* Sabah
R	Reliability
RP	Responsiveness
RPT	Reporting
RT	Collection and receipt
SERVQUAL	Service Quality
SIRC	State Islamic Religious Council
SPSS	Statistical Package for the Social Science
T	Tangibles
W	Working environment
ZI	*Zakat* institution

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

The *Zakat* system is a holistic system derived from Islam, aiming for better spiritual and socio-economic states for Muslims. The system tries to help its eight beneficiaries (the poor, the needy, *'Amil*, *fi sabilillah*, *muallaf*, the slave who wants to free himself, the person in debt, and the traveller) economically and socially by improving the relationship and strengthening the brotherhood between rich and poor. According to Majid (2003), discussion on *Zakat* appears in more than forty verses in the Qur'an, one hundred and seventy (170) *hadith* and in the works of many acknowledged scholars, indicating the significance of *Zakat*. The word *Zakat* came from the root word '*Zaka'* which means cleanliness, growth, praise and blessing (Qardawi, 1980).

Zakat's functions are reflected in its literal definitions which are to purify Muslims' souls and wealth and prosperity, stimulates and strengthen the socio-economy by enhancing productivity and employment rates, providing a type of 'social insurance' system as well as addressing problems such as begging in Muslim states. In addition, *Zakat* is also intended to spread and preserve Islamic *Shari'ah* as well as to defend the Muslim community from any type of harm (Qardawi, 1980).

Zakat institutions (*ZI*s thereafter) have played a vital and critical role in Muslim societies since the early years of Islam. These institutions carry out a very important mission in achieving the objective of *Zakat* system. *ZI*s operate and administer the collection and distribution functions of *Zakat* money. They also help in

promoting *Zakat* as a part of religious and social obligations of each Muslim individual. Theoretically, *ZI*s support the organization of *Zakat* system so that it will have a great impact on Muslims society and economy.

As the *Zakat* system holds sacred and deep objectives, the role of *ZI*s are crucial and significant. The management of *ZI*s is tightly bound to its sources of funding, namely, *Zakat* payers and the wider public, as the institutions are characterized as non-profit organizations. Thus, public confidence and institutional reputation have become key factors for these organizations' survival and growth. A good reputation and public confidence enable *ZI*s to drive *Zakat* system to its full potential. On the other hand, a bad reputation and public doubt will hinder *ZI*s in operating at their fullest and best. In addition, all actions or decisions by *ZI*s are subject to accountability to the real owner of its wealth, Allah. In total, *ZI*s need to observe and show their accountability in handling *amanah* to Allah the Real Owner, *Zakat* payers, *Zakat* beneficiaries and the wider public.

In this challenging world, Malaysia is advancing to become a developed nation. From its current status as a developing country, Malaysia has only five years to reach its aim of becoming a developed country in year 2020. Dato' Sri Dr Mahathir Mohamad (1991) clearly stated that Malaysia was going forward to become a fully developed country such as the United Kingdom, Holland, Sweden and Japan.

"There can be no fully developed Malaysia until we have finally overcome the nine central strategic challenges that have confronted us from the moment of our birth as an independent nation." Among the nine challenges mentioned in his paper, three of the challenges demand the effective roles of *Zakat* system and *ZI*s in Malaysia. These three challenges are:

1. To establish a fully caring society, in which the welfare of the people will revolve not around the state or the individual but around a strong and resilient family.
2. To ensure an economically just society. This is a society in which there is a fair and equitable distribution of the wealth of the nation, in which there is full partnership in economic progress. Such a society cannot be in place so long as there is the identification of race with economic function, and the identification of economic backwardness with race.
3. To establish a prosperous society, with an economy that is fully competitive, dynamic, robust and resilient.

In overcoming these challenges, the role of *ZI*s are crucial in ensuring the optimal roles of *Zakat* system. *Zakat* system has a great potential to override these challenges. However, good management and administration of the *Zakat* system demand professional standards in accounting and auditing practices in *ZI*s. Historically, in the era of Umayyad and Abbasid, proper accounting and auditing were emphasized as very important factors to enable institutions to fulfill their accountability (Abdul Aziz, Mohd Jamil, Ismail and Abdul Rahman, 2013). History has also shown the success of the *Zakat* system in eradicating poverty and generating a perfect social system during the time of Caliph Umar Abdul Aziz. Learned from these lessons, *ZI*s in Malaysia should aim towards becoming proactive tools in supporting the country's Vision 2020.

1.2 *ZAKAT* INSTITUTIONS IN MALAYSIA

In Malaysia, there are fourteen *ZI*s in fourteen states. Each of them has its own structure and management style. The *Zakat* system is part of religious matters, which

fall under the authority of the Islamic Councils. According to the Constitution of Malaysia, rather than the federal government, the state government has the authority and control over religious institutions in their own state. All religious matters are under the control of each Administration Enactment for each state and the Act for the Federal Territory (Said, Ghani, Zawawi and Yusuf, 2012; Kaslam, 2007). Thus, federal government has no authority to manage, collect or distribute *Zakat* in states. As a result, management styles in *ZI*s vary and depend on each individual state (Amran and Auzair, 2011); thus, the State Islamic Religious Councils (SIRC) which represent each state have authority over *ZI*s, but this authority is limited to their own locality and boundary. According to the Federal Constitution, Schedule 9, List 2, Article 1:

> Islamic matters (including the management of *Zakat*) are under the jurisdiction of these 14 states managed by State Islamic Religious Council.

In states such as Kedah, Perak, Selangor, Kelantan, Terengganu, Pahang and Johor, the *Sultan* is the head of the Islamic religion. The *Yang Di Pertuan Agong* is the head of the religion in Pulau Pinang, Sabah, Sarawak, Melaka and Wilayah Persekutuan. The *Raja* is the highest authority in Perlis and the *Yang Di Pertuan Besar* leads in Negeri Sembilan. The SIRC is appointed, plays its role as advisor to the rulers and each state has its own Islamic legislation (Yaacob, 2006; Kamil, 2002 in Md. Hussain, nd). As a result, there is lack of uniformity among *ZI*s with regard to accountability and transparency in reporting their finances. They are not centrally regulated and their performances are not centrally supervised.

The Federal Government of Islamic Development of Malaysia (JAKIM) coordinates Islamic affairs nationally. JAKIM is involved in drafting and streamlining

Islamic laws and regulation and coordinating their implementation at the state level. A central unit or department, called the Department of Awqaf, Zakat and Haji (JAWHAR), has also been formed under the Prime Minister's department. The unit functions as a central department to which all *ZI*s in Malaysia can refer in order to make an effort towards better management. One unit that gathers all *ZI*s in Malaysia is the '*Majlis Agama Islam Negeri'* (MAIN). The unit has organized several programs in order for sharing ideas on *Zakat* management issues. However, their functions in the *Zakat* system remain minimal for the time being.

*ZI*s in Malaysia vary in their characteristics in terms of their organizational structure, sources of funds, types of *Zakat* collected, methods of *Zakat* collection and distribution, accounting standard practice and documents published for reporting.

1.3 PROBLEM STATEMENT

Mismanagement in non-profit and religious organizations has been an issue since the 1990s. Since then, the public's concern about the effectiveness, accountabilities and transparency in such organizations has been growing. *ZI*s as part of non-profit and religious organizations have also faced various rumours and perceptions. As reported in Kashmir Observer (2013), *ZIs* in some regions have been seen as an obstacle between *Zakat* payers and the needy and become the hindrance of proper application of *Zakat* funds. This report highlighted that the priorities of distributing *Zakat* funds have been overridden by the administration and management expenses. This became worse when the political motives intervened in the process (The Express Tribune, 2012). Improper mechanisms for identifying the beneficiaries and their level of priority also become a factor in the lack of effectiveness in *ZI*s. Furthermore, non-availability of accurate data of *Zakat* payers and beneficiaries has also been

considered as a source of corruption in *Zakat* system (The Express Tribune, 2012). Many prior studies have tested the effectiveness of *ZI*s' operations and management. In Mohd Noor, Abdul Rasool, Md Yusof, Ali and Abdul Rahman (2015), issues of fairness, appropriateness, channels, and methods of *Zakat* distributions have been discussed. The distribution of *Zakat* funds are highly dependent on the trend of paying *Zakat* and the distribution budget proposed by SIRCs.

Prior studies found that *ZI*s were not managing the *Zakat* funds in their custody efficiently. Abdul Halim, Musa, Mujaini, Hasan and Shawal (2005) and Ahmad and Ma'in (2014) discovered that *ZI*s were lagging behind in both the collection and distribution of resources, particularly in terms of technical efficiency. Ali (1990), Azizah, Musa, Ayob, Norzehan & Mohd Sayidi Mokhtar (2005), Hasan (2005), Eri (2004), Halidan (2006), Ismail (2006), Jamaliah (2004), Kamil (2005), Nur Barizah et al. (2006), Nur Fadilah et al (2006), Zainal Abidin (2006) and Ahmad Shahir and Adibah (2010) in their studies support these issues as well.

Furthermore, the credibility of *ZI*s in managing *Zakat* fund also been questioned. This is due to the findings of prior studies such as Syed Yusuf, Mastuki and Din (2011), Abdul Halim et al. (2005), Ahmad and Ma'in (2014), Azizah, Musa, Ayob, Norzehan and Mohd Saiyidi Mokhtar (2005) and Jamaliah (2004), discover there are lack of management accounting knowledge among *Zakat* practitioners.

Thus, public perception on the inefficiencies are pronounced here as distribution shows less efficiencies than collection. Besides, the exposure of accounting knowledge among *Zakat* practitioners portrays the professionalism of *ZI*s in managing *Zakat* funds. It is confirmed by the finding by Kamil (2005), Hasan (2005) and Ahmad Shahir and Adibah (2010) that most *Zakat* payers and potential *Zakat* payers were doubtful on the credibility of *Zakat* practitioners. Due to that, some

might choose to pay *Zakat* informally or not paying *Zakat* as supposed. All of the issues mentioned explained the perception of *Zakat* payers, beneficiaries and Muslim public.

*ZI*s in Malaysia have very unique features as it is legislated separately by each state authority. They are also different in terms of organizational structure. Some are government statutory bodies, corporatized and privatized. Their accounting standards vary as well. Some *ZI*s follow Treasury rulings, Malaysian Accounting Standard Board (MASB), Companies' Act, Financial Best Practice from SIRC and National Procedure for Corporate Accounting. Even some *ZI*s collect dissimilar types of *Zakat*. For example, some *ZI*s do not collect *Zakat* from KWSP. Even, in reporting and disclosing information, only three *ZI*s distribute annual report only, four *ZI*s distribute annual report and bulletins only and two (2) *ZI*s disseminate bulletins and flyers. These create inconsistencies in financial management and reporting and thus comparison of performances are hardly able to compare.

Due to the flexibility allowed in managing *ZI*s in this country, control from inside organizations has been a crucial factor in ensuring appropriate management and accountability practices. Weak control may invite unpleasant situations such as intentional or unintentional mismanagement, scandals or doubts among stakeholders. Several examples have arisen in the past and been found in yearly reports from the Malaysian Auditor General and Public Accounts Committee showing that considerable mismanagement occurs in government agencies or non-profit institutions such as the Pilgrimage Fund, the Employee Provident Fund and the Farmers' Land Development Authority (Bakar & Saleh, 2011).

Therefore, in order to have legitimacy for their existence and functions, *ZI*s must observe best management practices in their operations. In addition, as Amran

and Auzair (2011) state, because the trust or *amanah* are given to *ZI*s, management effectiveness has always been a subject of interest among stakeholders. This is where the primary subject of how important the financial management best practices adopted in *ZI*s are.

All these differences among *ZI*s are the major matters of concern which make the accountability and financial management practices become the key concern here. Public societies as a major source of fund in these institutions and as beneficiaries of those funds have their own interest on these issues. They insist on information regarding how their paid money have been managed. They want to know the performance of these institutions to ensure these institutions operate within the accountability and transparency framework. These are the reason why this study should be conducted.

1.4 OBJECTIVES OF THE STUDY

The study is inspired to realize these four objectives as follows:

1. To identify the current implementation level of FMPs in *ZI*s.
2. To highlight the significant weaknesses in the implementation of FMPs in *ZI*s.
3. To test the efficiencies of *ZI*s from the perspective of management, employees and customers.
4. To ascertain the relationship exists between FMP and FPI in *ZI*s.

As the study concerned on the FMPs of *ZI*s, six areas have been examined:

1. Organizational management
2. Management of *Zakat* collection and other receipts
3. Management of *Zakat* distribution and other expenditures

4. Management of assets
5. Management of budgeting
6. Management of reporting

These six areas are among the crucial part in financial management introduced by National Audit Department in Malaysia (Bakar & Ismail, 2010). On the other hand, the efficiencies of *ZI*s are based on three perspectives or dimension proposed by Said et al. (2012). They are:

1. Financial performance index (FPI),
2. Employee satisfaction index (ESI) and
3. Customer satisfaction index (CSI).

1.5 RESEARCH QUESTIONS

Below are the research questions for the study:

1. What is the level of current implementation of FMPs in *ZI*s?
2. What are the significant weaknesses in the implementation of FMPs in *ZI*s?
3. What are the efficiency levels of *ZI*s from three different perspectives? i.e management, employees and customers.
4. What is the relationship between FMP and FPI in *ZI*s?

Six financial management practices were examined and the financial management practices were compared to its performance in order to reveal the best *ZI* practices. Outcome of this study are the potential areas for improvements in practices and performances. In this study, 'Financial Management Benchmark' and 'Performance Measurements for *ZI*s' are produced as tools in examining the financial management practices and performances in *ZI*s. Common financial management practices will

enable *ZI*s to be compared fairly. Table 1.1 on p. 10 summarizes the research objectives and research questions:

Table 1.1 Research objectives and research questions

Research Objectives	Research Questions
1. To identify the current implementation level of FMPs in *ZI*s.	What is the level of current implementation of FMPs in *ZI*s?
2. To highlight the significant weaknesses in the implementation of FMPs in *ZI*s.	What are the significant weaknesses in the implementation of FMPs in *ZI*s?
3. To test the efficiencies of *ZI*s from the perspective of management, employees and customers.	What are the efficiency levels of *ZI*s from three different perspectives? i.e management, employees and customers.
4. To ascertain the relationship exists between FMP and FPI in *ZI*s.	What is the relationship between FMP and FPI in *ZI*s?

1.6 SIGNIFICANT OF THE STUDY

Muslims nowadays are more demanding for accountability and transparency. They are so concern on the impact of *Zakat* systems towards society. They always want to see apparent performance of *ZI*s particularly in solving social problems such as begging, poverty as well as bankruptcy. In Malaysia, the Muslim always want to see the role of *ZI*s in eradicating poverty and develop a harmony social and economic systems. These advocates the country towards achieving its vision 2020. Highlights in news and bulletins about the contributions of *ZI*s give better impression and satisfaction to the Muslims. However, rumors about inefficiency in distributions as well as in solving social problems will raise the disappointment and reduce self-assurance among *Zakat* payers and *Zakat asnaf*.

The motivation of this study is rooted from the emergence of demand in the accountability and transparency in *ZI*s' operations. Proper accounting and auditing systems are required by *ZI*s in order to become proactive, efficient and effective in their operations and programmes. Thus, the study focus on the six financial management practices as well as its performances. Systematic and documented

financial management practices might also assist *Zakat* managers to be aware on the needs of observing accountability and transparency to its stakeholders. In addition, it might help the managers in recognizing the specific areas they might oversight and miss, thus improve their performance in future.

In addition, this study examines the current financial management practices of *ZI*s through a framework adopted from various sources of literature; the Financial Management Accountability Index (FMAI) and framework proposed by Said et al. (2012) and Berry, Parasuraman and Zeithaml (1994). This research will pave the way for the development of *Zakat* in terms of its financial management practices. It also advocates appropriate regulations and guidelines in ensuring a fair and just environment in such charity organisations.

Finally, this study is expected to make an influential and valuable contribution in this field of study. From the research, the proposed benchmark and performance measures can be an appropriate guideline for *ZI*s to assess their performances. This study may bring new perspectives by providing a competitive environment for *ZI*s in Malaysia and consequently promoting efficient and effective operations. Therefore, the uniqueness and values of this study may lie in bringing out the aforementioned constructive ideas and insights.

1.7 ORGANIZATION OF THE CHAPTERS

The dissertation is structured as follow:

Chapters	Descriptions
Chapter 1	Introduction
Chapter 2	A Review of Literature
Chapter 3	Conceptual Framework
Chapter 4	Research Methodology
Chapter 5	Findings and Discussion
Chapter 6	Conclusion and Recommendation

Chapter One provides the background of the dissertation, the motivation that encourages the study, and the purpose of the research as well as questions that guide the research progress. Chapter Two reviews prior research and literature to further understand the background of research on this topic. The study is intended to fill in the gap in the research field.

Chapter Three gives an in-depth appropriate understanding of the framework of the study. This will guide the explanations of the findings of this study. Chapter Four discusses methods used in executing the research. Next, Chapter Five presents the findings and discussion. Finally, Chapter Six concludes the paper and highlights the limitations existing in the study.

CHAPTER TWO

A REVIEW OF LITERATURE

2.1 INTRODUCTION

Chapter One briefly explain the reasons for this study. First, this chapter gathers all prior researches regarding financial management in general (Section 2.2) and performance in general (Section 2.3). Section 2.2 covers several studies on six financial management practices: organizational management; collection and receipt; distribution and disbursement; asset management; and budgeting and reporting. Section 2.3 discusses four composite performance measures: the financial measurement, employees' satisfaction and *Zakat* payer and *Zakat Asnaf* SERVQUAL. This review of prior researches will gives an impression of the important aspects in this research. Furthermore, section 2.4 identifies the reasons of *ZI*s' adoption of financial management and performance in Malaysia, and lastly, section 2.5 summarizes this chapter.

2.2 FINANCIAL MANAGEMENT: AN OVERVIEW

Financial management has been defined by Solomon and Pringle (1980) as "the efficient use of an important economic resource". Kuchhal (1985) states "Financial management deals with procurement of funds and their effective utilization in the business". Howard and Upton (1961) explain it from the decision making perspective, as "an application of general management principles to the area of financial decision making'. Similarly, Massie (1997) explains financial management as "the operational activity of a business that is responsible for obtaining and effectively utilizing the

funds necessary for efficient operations" (cited in Paramasivan and Subramaniam, 2009). These definitions highlight that financial management is concerned with the efficient and effective used of funds. In administering funds, there are certain principles that should rule the decision making and control. In other word, with the limited sources of fund, efficient and effective usage will lead to optimal outcomes.

Studies in financial management have been extending` from the corporate environment to the public sector. Even though the aim would be different in profit organization and nonprofit organization, the concept applies are same in many respects. The different is just the matter of how we measure the final outcomes. In nonprofit organization, financial management is aimed to properly discharge accountability and demonstrate stewardship in managing public fund. Financial management in nonprofit organization should dictate organization in providing socially desirable need on ongoing basis (Blackboad, 2011). Money donated should be used for the purpose intended by the donor.

In history, the accounting and auditing for *Zakat* has been developed since the era of Caliph Umar Al-Khattab. There are four main journals or books established during the time; *Zakat* journal, expenditure journal, funds journal and confiscated journal. *Zakat* journal will be authorized by Sultan himself and has two columns; payers' column and recipients' column. There are four main books at least been used for recording and safekeeping *Zakat* funds; daily book, book of budget, book of transfer and book of review. Daily book has been used to record any financial transactions and expenses associate with *Zakat* journal. Book of budget has been used to record budget expenses, monitor regional expenses and supervise the budget compliance in each province. Book of transfer was used for the purpose of recording and transfer between central and province. Book of review on the other hand is the

book of auditing (Abdul Aziz et al, 2013). These documents and books prove that at least four areas have been covered in the financial management during past periods; receipt, expenditure, budget and assets management. These four areas also been highlighted as well in other paper such as Blackbaud (2011). This might indicates the four areas as the most significant areas in financial management in nonprofit organizations.

The Financial Management Accountability Index (FMAI) developed by the National Audit Department of Malaysia provides a very significant framework of guidance to channeling the management controls. Bakar and Ismail (2010) briefly explained the FMAI elements. There are nine elements included in FMAI, which are organizational management control; budgetary control; receipt control; expenditure control; management of trust funds, trust accounts and deposits; management of assets and inventories; managements of investments; management loans; and financial statements. Table 2.1 on p. 16 illustrates the nine elements and their basis of assessment. However, the study adopted only six financial management areas from Bakar and Ismail (2010), as these are the basic areas for all organizations.

FMAI framework should has become a standard guideline in current accounting practices in all organizations particularly in government sector. It has been implemented since 2008 and the current practices were assumed to continue until now. However, lack of public disclosure on this matters. Bakar and Ismail (2011) re-illustrate FMAI and it's significant. FMAI has been used as a tool to evaluate the current practices of Ministries and States government. FMAI also as 'a part of efforts undertaken to curb the problem of mismanagement and overspending of public fund'. FMAI also been used to identify areas of improvements in its financial operations and performance (NAD, 2008). Furthermore, it serves to foster healthy competition

among the evaluated organizations (Bakar and Ismail, 2011). Therefore, FMAI is a very useful tools to access FMP of *ZI* as *ZI* includes not only state government but some are also corporate and private agencies.

Table 2.1 Nine elements in FMAI

No.	Elements of Assessment	Basis of Assessment
1	Organizational Management Control	Evaluate the effectiveness of structure, system and procedure on financial management.
2	Receipts Control	Test receipts are effectively managed according to standard procedures and laws.
3	Expenditure Control	Test expenditures have been approved and utilized according to the determined goals.
4	Management of Assets and Inventories	Test the management, safeguard and reporting to be accordance with stipulated rules and regulations.
5	Budgetary Control	Test budget is appropriately planned, prepared, allocated and managed according to regulations and goals.
6	Financial Statements	Test the financial performance (profit and loss, liquidity ratio) and the submission of financial statement (completeness and timeliness).
7	Management of Trust Funds, Trust Accounts and Deposits	Test the managements to be in accordance with stipulated objectives, accounted correctly and adequate records are maintained.
8	Management of Investments	Test its management to be accordance to the approved limit and relevant records are maintained and updated.
9	Management of Loans	Test loan to be appropriate and well managed.

Many past studies such as Ibrahim, Ihsan and Ayedh (2007), Bowrin (2004), Duncan, Flesher, and Stocks (1999), Okello-Obura and Kigongon-Bukenya (2008), Siraj, Ibrahim, and Sulaiman (2007) and Hareed (2008) have discussed the individual elements in management controls. These researchers view financial management elements in detail and assess various non-profit organizations' financial management and internal controls.

2.2.1 First FMP element: Organizational Management

NAD (2008) lists four elements of organizational management which are organizational structure; system and procedure; committee and internal audit; and human resource management. The first indicator in organizational structure is the organizational chart. Generally, the organizational chart tells the public who has been entrusted with managing the organizational affairs and for what matters, i.e. 'who is who' and 'who does what'. Rohitha (2011) lists five functions of the organizational chart. This information assists management in defining job responsibilities, breaking the job to specific tasks, elucidating the work relationship between team leader and subordinates, an establishing the hierarchical structure of decision making and power, and provides the information portal for the organization. Thus, the presence of a clear organizational chart indicates good organizational management in an organization.

Among the indicators in the second measure is a desk file which contains several important aspects of doing a job; objectives of the organization and of each department, organizational chart, job scope and the interrelationship between each job area, administration procedure, work process, work flow chart, checklist, rules lists, forms used, work norm and daily work lists (MAMPU, 1991). The other indicators are detecting system and accounting record spot check. Bowrin (2004) also points out the importance of providing clear a job scope of the financial secretary or treasurer of an institution.

Committee and Internal Audit Units cover the establishment of financial and management accounts committee, internal and external audits, and the quarterly reports. Ibrahim et al. (2007) listed the duties of segregation and the qualification as important elements in ensuring a *ZI*'s good internal control. The segregation of duties is defined by Ibrahim et al (2007) as "separation between those who record

transaction and those who process the transaction". This element is an important factor for a *ZI* in order to reduce the level of inaccuracy, omission, manipulation and misuse, particularly in the collection of *Zakat*, distribution and expenditure as well as in any capital transaction. In addition, additional checks by different people verify the records.

The other element is the importance of ensuring the qualification of advisers and staff. Independent and professional advisers and competent, appropriately trained and qualified staff performing task to improve the internal control of *ZI*s. In addition, *ZI*s should pay attention to any advice and recommendations from accountants or independent examiners.

2.2.2 Second FMP element: *Zakat* Collection and Other Receipts

Zakat collection is among the most crucial elements in *ZI*s. It is essential to assess appropriate management of *Zakat* collections in order to ascertain whether the collections are effectively managed with appropriate safekeeping and have accurate and complete accounting records. *ZI*s must have control over incoming funds and ensure the *Zakat* collections are received (Ibrahim et al., 2007).

Thus, the control of revenue forms, receipt of monies, banking in collections, accounting control of receipts or revenue receivable and management of account receivables have been named the five indicators of collection and receipts best practices (NAD, 2008).

Siraj et al. (2007) further listed briefly some procedures that should exist in the area which consists of physical custody of receipt and collection, segregation of duties, recording the collection and banking related procedures. Duncan et al. (1999)

developed internal control questionnaire which also cover cash receipts. This questionnaire has also been adopted in this study.

Prior studies shown that the segregation of duties in collection and receipt processes in an institution are highly related to the size of the organization (Duncan et al., 1999). This means larger institutions tend to have better internal controls than smaller ones. For example, the Presbyterian Church (USA) and United Methodist Church tend to have better internal controls than the Southern Baptist churches. This is due to the former being more centralized in their administration compared to Southern Baptist churches, which are autonomous (Duncan et al, 1999).

According to Bowrin (2004), several shortcomings of Trinidad and Tobago religious organizations are failures to notify contributors by giving copies of receipts, failure to encourage officers to use cheques when making offerings, and no periodic notice for contributors. All these mistakes affect the internal control performance of the organizations.

2.2.3 Third FMP element: *Zakat* Distribution and Other Expenditures

Zakat distribution and expenditures is an essential area in financial management. According to Shariff, Jusoh, Mansor and Jusoff (2011), inefficiency and lack of transparency in distribution are the main reasons for Muslims not paying *Zakat* via *ZI*s. Thus, the evaluation of *Zakat* distribution is very important in order to ensure authorized distribution and optimum administration of *Zakat* distribution.

NAD (2008) suggests three indicators for the financial management are; accounting control, payment management and procurement management. Appropriate and updated accounting records will prevent wastage, misappropriation and loss of *Zakat* funds. In addition, Duncan et al. (1999) and Siraj et al. (2007) state

that the segregation of duties is important in handling the outflow of resources in organizations. Further, appropriate use of documents such as payment vouchers and invoices in advance payments and claim procedures are important to prevent misappropriation in the process.

In addition, appropriate documentation of distribution enables *ZI*s to be efficient in providing information to *Zakat* stakeholders. It is very important to let *Zakat* payers know about distribution activities as they are the source of funds for *ZI*s (Wahid, Ahmad and Kader, 2009).

2.2.4 Forth FMP element: Asset Management

Seven indicators are used in FMAI for asset management. These are general control; collection; registration; usage custody; and inspection, asset maintenance, disposal and write off (NAD, 2008).

Assessment of asset management is a necessity in order to ensure the assets of a *ZI* have been appropriately managed, safeguarded and reported. This includes the protection procedure, authorization to access, asset maintenance, insurance coverage and registration of assets. *ZI*s should ensure the safekeeping of assets so that they can be used effectively in order to promote the objectives of the *ZI* (Ibrahim et al., 2007). The Ministry of Finance for British Columbia Province (2013) lists five main objectives of asset management, which include maintaining accurate timely asset information for decision making and reporting as well as encouraging efficient and effective use of the assets.

2.2.5 Fifth FMP element: Budgeting

Budgeting is essential in *ZI*s in order to manage and control *Zakat* and other funds. Annual budgeting also reflects the cash flow within the organization (Siraj et al., 2007). Bragg (2010) listed five objectives of budgeting which are to direct the organization in future; to predict cash inflow and outflow; to allocate funds for resources or assets; to have a backup plan; and to play a role as a financial performance measure. Furthermore, budgeting processes should cover budget preparation, allocation distribution, and approval of virement, monitoring of expenditure and reporting (NAD, 2008).

The assessment of budgeting is important in order to ensure the budget is appropriately planned, prepared, allocated and managed according to authorized objectives and for legal beneficiaries. It includes making an appropriate budget, ensuring the distribution and approval of allocation, performance monitoring and budget report prepared and submitted in a timely manner. Managers should work within an agreed budget, undertake full financial planning and prepare realistic estimates, particularly for expected income and expenditure (Ibrahim et al., 2007).

Budgeting always demands of trustees to work within estimated or defined budget limits. In budgeting, full financial planning should be undertaken, particularly in preparing expected income and expenditure. It needs to be realistic and always prevent elements of budget pad. Budgeting also provides other controls, such as control over incoming funds, expenditures and assets (Ibrahim et al., 2007). Among the benefits of budgeting are that it ensures the receipt *ZI*s are entitled to, appropriate authorization of disbursements, and safekeeping and effective and efficient usage of *Zakat* assets.

Okello-Obura and Kigongon-Bukenya (2008) highlighted six key issues in budgeting in the context of universities in Uganda. The issues are the understanding of budgeting system used and factors that affect finance; spending within budget limits; routine budgetary review for performance; use of financial committee and effective use of money. Thus, in implementing good budgeting, all six key issues should be addressed.

However, implementation of appropriate budgeting must be parallel with knowledge as to the purpose of budgeting. This is supported by Mitchell (2007), who verifies the existence of relationship of goal-setting and financial management. Thus, it is very important to ensure that the implementation of budgeting is not only ceremonial and does not progressively affect performance. Syed Yusuf, Mastuki and Din (2011) and Azizah, Musa, Ayob, Norzehan and Mohd Siyidi Mokhtar (2005) assert that lack of knowledge as to the purpose of budgeting is the main reason for weak practices. Therefore, appropriate training is needed to ensure full comprehension of budgeting implementation in an organization.

2.2.6 Sixth FMP element: Reporting

The reporting of Income statement, Statement of Financial Position, Cash Flow and Equity Statement of *ZI* are not merely for the purpose of disclosure, but also with the objectives of discharging and fulfilling of *amanah* (trust) in *ZI*'s resources. Do, Davey and Coy (2011) also assert that the annual report is one of the means of discharging accountability. Several studies have also stated that an annual report enables public entities to discharge accountability to various stakeholders (Coy, Fischer and Gordon, 2001, Banks and Nelson, 1994, Ryan, Stanley and Nelson, 2002, Boyne and Law, 1991).

In order to discharge public accountability and stewardship and to be a highly valued organization, a *ZI* needs to produce a transparent, full disclosure, true and fair view report. Hence, the reports should be subject to scrutiny by an external auditor (Ibrahim et al., 2007). The objective of an annual report is to be consistently transparent to the public. The research also suggests that reporting should be done according to the Statement of Recommended Practices (SORPs) from the Accounting Standards Board (ASB).

Based on the National Audit Department (NAD)'s FMAI, a financial statement includes the items of assets, liabilities, equity, profit and losses which are presented in the Balance Sheet statement, Income Statement, Cash Flows and other reports. The financial statements of *ZI*s will be assessed on their financial performance and the timely submission of those statements. Hail (2012) states that the purpose of financial reporting is to 'assist in internal decision making and customers' portfolio choices' and therefore he took the importance of relevancy, accuracy and timeliness characteristics as the motivations for his research.

Annual reports should include a comprehensive review of activities conducted for each accounting period. Accounting records such as cash book, invoices and receipt need to be kept for at least 7 years (Companies Act, 1965). By making the information always available, transparency can also been achieved. Transparency practices include the willingness of an organization to "publish and make available" important information about the organization (Charity Navigator, 2011).

In addition, appropriate dissemination of information, particularly about distribution may influence the performance of collection in *ZI*s. This is found by Wahid, Ahmad and Kader (2009). Supporting this, Htay and Salman (2014) claim

that the disclosure of financial information should be appropriately guided. Their study revealed that disclosure on accounting policy and changes and board of trustees, risk management, statement of internal control, important highlights, disclosure on *Zakat* collection and distribution and statement of cash flow are the crucial components of reporting.

2.3 PERFORMANCE IN *ZAKAT* INSTITUTION: AN OVERVIEW

Financial management has been found to be very closely related to the performances of organizations. As part of the public sector, SIRCs throughout Malaysia have become a widespread subject of research. As in Wahab and Rahman (2011), the efficiency performance in *ZI*s was evaluated and five tested determinants were found to be significant in management activities. They are *Zakat* payment system; computerized *Zakat* system, board size; audit committee; and decentralization. These elements show the significance of organizational management, collection and receipt, as well as distribution and disbursement as critical financial management areas. There is no doubt that the technological advances in financial management practices also contribute to the effectiveness of this management (Wahab & Rahman, 2012; Wahab, Zainol, & Rahman, 2012; Rahman, Alias & Omar, 2012). Therefore, appropriate management control in the operations involving technology is crucial.

In an organization, the indicator used to determine the successfulness or failure of an organization is its performance (Rozman Md. Yusuf, Abd. Halim Mohd Noor, Rashidah Abdul Rahman, Mohamed Saladin Abdul Rasool & Siti Mariam Ali, n.d.). However, performance measures and indicators vary among types of entity. Profit-making companies might implement financial measure as their main performance measure, but non-for-profit organizations, such as ZIs might adopt other

types. Performance is always closely associated with efficiency and effectiveness figures. Kaplan and Norton (1992) measured performance in organizations based on financial performance, customer satisfaction, learning and growth, and internal business processes. Maltz, Shenhar, and Reilly (2003) determine performance similarly, except the assessment relies more on markets and futures. Ebrahim and Rangan (2010) include social impact in evaluating performance in an organization. As ZIs provide services and fulfill social objectives, performance measurement must comprise financial and non-financial measure (Said et al., 2012). Examples of non-financial measures are decreasing product cycle time, service delivery performance, customer satisfaction and employee satisfaction. Fernandez (2002) suggests that non-financial measures deal with the cause, are not difficult to manipulate, can be calculated rapidly and are more meaningful than financial measures. Therefore they can affect the financial measures in the long run (Reichheld & Sasser, 1990; Zeithaml, Berry & Parasuraman, 1996; Agus, Krishnan & Syed, 2000).

Performance measurement has become a very important concept in assessing the ability of an organization to achieve its aims. Due to the demand for accountability and result-based achievements, performance measurement is needed (Mohd Noor, Abdul Rasool, Abdul Rahman, Md Yusof and Ali, 2012). The existence of performance measurement in ZIs enables appropriate assessments of the achievability of organizations' objectives.

Related to this, this study tries to integrate the performance measurements by Mohd Noor et al. (2012), Said et al. (2012) and others in order to produce a relevant performance measure. Mohd Noor et al. (2012) propose four dimensions of measures: input, process, output and outcome. The dimensions represent process in ZIs so that the performance can be assessed at any time during the period of operations. The

paper also specifies several elements in an institution to be measured under the four dimensions (Table 2.2 on p. 26).

The framework of performance measurement proposed by Mohd Noor et al. (2012) is appropriate for ZIs as their performance is influenced by the four dimensions: input, process, output and outcome. This is consistent with the frameworks of Mohd Noor et al. (2007) and Keehley and Abercrombie (2008).

Said et al. (2012), in contrast, measured the performance of ZIs with three elements; financial performance index, employee satisfaction index and customer satisfaction index (Figure 2.1). However, as the performance of ZIs is affected by a continuous process, therefore, it could be useful to combine the frameworks of Said et al. (2012) and Mohd Noor et al. (2012). This combination will create a continuous performance measure which will cover four aspects of performance, i.e input, process, output, and outcome.

Table 2.2 Operations of Performance Measurement (Mohd Noor et al., 2012)

Dimensions	**Examples**	**Dimensions**	**Examples**
Input	Organization's infrastructure Distribution budget Database system Number of staff Understanding level of *Asnaf* and staff Employment status of staff Level of competency of staff	Output	Appropriateness of assistance Sufficiency of assistance given Status of collection Status of distribution Efficiency of resources used
Process	Collection and distribution procedures Identification of *Asnaf* Selection process Time taken for approval Training Accounting & auditing systems	Outcome	Number of recipients no longer receiving aid due to increase in economic status Perception of service rendered Accountability

Input refers to the resources spent on a program. According to Schacter (1999), it is easy to obtain and simple to measure but contributes little to measure performance. Measures from input can be the organizational structure, distribution budget, database system, number of staff, understanding level of *Asnaf* and staff, employment status of staff, and level of competency of staff.

Process dimension is the identification process of those who have the right to receive *Zakat*. According to Sullivan (1995), process is measured frequently. In these dimensions, collection and distribution procedures, identification of *Asnaf*, selection process, time taken for approval, training, and accounting and auditing system are measured.

Output refers to completed activities, but it is not a final result. Sullivan (1995) states that measuring output is challenging when there are multiple goals and diverse recipients; thus, attributing output is difficult. Output in ZIs measures appropriateness of assistance, sufficiency of assistance given, status of collection, status of distribution and efficiency of resources used.

Outcome is the consequence of the process and output (Keehley and Abercrombie, 2008). Outcome should be checked with the goals of an organization. Therefore, proxies of outcome are the number of recipients no longer receiving aid due to an increase in economic status, perception of service rendered and accountability. Table 2.2 on p. 26 shows the integration of the performance measure. The proposed performance measurement for ZIs can be seen in Table 4.11 on p. 67, Table 4.12 on p. 71 and Table 4.13 on p. 71.

Said et al. (2012) proposed a composite performance measurement (CPM) for ZIs cover four elements in their research framework: financial measurement, employee satisfaction, *Zakat* payer and *Zakat Asnaf*.

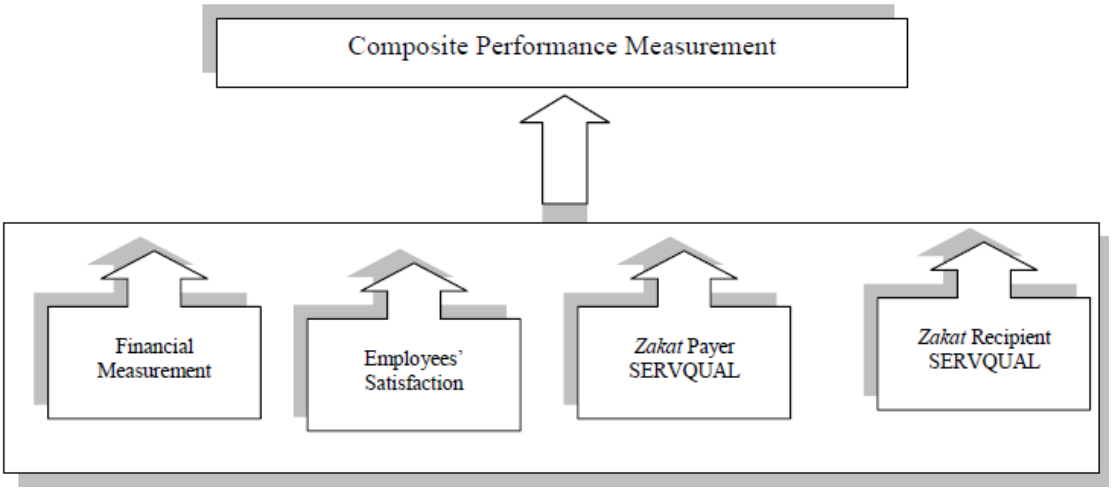

Figure 2.1 Composite Performance Measurement
Source: (Said, Ghani, Zawawi & Yusof, 2012)

2.3.1 First CPM: Financial Measurement

Said et al. (2012) proposed a method in evaluating performance in ZIs. There are three aspects to be evaluated: financial performance, employees' satisfaction as well as customers' satisfaction.

The majority of researchers see financial aspects as a measurement for performance. Hansen and Wernerfelt (1989), Wiklund and Shepherd (2003) and Galbreath (2005) agree that financial performance is essential as it gives an objective result, is easy to measure, easy to translate to performance level, and is always available in the annual report. Carmeli and Tishler (2004b) state that revenue collection is part of the financial performance measurement index for religious organizations. Further, Carmeli and Tishler (2004b), Hansen and Warnerfelt (1989), and Galbreath (2005) include market growth as part of the financial performance measure. These are suitable as part of a ZI's financial performance measurement tools (Said et al, 2012). *Zakat* collection and the coverage of *Zakat* practices can be significant tools in determining a ZI's performance.

As a ZI is very different in nature from a profit-making organization, ZI have to adopt different financial measures that are suitable for assessing the performance of the non-profit organization. Said et al. (2012) proposed nine types of ratios to assess ZIs, as shown in Table 2.3 on p. 29.

Table 2.3 Financial performance measurement (Said et al., 2012)

Number	Financial performance measure
1	Total *Zakat* collected for the year in proportion to projected *Zakat* collection for the year
2	Total *Zakat* collection for the year in proportion to cost of employment for *Zakat* collection for the year
3	Total *Zakat* distributed for the year as proportion to total *Zakat* collected for the year
4	Total *Zakat* collection for the year as proportion to number of employees for the current year
5	Total administrative cost for the year in proportion to total *Zakat* collected for the year
6	Total *Zakat* collected for the current year in proportion to number of Muslims population during the year
7	Number of *Zakat* recipients receiving *Zakat* assistance for the current year in proportion to number of applications for assistance
8	Percentage increase of *Zakat* collected as compared to previous year
9	Percentage increase of *Zakat* payers as compared to previous year

2.3.2 Second CPM: Employees' Satisfaction

The performance of an organization is closely related to the service quality of its employees. Therefore, some research includes employee satisfaction as part of the performance factor. Cole and Cole (2005), Reichheld and Sasser (1990), Zeithaml, Berry and Parasuraman (1996), Agus (2004) and Markos and Sridevi (2010) support this relationship.

Good services from staff lead to good performance (Gregory, 2011). Good services are derived from a high level of satisfaction of employees. Therefore, the employee satisfaction index can be a tool in measuring the performance of ZIs. This is supported by Said et al. (2012). Ingram (2013) lists four elements to be evaluated in

employees satisfaction: personal respect; growth opportunities; management styles; and company culture. The working environment is a further examination of the aspects of facilities design, technology and equipment, office furniture and flexibility and customization.

Said et al. (2012) proposed employees' satisfaction index as in table 2.4 on p. 30. The employees' satisfaction index determines the performance of ZI through four elements: knowledge advancement benefit; financial benefit; non-financial benefit; and working environment.

Table 2.4 Employees' satisfaction index (Said et al., 2012)

Number	Index
1	• Knowledge advancement benefit • Receiving supervision and feedback, training and development provided by the organization • Opportunities for knowledge personal development • Scholarship for higher education
2	• Financial benefits such as bonus and overtime pay • Opportunities for job promotion and career advancement • Personnel loan, housing benefit, car loan, medical benefit, insurance benefit, pension benefit, salary structure and long-term welfare
3	• Non-financial benefit: the organization provides you with the type of benefits needed • Provision of type of benefits to fulfill family needs • Understanding organization's benefit options • Organization provides comparable benefits favorable with other organizations • The organization provides personal assistance program
4	• Environment: Departmental cooperation • Inter-departmental cooperation • Organization and structure • Assigning clear responsibilities, working environment, IT facilities, adequate level of safety and health standard, fairness of the way the company treats all employees • Teamwork within your department

2.3.3 Third and fourth CPM: *Zakat* payer and *Zakat* recipient SERVQUAL

An organization serves its customers. Therefore, customers' comments should be a significant factor in evaluating the performance of the organization. Customers define the goal achievement, availability and responsiveness level that they received from services. Adolphson, Eklof, and Parmler (2012), Carmeli and Tishler (2004a), and Wiklund and Shepherd (2003) are of the same opinion about including customer satisfaction in determining the performance level of an organization. Naik, Gantasala, and Prabhakar (2010) state that the Service Quality (SERVQUAL) method is the most suitable for developing a customer satisfaction index (Lavesque and McDougall, 1996; Jeffer, 2003). It involves five elements, which are tangibles, reliability, responsiveness, assurance and empathy. The distribution of scores as in Table 2.5 on p. 31 have been resulted from the SERVQUAL study by Berry, Parasuraman, and Zeithaml (1994) in their study on the improvement of service quality in America. The percentage indicates the importance of each element.

Table 2.5 Five elements in SERVQUAL

Elements		Definition	Percentage
(1)	**Tangibles**	Appearance of physical facilities, equipment, personnel and written materials	11%
(2)	**Reliability**	Ability to perform the promised service dependably and accurately	32%
(3)	**Responsiveness**	Willing to help customers and provide prompt service	22%
(4)	**Assurance**	Employees' knowledge and courtesy and their ability to inspire trust and confidence	19%
(5)	**Empathy**	Caring, easy access, good communication, customer understanding and individual attention given to customers	16%

While many researchers adopted and adapted SERVQUAL, there are other model being proposed to fit into various types of organizations. For example, CARTER model by Othman and Owen (2001) which add on the elements of compliance in assessing customer satisfaction in Islamic institutions. Akhtar, Hunjra, Abar, Rehman and Niazi (2011) supports these elements as significant factors that positively affects customer satisfaction in Islamic Banks. Said et al. (2012) on the other hand included the compliance, but exclude assurance in their framework. Even though in Said et al. (2012) did not mentioned the rationale of including assurance in the framework, the element of compliance shows that Said et al. (2012) sees the focus on compliance is significant factor in this area of concern.

Taking into consideration all the models, and the exposure of *Zakat* payers as well as *Asnaf* about compliance of ZIs to Shari'ah, original SERVQUAL model is used in this research. The rationale behind this choice are *Zakat* payers and *Zakat Asnaf* are not been exposed to financial information of *ZI*s. In addition, these stakeholders are assumed that the *ZI* have no issues of compliance as it is the primary accountability to Allah. What are the information that always been presented or reported to them are regarding the activities, programmes, collection and distributions of *Zakat* funds which must be as required by Shari'ah. Therefore, unlike Islamic Banks, the *ZI* environment is greatly protected and should fulfil primary accountability to Allah. Thus, this study concludes that there is no issue regarding compliance in the eyes of *Zakat* payers and *Zakat Asnaf*. Thus, the original SERVQUAL is adequate for determining the customer satisfaction of *ZI*.

Said et al. (2012) proposed a customers' satisfaction index in table 2.6 on p. 33:

Table 2.6 Customer satisfaction index (Said et al., 2012)

Number	Dimension
1	Compliance to Islamic principles • Not involve in any interest paid/taken activities • Investment only in Islamic compliant financial institution • Financial transactions only with Islamic compliant financial institution • In-house religious advisors • Dispose of non-shari'ah compliant earnings • Fulfill its social role as well as promote Islamic finance • Not contradictory to Islamic teaching • Incorporate Islamic business ethical principles
2	Reliability Performance of service in a dependable and accurate manner • Knowledgeable staff • Meet deadline in providing services • Staff's show sincere interest to assist customers • Staff's provide service right the first time • Staff's give appropriate advice • Integrated value-added service that is according to Islam • Staff's ability to provide courteous and knowledgeable services • Knowledgeable and experienced management team • Friendliness of *Zakat* personnel • Wide and easy access to network
3	Tangibles Availability and appearance of facilities and personnel • Interior comfort of the organization • Physical facilities of the organization • External appearance such as parking space • Location convenience such as accessibility via public transport • Counter partitions/special room for customer with 'issues' • Materials associated with the service such as brochures or magazines • Operation hours • Number of counter during peak hours • Relevant forms associated with the service • Facilities for disabled people
4	Empathy Willingness of staff to understand the needs of customers • Employees understand customers' needs • Employees give personnel attention • Employees have a sense of humor • Employees take care of customers' specific needs • Confidentiality of customers' information • Confidentiality of customers' moral issues • Value-added services in terms of financial /personal counseling • Zero service charge • Availability of user-friendly forms • Value-added services such as photocopy service and filing forms for customers

Continued: Table 2.6 Customer satisfaction index (Said et al., 2012)

Number	Dimension
5	Responsiveness Willingness of staff to assist customers and provide prompt services • Employees' knowledgeable about *Zakat* • Employees always wailing to assist customers • Ability to fulfill individual needs • Courteous counter service staff • Fast and efficient counter service • Number of branches available • Prompt service • One-stop centre that has everything under one roof • Number of staff/counters available • Staff never too busy to respond to customers' needs

2.4 THE ADAPTION OF FINANCIAL MANAGEMENT AND PERFORMANCE MEASUREMENT IN MALAYSIAN *ZAKAT* INSTITUTIONS

In previous sections, literature on ZIs was reviewed with the aim of examining their accountability and transparency to Allah, the Real Owner, and to the Muslim public. The majority of the studies cover financial management and performances in the institutions. Amran and Auzair (2012), Hareed (2008), Sharom (2011) and Syed Yusuf, Matsuki and Din (2011) examine and argue about financial management. On the other hand, discussions on performances are also common, e.g. in studies by Said et al. (2012), Wahab and Rahman (2011), Wahab and Rahman (2012) and many others. Some of them propose composite performance measurement models and others examine the factors that determine the efficiency of ZIs.

However, none of the studies tries to investigate the relationship between financial management practices and financial performance of ZIs. In addition, none tries to create a benchmark for best practice financial management. In performance measure, although there are many proposed various performance measurements, there is lack of motivation for their adoption by ZIs in Malaysia. More extensive studies on

these measurements is required. More information on the purpose of financial management practices is needed in order to make those practices more meaningful and not only a ceremonial. Discussions on fulfilling transparency are also inadequate.

However, none of the papers relates these two elements, financial management and financial performances. Therefore, this paper intends to fill the gap, by associating financial management practices and financial performances. In addition, this study tries to look at the issue of the absence of standardization in management practices and the insufficiency of disclosure among ZIs.

These important issues have been a major cause of a low level of confidence from the perspective of *Zakat* stakeholders (*Zakat* payers, *Zakat* beneficiaries and the public), damaging the credibility of ZIs as well as suggesting a lack of professionalism and an inability to guarantee the appropriate management of funds in ZIs. These consequences affect the perception, behavior, and reliability of the institution and the satisfaction of various *Zakat* stakeholders.

Therefore, due to these considerations, this study examined current management practices of ZIs, promoted best practices in financial management and performance among the institutions and to ensure the existence of accountability and transparency in each of the organizations' operations.

2.4.1 *Zakat* Institutions: Unstandardized Administration

Currently, the administration of ZIs in Malaysia is not standardized and centralized. As each of *ZI* falls under different jurisdiction of each state in Malaysia, they employs different accounting guidelines and reporting standards. Different accounting and reporting requirements among *ZI*s in Malaysia open challenges to adopt financial management and performance best practice.

2.4.2 FMAI as the Main Benchmark

FMAI has been used by National Audit Department (NAD) in assessing government department including non-profit organizations' financial management practices in Malaysia. Due to the challenges deliberated in Subsection 2.4.1, six out of nine elements of FMAI have been selected as a benchmark for measuring financial management practices in ZIs in Malaysia. The six elements can be used as an initial guidelines in moving towards standardized accounting and reporting standards. Furthermore, FMAI can be used in examining the compliance status of ZIs to the NAD requirements.

2.5 SUMMARY OF THE CHAPTER

Section 2.1 provide the overview on the important aspect discussed in this chapter which covers various issues of financial management in general and introduces prior studies on financial management and performance. Section 2.2, discussed the six financial management practices which are organizational management; collection and receipt; distribution and disbursement; asset management; and budgeting and reporting that have been adopted for this study. In section 2.3 deliberate on the four composite performance measure by Said et al. (2012) i.e. the financial measurement, employees' satisfaction, *Zakat* payer SERVQUAL and *Zakat Asnaf* SERVQUAL. The chapter ends in section 2.4 with the various concern on ZIs highlighted by previous researchers which became the justification of ZI's adoption of 6 elements of financial management from NAD framework and 4 performance measures from Said et. al (2012) proposed in this research paper. The last section, section 2.5, summarizes the chapter.

CHAPTER THREE

CONCEPTUAL FRAMEWORK

3.1 INTRODUCTION

In previous chapter, reviews of past papers give a greater understanding of financial management and performance. Chapter Three further describes how the Islamic accountability influences the financial management practices of *ZI* and finally can affect the performance of the organizations. The chapter is significance in explaining the practices of ZIs in this study. This chapter continues with section 3.2, which explains the accountability concept in general. Section 3.3 further extends the accountability concept to the Islamic perspective. Section 3.4 relates ZIs to Islamic accountability and the next section (Section 3.5) briefly discusses the role of financial management in ZI in discharging Islamic accountability as a whole. Lastly, section 3.6 summarizes this chapter.

3.2 ACCOUNTABILITY IN GENERAL

The term 'accountability' have been described and defined by many scholars. According to Edwards and Hulme (1998), accountability is the means by which individuals and organizations report to a recognized authority (or authorities) and are held responsible for their actions. In their study of accountability in the World Bank and NGOs, Fox and Brown (1999) similarly describe accountability as "the process of holding actors responsible for actions". The definitions of Edwards and Hulme (1998) and Fox and Brown (1999) show the existence of stewardship, monitoring and supervision elements.

Paul (1991) also describes accountability as 'holding individuals and organization responsible for performance measured as objectively as possible'. Four (4) main queries also been pointed out by Mansfield (1982) regarding service delivery and performance which are, 'for what purpose the service intended, to whom the service delivered, when are the service delivered and by what means the service delivered'. These definitions extend the idea of having the responsible party, the authority who it should be reported or accountable to, the objective aims or outcomes intended, the recipients of services whose have their own expectations on how they been served.

Accountability has two dimensions which are the external dimension, i.e. "an obligation to meet prescribed standards of behaviour" and the internal dimension by "felt responsibility" as expressed through individual action and organizational mission (Ebrahim, 2003). External accountability refers to how an organization realizes its objectives in the way that the owner wants, how to prove that it operates as the owner wishes and to prove that it performs as best as it can. It is more towards system in the organization itself. For example, ZIs practice a fair system to ensure fair distribution of *Zakat* to its *Asnaf*. On the other hand, internal accountability plays a part in individuals rather than organizations. For example, staff in ZIs 'felt responsibility' to fairly judge the cases in distributing *Zakat*. Thus, this study covers the external accountability of ZIs in Malaysia.

3.3 ACCOUNTABILITY IN ISLAM

Islamic accountability has some similarities with the conventional definition of accountability but the coverage is broader and more comprehensive. In previous section, conventional definition covers the accountability among mankind

stakeholders. As conventional, Islam places high importance on the fulfillment of one's responsibility. However, Islam put further care not merely responsibility towards mankind authority, but also to the real owner, Allah SWT.

According to Islam, accountability is the main objective of Islamic accounting. Accountability can be explained via two concepts; vicegerency concept and principle-agent concept (Abdul Aziz et al., 2013). The former concept focus on the accountability of vicegerent to Allah. The latter concept stressed on the accountability to Islam, social, economic and environment. Thus, it requires thorough analysis on the effect of activities towards others. The accountability framework in Islam also has been clearly described by Shahul (2000). Accountability in Islam covers the relationship between the Real Owner (*hablumminallah*), and the relationship between the man and the mankind (*hablumminannas*). The framework has been adopted in recent studies including Hisham (2006) and Ihsan (2007).

In the relationship between Real Owner (*hablumminallah*) of the wealth, the concept of khalifah (vicegerency), *amanah* (trust) and *taklif* (accountability) are matters. Human is vicegerent (khalifah) to Allah (Qur'an, al-Baqarah: 30). The verse clearly shows that man as a trustee to the Real Owner. As it is, man is responsible to hold the intention of the Real Owner. As vicegerents of Allah, humans is responsible to uphold this *amanah* in the way that Allah wants and observe Allah's prohibition. Justice, fairness, honesty, patience, and humbleness are the features that a vicegerent should have and they should avoid fraud, anger, greed, and arrogance.

Defining an accountability framework for ZIs is crucial as a ZI is a charity based as well as it lies in the religious setting (Ihsan and Adnan, 2009). As no accountability framework developed for ZIs has been discussed before, the waqf framework proposed by Ihsan and Adnan (2009) has been adopted and modified.

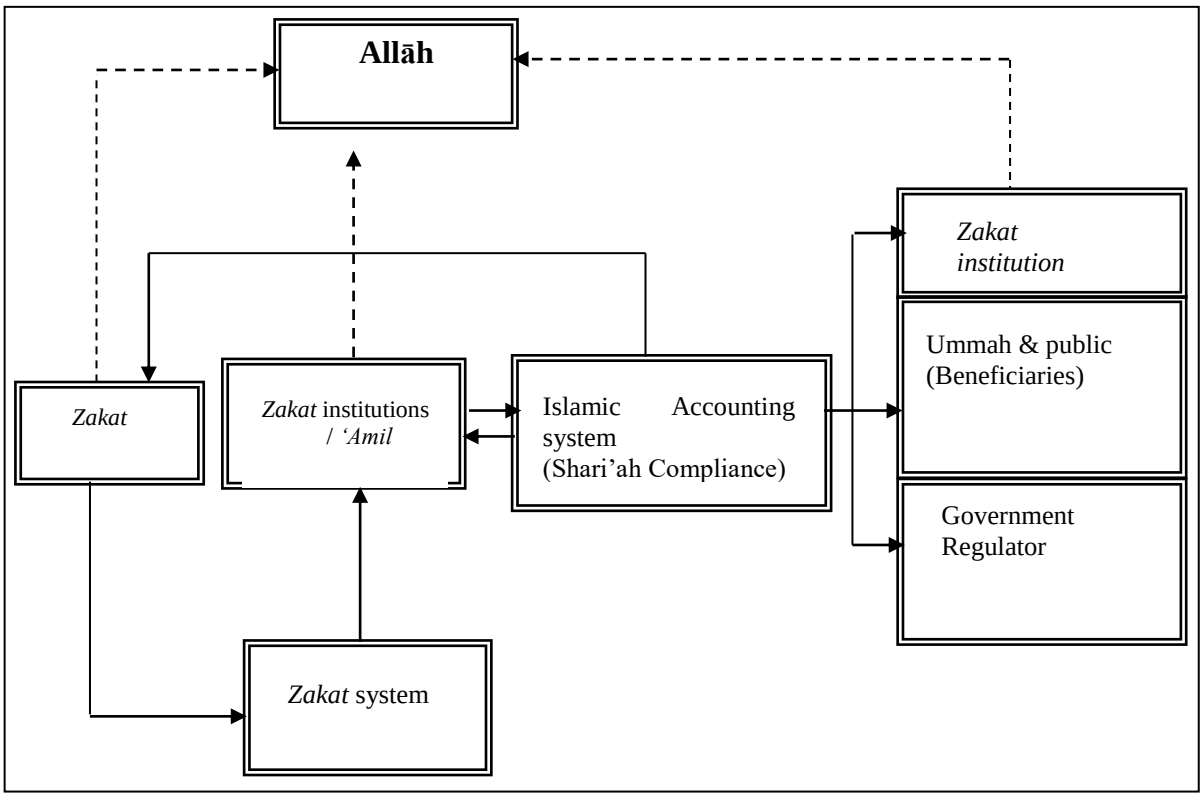

Figure 3.1 Accountability Framework
Source: (Adopted from Ihsan and Adnan, 2009)

The dashed arrows in Figure 3.1 on p. 41 show the transcending relationship, which means that all parties, *Zakat* payers, ZIs, *'Amil*, and the *Zakat* board and regulators should discharge their accountability to Allāh. In an organization, every person should fulfil their duties honestly and transparently. The accountability in Islam requires vicegerents to follow Shari'ah rules guided by Al-Quran and As-Sunnah in any activities that he do. In the relationship with the mankind (*hablumminannas*), Islam encourages Muslim to well behave with other mankind. Observing rules and *adab* (ethics) while dealing among people as well as other creatures is encouraged by Islam. Good treatment such as *amanah* (trustworthiness), honesty (truthfulness), equality, equity, mutual consent, respect, sacrifice, caring,

sharing, and concern on legality can protect and grow the relationship among mankind and bring harmony to other creatures.

However, accountability to Allāh cannot be seen separately from accountability to human beings. It is an interrelated accountability relationship (Hassan, 1995 as quoted by Ihsan and Adnan, 2009). Therefore, ZIs have to provide fair and clear reporting to prove to the users their Shari'ah compliance in managing the *Zakat* funds. Review and audit from Shari'ah advisory (Cajee, 2007) will also be good practice in order to validate the compliance.

Ihsan (2007) and Hisham (2006) explained that accountability to stakeholders could be discharged through Islamic accounting system. ZIs should provide report to *Zakat* payers, *Zakat* board, beneficiaries and Muslim community. However, what kind of information should be provided by ZIs and the priority should be discussed further. Some suggest reports based on SORP (2005) standard. It is also important to identify the interest of different parties in the stakeholders' groups so that ZIs can provide relevant information to them (Ihsan and Adnan, 2009).

3.4 *ZAKAT* INSTITUTION AND ACCOUNTABILITY

ZIs are institutions which uphold the role of *Zakat* to be functioning and operating within Muslim society. First primary accountability for the institution is accountability to the Real Owner, Allah. ZIs have to observe their operations, managements and activities to always comply with Shari'ah. In addition, they always have to fulfill the *maqosid shari'ah* (objectives of Shari'ah). In order to always in line with the accountability, ZIs should have the committee which can be a filter or checker of Shari'ah rule. For example, MUIP has a Syura committee and Majlis

Fatwa in order to supervise. Their functions should be broadened and be professionalized, similar to the function of audit committee.

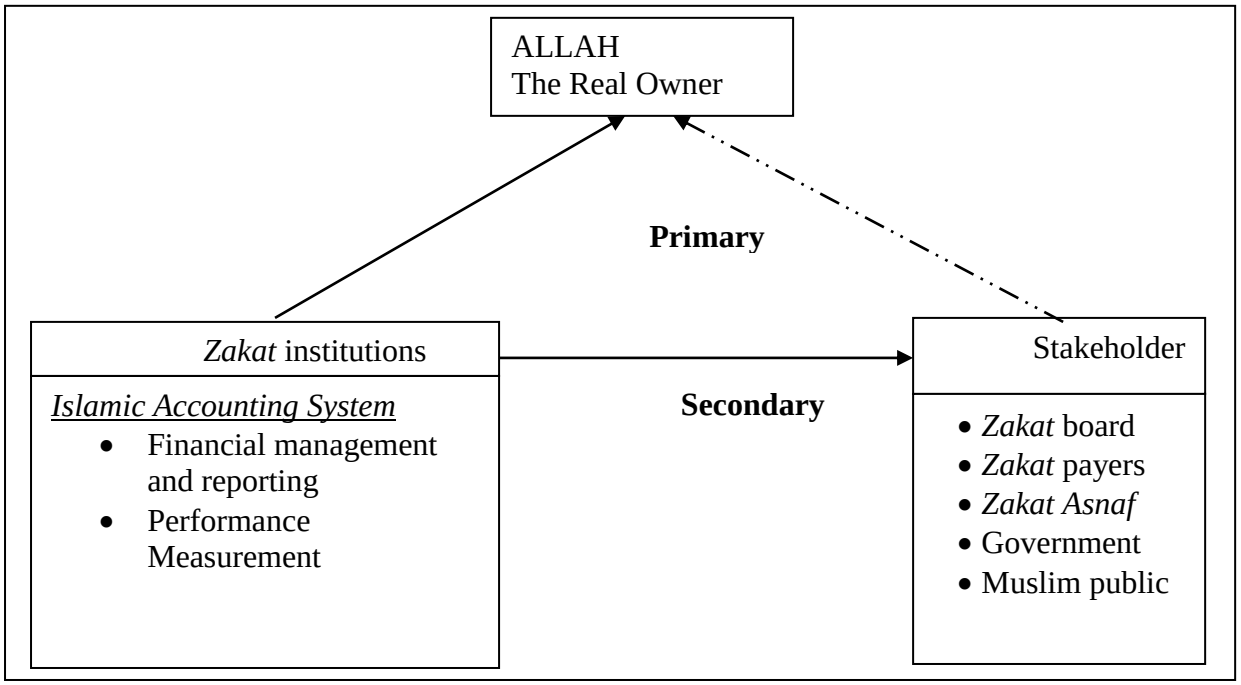

Figure 3.2 ZIs Accountability Framework

As ZIs were originally under the control of state government, the majority of *Zakat* functions are still administered by government-based departments, but a change in structure has been developed by time. Currently, the functions might be corporatized or privatized. Rashid (2008) argues that the government should not be appointed to manage *Zakat* assets due to bureaucracy and inefficiency, but suggests that government involvement is needed in monitoring through JAWHAR or MAIN. Therefore, it is as the dormant stakeholders, that the government and regulatory body may require fiscal information (Keating and Frumklin, 2003). Lee (2004) agrees that providing financial reporting to government has become compulsory as part of their external accountability and assist for better monitoring.

Zakat payers as 'donors' or fund providers will normally ask for financial information (Cordery and Morley, 2005) as well as non-financial information such as performance of *ZIs.* ZIs need to inform *Zakat* payer whether they have fulfilled the objective of *Zakat* as the *Zakat* payer wishes. Therefore, information about program is also important for *Zakat* payers. *Zakat* payers also may choose to not pay *Zakat* through ZIs if they feel dissatisfy.

ZI have to be accountable to the Muslim public by providing information on the program such as how effective ZIs are in realizing their intended outcome. Ihsan and Adnan (2009) highlight in Keating and Frumklin (2003) that the stakeholders will make decisions whether to participate and support an organization based on such non-financial information (Hyndman, 1990).

The last category is *Zakat* beneficiaries who are categorized as dependent stakeholders. They lack power (Cordery and Morley, 2005); hence it is difficult for them to pressurize *ZIs* to provide complete information for them. Their concern is only to obtain *Zakat* funds.

The ZI plays a vital role as an intermediary between surpluses of money to the areas of shortage of money. The function is roughly similar to private financial institutions such as banks, but as a distributor rather than a lender. However, as a non-profit organization, ZIs as well as other charity institutions have the unique characteristic of not having the element of ownership as do other business organizations (Duncan et al., 1999). This makes the resources of the non-profit and religious organizations vulnerable to inefficient usage and mismanagement, because managers might not consider themselves as accountable to their donors as they would to owners. Fortunately, ZIs are supposed to be bound by the Islamic accountability framework.

ZI is an organization that upholds the objectives of the *Zakat* system. ZI needs to have appropriate management practices and observe accountability and transparency to its stakeholders. According to Hameed (2000), the objective of ZI is to aid Muslims in discharging their religious financial obligation and accomplishing their *Amanah*. Therefore, this religious organization is bound to the Islamic accountability framework which encompassed the relationship between the Real Owner, Allah s.w.t. and the relationship between mankind, *Zakat* payer, beneficiaries and the Muslim public.

In ZI, rules and guidelines corresponding with Al-Quran and Sunnah must be followed and abided by. Islamic accountability naturally tends to be broader and more subjective than is the case in the West, taking on a more social character. The Islamic social order is based on the principle of equality, justice and brotherhood and the concepts of freedom and responsibility (Al-Buraey, Muhammad, & Kaseem, 1990).

According to Most (1977), contemporary accounting practices are dominated by the information needs of shareholders, creditors, and managers. However, a society dedicated to the improvement of the welfare of its members should have an information system that satisfies the needs of all interested parties such as employees, external consumer groups, government, the general public, as well as capitalists. In line with this, it is argued that Islamic accounting is a value-oriented activity, the development of which encompasses moral, spiritual, material and social aspects. Specifically, accounting from an Islamic perspective emphasizes accountability (Sulaiman & Willet, 2001).

The main objective of the institution is to achieve al-Falah, which means prosperity or success in the world and the hereafter rather than maximizing one's own self-interest. The institution collects *Zakat* from stakeholders to distribute to the

needy person. The institution has accountability to manage the fund appropriately and distribute to people who really need the fund. Furthermore, the institution is responsible for reporting its flow of funds to its stakeholders. In the relationship between mankind (*hablunminannas*), ZIs need to provide the best services in managing the funds so that they will benefit the *Zakat* payers and beneficiaries, giving satisfaction, instilling confidence and showing the credibility of the institutions.

3.5 FINANCIAL MANAGEMENT AND ACCOUNTABILITY

In ZIs, financial management has become a basic element in promoting and supporting good performance of the institutions. Financial management as a part of accounting is one of the means to discharge accountability (Ihsan and Adnan, 2009) of ZI towards its stakeholders, *Zakat* payers, *Zakat Asnaf*, Muslim public and most importantly, Allah, the Real Owner of Wealth. The concept of '*muhasabah*' encourages have continuous improvements in its performance. Therefore, a benchmark is a useful tool to help ZIs revise their own activities, controls and processes.

As a religious institution which uphold sacred role of *Zakat*, ZI is anticipated to discharge accountability to Allah and to all other stakeholders. In order to be accountable to them, the institution has to apply the best financial management practices and perform the best it can. Therefore, any rumors of mismanagement or fraud in the institution are considered as serious accusations and should be investigated. Any action that may lead to the misunderstanding should be prevented.

UNDP (1996) classifies accountability to four areas; managerial accountability, fiscal accountability, programme accountability and individual

accountability. These classification is mainly to describe accountability in public sector. As been studied by Khan (1985), Akhidime (2012) and Othman, Ismail, Syed Ismail, Saidin, Rahim and Md Saleh (2007), at least three of the four levels been tested in their studies. In Third Assembly of the ASOSAI (1985) at Tokyo, he deliberates on the independent and effective use of audit in promoting government accountability. The used the three aspects of accountability (accountability, fiscal accountability and programme accountability) which has been identified in 7th Congress of INTOSAI on 1971. Othman et al. (2007) also tested the three levels of accountability and applied it in respect of financial management in public sector in Malaysia.

Alkhidime (2012) otherwise integrates all four level of accountability in his study on public financial management in Nigeria. Fiscal accountability involves four measures which are adherence of applicable regulations, consistency with good accounting principles, accuracy and fairness of reports and the reality and legitimacy of transactions. Managerial accountability tests based on three measures which are the competency of information, operational performance and contribution to objectives. Programme accountability covers three areas which are benefits, impact and sustainability of programme organized. Lastly, individual accountability measures the commitment, honesty, integrity and transparency of individual inside the organisations.

Thus, this classification is fit to further explain the accountability in ZIs in Malaysia. Managerial accountability refers to the answerability of management towards their use of *Zakat* fund. *Zakat* management must be accountable by efficiently and effectively use the resources and avoid any waste. Fiscal accountability is the accountable by avoiding corruption and any misleading

transactions pertaining *Zakat* money. Lastly, programme accountability refers to the effectiveness of programmes organized by *ZI*s in achieving the *Zakat* objectives.

In revising current practices of financial management, ZIs must perform '*muhasabah*' or retrospection. The process is not a one-off process. It should be a continuous process. '*Muhasabah*' can be done daily, weekly, monthly and yearly. Thus, in order to be accountable, '*muhasabah*' should be done to ensure a better future. Assessment of financial management and performance are ways to perform retrospection. In addition, ZIs also have to understand the relationship of financial management practices to the performances as factors that determine the success of the institution. Good comprehension of the relationship of the two variables may encourage the optimal way of practicing financial management. Thus, ZIs can perform at their best.

3.6 SUMMARY OF THE CHAPTER

This chapter provides an extensive discussion concerning the accountability theory which can be classified into two categories, which are primary accountability and secondary accountability. This chapter further discussed the accountability framework into detail aspect i.e. stakeholders' perspective and the accounting practices (financial management and performance). Throughout the discussion from section 3.2 to section 3.5, it is clear that there is a link between financial management practices, financial performance and the accountability concepts as presented in the last framework which can be described into three levels of accountability i.e. managerial accountability, fiscal accountability and programme accountability. Finally, Section 3.6 concludes the chapter.

CHAPTER FOUR

RESEARCH METHODOLOGY

4.1 INTRODUCTION

As in the previous chapter, accountability theory will be the basis for explaining the next processes and findings in this study. Chapter Four describes the research methodology used in conducting this study. It contains the details of research objectives, questionnaire development, data collection and analysis methods employed in reaching the findings. This section will continue with section 4.2. The section encompasses research objectives and research question and its discussions. Section 4.3 elaborates on the population and sampling and the derivation of respondents. Section 4.4 and section 4.5 describes on how the questionnaire been designed and 4.6 explained how data were collected and analyzed. Lastly, section 4.7 summarizes the whole chapter.

4.2 RESEARCH OBJECTIVES AND RESEARCH QUESTIONS

The research objectives indicate the aims or goals to be achieved by the end of this study.

Objective 1:

To identify the current implementation level of FMPs in ZIs.
What is the level of current implementation of FMPs in ZIs?

Objective 2:

To highlight the significant weaknesses in the implementation of FMPs in ZIs.
What are the significant weaknesses in the implementation of FMPs in ZIs?

First research question for these objectives are ‘What is the level of current implementation of FMPs in ZIs?’ and ‘*What are the significant weaknesses in the implementation of FMPs in ZIs?’* In answering RQ1 and 2, data collected using Questionnaire 1 (Q1 thereafter) is used. The discussions on RQ1 and 2 are mainly focus on how good all six FMPs scores. The discussions were extended by highlighting the potential areas of improvement for each FMP. To further extent the discussion, the scores were compared to the measurement provided by FMAI. By doing so, the significant level of each FMP is able to be compared and checked whether it is parallel to FMAIs’. RO1 basically reflects the fiscal accountability of *ZI*s. As been discussed in Chapter 2, FMAI has been implemented as a measurement for the best FMP in various organizations in Malaysia. Therefore, the level of current implementation of FMP in Malaysia can be an indicator of fiscal accountability in ZIs.

Objective 3:

To test the efficiencies of ZIs from the perspective of management, employees and customers.

What are the efficiency levels of ZIs from three different perspectives? i.e. management, employees and customers.

RO3 covers three types of performances; financial performance, employee satisfaction and customer satisfaction. Financial performance have three component which are collection, distribution and *Zakat* coverage. The discussions encompassed on how well the *Zakat* collection financial performance, *Zakat* distribution financial performance and *Zakat* coverage financial performance. The findings also may support the fiscal accountability results in the similar areas. Employees and customer performances were measured by scaling the satisfaction levels of employees and

customers (*Zakat* payers and *Zakat Asnaf*). The discussions basically relates to the managerial accountability and programme accountability of *ZI*s in Malaysia according to the perspective of their employees and customers.

Objective 4:

To ascertain the relationship exists between FMP and FPI in ZIs.

What is the relationship between FMP and FPI in ZIs?

While the assessment of management practices stand-alone is less meaningful, the performance of the institutions gives better significance on the evaluation by answering question '*Is there a relationship between FMP and FPI?'* The results on both financial management (FMP) and financial performance index (FPI) are compared and the question is answered. The comparison is done through SPSS software.

Firstly, all variables have been determined in order to decide and general appropriate types of analysis. The variables are FMP and FPI. Secondly, possible tests are determined. The tests are Chi-square test and Correlative Bivariate test. Chi-square is suitable to test nominal and ordinal variables. Therefore, Correlative Bivariate will be the best to complement and be the major test for finding the relationship between the interval types of variables data. Finally, the tests have been generated and the results were interpreted as findings.

4.3 POPULATION AND SAMPLING

There are fourteen (14) State Islamic Religious Councils (SIRCs) or *Majlis Agama* in Malaysia which stand for a population in this study. Census sampling method is applied. Thus, this study covers fourteen (14) ZIs as research subjects. SIRCs are

Islamic bodies for every states in Malaysia which hold various religious functions. Part from those functions is *Zakat* management role which will further define as ZIs. However, each state has different structure of ZIs. Some SIRCs appointed its own departments as *Zakat* management and some others delegates *Zakat* functions to its wholly owned corporate or private company. Some SIRCs managed *Zakat* collection and distribution by its departments, some give authorization on collection to the company and manage distribution by its *Baitulmal* department and some others give delegates both collection and distribution to the company.

Because of the small number of population, all fourteen (14) ZIs (represent each state) are included in the financial management practice (FMP) assessment. The census method of sampling is feasible for small population, in protecting its accuracy and preciseness and in ensuring the completeness of this study. The representatives of each institution will be the finance or account personnel who deal directly with the financial management of the unit. This is to ensure accuracy and validity of the results. Table 4.1 on p. 52 illustrates SIRCs for each state in Malaysia.

FPI also been distributed to the same respondent as Q1 because the same representatives are accessible to the required data. Questionnaire 2 (Q2 thereafter) and Questionnaire 3 (Q3 thereafter), on the other hand, involve ten employees and ten customers of each ZIs. They are conveniently chosen and small units of participants make simple assessment. These are on the consideration of cost, time and convenience sampling. Basically, respondent employees and customers are based on accessibility during data collection process.

Table 4.1 *Zakat* institutions in states and its function/(s)

No.	State	SIRC (*Majlis Agama*) / *Zakat* institution	Function(s)
1	Perlis	Majlis Agama Islam dan Adat Istiadat Melayu Perlis (MAIP)	Collection and Distribution
2	Kedah	Majlis Agama Islam Negeri Kedah Darul Aman (MAIK) - Jabatan *Zakat* Negeri Kedah	Collection and Distribution
3	Perak	Majlis Agama Islam dan Adat Melayu Perak (MAIPK)	Collection and Distribution
4	Selangor	Majlis Agama Islam Selangor (MAIS) - Lembaga *Zakat* Selangor	Collection and Distribution
5	Negeri Sembilan	Majlis Agama Islam Negeri Sembilan (MAINS) - Pusat *Zakat* Negeri Sembilan	Collection and Distribution
6	Malacca	Majlis Agama Islam Melaka (MAIM) - Pusat *Zakat* Melaka	Distribution Collection
7	Johor	Majlis Agama Islam Negeri Johor (MAIJ)	Collection and Distribution
8	Pahang	Majlis Ugama Islam dan Adat Resam Melayu Pahang (MUIP) - Pusat Kutipan *Zakat*	Distribution Collection
9	Terengganu	Majlis Agama Islam dan Adat Melayu Terengganu (MAIDAM)	Collection and Distribution
10	Kelantan	Majlis Agama Islam dan Adat Melayu Kelantan (MAIK)	Collection and Distribution
11	Penang	Majlis Agama Islam Negeri Pulau Pinang (MAINPP) - Pusat Urus *Zakat* Pulau Pinang	Collection and Distribution
12	Sarawak	Majlis Agama Islam Sarawak (MAIS) - Tabung Baitulmal Sarawak	Collection and Distribution
13	Sabah	Majlis Ugama Islam Sabah (MUIS) - Pusat *Zakat* Sabah	Collection and Distribution
14	Federal Territory	Majlis Agama Islam Wilayah Persekutuan (MAIWP) - Pusat Pungutan *Zakat* Wilayah Persekutuan	Distribution Collection

4.4 DATA COLLECTION

Qualitative research refers to ‘interpretive techniques which seek to describe, decode and translate’ data collected using techniques such as focus groups, individual depth interviews (IDIs), case studies, ethnography, grounded theory, action research and observation. Content analysis would be the analysis method chosen for the qualitative

research. Qualitative research aims to achieve an in-depth understanding of a situation such as in extracting feelings, emotions, motivations, perceptions or self-described behavior.

Quantitative research, on the other hand, attempts to precisely measure the organizations' behavior, knowledge, opinions or attitudes. The data are collected through participants' response and be coded, categorized, and reduced to numbers. The data are further manipulated for statistical analysis.

In this study, quantitative method has been chosen in order to precisely measure the current implementation of FMP and performances in ZIs. This study quantify the problem by way of generating numerical data and data is transformed into useable statistics. It is used to quantify practices and opinions and generalize results from a larger sample population. Data collection is a process where facts, figures or records are gathered so that it can be translated to be information that would answer the research questions. This study is conducted in all element of population (census), fourteen (14) units of ZIs, hundred and forty (140) employees and hundred and forty (140) customers, and data are collected mainly in two ways; literature review which is secondary data and questionnaire through email, primary data and using binomial and dichotomous scale.

QUANTITATIVE METHODOLOGY
Supporting review (secondary data)
Questionnaire through email (primary data)

In answering research question 1 and 2, data from Q1 are needed. For that, primary data is the main sources of information. For research question 3, data are derived from financial performance index (FPI), customer satisfaction index (CSI) and employees satisfaction index (ESI). FPI data are gained directly from primary

sources; attachment with Q1, and secondary sources such as annual reports, websites and bulletins. On the other hand, research question 4 is answered from the combination of data in questionnaire 1, 2 and 3.

4.4.1 Supporting Review

Literature review of prior research, documents available and websites are conducted and this continues until the end of research process. Journals, thesis, websites and other publication regarding to *Zakat*, management and other general information are reviewed. By capturing overall overview of environment in this study area, some issues are aware of and considered. Secondly, background research upon all ZIs are performed in order to understand the history, hierarchical structure, and scope of *Zakat* practices, general disclosure of information and other relevant information. This involves roughly analysis process on annual report, websites, bulletins and other documents available.

Thirdly, literature review also supports the development of Q1 as well. While taking FMAI as a main reference, other prior research compliment the questionnaire in several areas. The questionnaire also been sent to two ZIs and two academician experts for pilot test. After taking into consideration, some changes have been made particularly in terms of the presentation and the clarity of questions.

4.4.2 Questionnaire through E-mail

The preliminary phone call was made to build a relationship with relevant respondents. Once the respondents had agreed to participate, an e-mail was sent to them explaining the purpose and background of study, plan, their participation scope, and rights as respondents. Then, a follow up was done. Once the respondents agreed

to participate in this research, softcopy questionnaire (Appendix II, III and IV) were e-mailed. Self-administered e-mail questionnaire allows contact with relevant respondents, such as all fourteen (14) general managers of ZIs with low cost and is less time-consuming. Moreover, this way of communication is more anonymous than face-to-face interview. It also helps managers to take their time to think about the answers. Even so, this method required short, simple and accurate list of questions. Otherwise, it might de-motivate and confuse respondents to respond. However, an e-mail questionnaire does not allow the researcher to explain the question in the middle of answering survey by respondents. This might lead to misunderstanding and extreme or skewed responses. Therefore, respondents are free to call in order to clear any doubts. Questions for the questionnaire were carefully selected and designed, sequenced and precisely asked. Basically, the questionnaire was prepared after the data collection through the literature reviews and phone calls and is for the purpose of answering more detailed questions. In order to ensure the precision and accuracy of the questionnaire questions, the set of questionnaire was sent to several expert researchers for their comment.

The data collection process has gone through two stages. After an email of Q1 been sent, follow up always been done for almost 5 months. After recognizing all non-respond *ZI*s, the next step is to collect directly from the *ZI*s itself. While visiting these states, Q2 and Q3 also been distributed to any accessible candidates. Hardcopy of Q2 and Q3 also been distributed through relatives and friends.

4.5 QUESTIONNAIRE DESIGN

In order to achieve Objectives 1 and 2, Q1 is developed. Q1 is developed based on secondary data and various research papers on financial management field, becomes a

benchmark to be tested. The examples of the papers used are Siraj et al. (2007), Bowrin (2004), Duncan et al. (1999), Hareed (2008) and Okello-Obura and Kigongon-Bukenya (2008). Q1 consists of seven parts. The first part covers the background of ZIs. Parts 2 to 7 cover all six financial management practices. Q1 has been distributed to fourteen (14) states. The six financial management practices are checked in terms of their existence (yes/no), occurrences and whether it complies with appropriate procedures or not. This is reflected in the Q1 in Appendix 1.

These six management areas are adopted from FMAI, proposed by National Audit Department which has been promoted in the study of Bakar and Ismail (2011). This study choose to adopt FMAI as it has been used in Ministries and State governments since 2008. FMAI has been a tools for preventing mismanagement and corruption within organizations. It also provide competitive environment among all organization to improve their financial management practices. Thus, FMAI is a good choice as it can indicates compliance test as well. Originally, FMAI had nine elements. However, this study adopts only six of them. This is due to the nature of another three areas which are not suitable for ZI. In ZI, management of loans is irrelevant. *Zakat* money is not approved by Shari'ah to be provided as a loan. In addition, management of investment is also unnecessary as the money distributed is not expected to receive any return. Furthermore, management of trust funds, trust accounts and deposits is also unsuitable as the money paid by *Zakat* payers is not a deposit in nature. Thus, only six areas are examined in this study.

This study chose six FMAI management areas as a basis for testing current practices of financial management in ZIs in Malaysia as these institutions are bound legally with the state-level governments for each state. FMAI has been produced by National Audit Department (NAD) and it has been developed in order to test the

current practices of all types of organizations in Malaysia upon their financial management. This basis can also be considered as a compliance tests for all ZIs. In order to enhance the coverage of these benchmark, additional requirements also been incorporated in developing the benchmark since the detail questions for each six areas are not disclosed in FMAI document.

By referring to various literature, a benchmark has been developed and transformed in terms of questions in Q1. The main indicators and questions for organizational management practices are as in Table 4.2 on p. 58.

Comparing with the original measures provided by FMAI, several qualities have been added as below:

a. Segregation of duties in the activities of financial secretary or treasurers
b. Updated and written financial policies and procedures available to all staff
c. The role of internal audit committee
d. The consistent and scheduled role of finance or controlling committee
e. Accounting system maintained; manual or computerized
f. The performer of audit
g. The existence of formal Code of Conduct and Standard of Ethics
h. The practices of Code of Good Governance by Charity Commissions

Table 4.2 Financial management - Organizational management

Area 1: ORGANIZATIONAL MANAGEMENT		
1.	Structure of *Zakat* institution - organization chart - delegation of power - segregation of duties - board of directors - top management - council members	Has any organizational chart been prepared?
		Was the delegation of power appropriately authorized?
		Has any segregation of duties been made clearly in all control area?
		Does the financial secretary's or treasurer's activity involve only keeping records for cash collection and preparing the support for disbursement?
2.	System and Procedure - financial and accounting regulations - work procedure manual - desk file - surprise / spot checks	Does your *Zakat* institution have updated and written financial policies and procedures (e.g. Work Procedure Manual, Desk Files)?
		Have any Surprise Checks been carried out?
		Has a Financial Management and Accounts Committee been established?
3.	Committees and Internal Audit Units - financial management and accounts committee - audit committee - management integrity committee unit - internal audit	Is an internal audit committee operational?
		Has any improvement suggested by Internal Audit Unit that been acted upon?
		Does your *Zakat* institution have a controlling/finance committee?
		If Yes, does the controlling/finance committee review financial reports regularly?
		Are the accounting records and underlying internal controls audited annually?
4.	Human Resource Management - establishment - work transition plan - training - surcharge	Were all posts filled according to the approved Establishment Warrant?
		Have any training mechanisms taken place to ensure personnel have been trained at least 7 days per year?

The main indicators for the assessment of *Zakat* collection are as Table 4.3 on p. 59 and 60. Referring to the FMAI guideline, Q1 in this study has adopted more detailed and specific areas such as frequencies of internal control activities as well as detailed authorization procedures as below:

a. Identified and pre-listed *Zakat* payer before collection
b. Safety and detailed procedures involving physical document such as receipt books
c. Safety and detailed procedures involving of collection
d. The segregation of duties of staff in handling receipts
e. Safety and detailed procedures involving bank transactions

Table 4.3 Financial management - Receipts

Area 2: FINANCIAL MANAGEMENT – RECEIPTS		
1.	Control of *Zakat* Collection Form - usage of collection form - recording of collection form	Are the Unused Collection / Receipt Forms are appropriately kept in the safe place?
		Were the *Zakat* payers/donors identified and pre-listed before collection starts?
		Are official receipt books kept in a safe place? (e.g. safe, locked box or locked drawer)
2.	Receipts of *Zakat* Monies - authority / approval - security control - receipt through other means - receipts at the counter	Is the receipt of *Zakat* monies are appropriately authorized?
		Is cash safeguarded in a safe, lock box, or similar protective container when at the mosque or *Zakat* office?
		For any cash / cheque received: Are official receipts issued for any cash / cheque received? Is the handling of *Zakat* money always controlled by at least two people? Are the official receipts pre-numbered? Is a record of all persons who have been issued with official receipt books kept? Is a record of official receipt serial numbers allocated to fundraisers kept? Is a reconciliation of official receipts issued and income received done?
		How many people are present during the opening of the collection boxes?
		Is counting of money from collection boxes done promptly once opened?
		Is counting the money from collection boxes done by a different person from the person who makes entries in the cashbook?
2.	Receipts of *Zakat* Monies - authority / approval - security control - receipt through other means - receipts at the counter	Do you use incoming monies not deposited in the bank to pay any expenses (i.e. without banking-in first)?
		Are all cash / cheques received placed in a safe place? (e.g. safe, locked box or locked drawer) if it cannot be banked on the same day?
		Is the collection function separate from the depositing function?
		Are checks conducted to ensure the incoming receipts are recorded regularly?
		Is access to the safe / locked box limited to authorized person (s) only?
		Is the collection function separate from the recording function?
		Are deposits made by someone independent of accounting and cashiering functions?
		Does an independent person verify the accuracy of the collected/received amounts?
3.	Bank-in *Zakat* Collections	Were all collections of *Zakat* monies promptly banked?
		Is cash collected/received deposited, on the same day, in the bank account?
		Are cash / cheques recorded in the cashbook verified with the bank pay-in slips regularly?

Continued: Table 4.3 Financial management - Receipts

Area 2: FINANCIAL MANAGEMENT – RECEIPTS		
4.	Accounting Control on Receipts	Has the Accounting control on receipts been appropriately established?
		Does the *Zakat* institution maintain a cashbook for cash/cheques received?
		Are the pay-in slips and/or cash receipts recorded in the cashbook verified with the relevant bank statements?
		Are copies of the *Zakat* collection report prepared by the counters given to both the financial secretary and treasurer for entry into the accounting records, and an audit committee for subsequent audit purposes?
5.	Management of *Zakat* Receivables	Are the pay-in slips and/or cash receipts recorded in the cashbook verified with the relevant bank statements?

Comparing with the original measures provided by FMAI, several qualities have been added as below:

a. *Zakat* fund management replaced procurement management

b. More detailed procedures involving payment management

c. Segregation of duties in handling disbursement

The main indicators and questions for the assessment of *Zakat* distribution are presented in Table 4.4 on p. 61.

Table 4.4 Financial management - Disbursements

Area 3: DISBURSEMENTS OF FUND		
1.	Accounting Control	Has the Accounting control for *Zakat* distribution / expenditure been established?
2.	*Zakat* Fund Management - 8 *Asnaf* - direct purchase - management of quotation / tender - record and contract agreement	Disbursements are made with the approval of authorized person(s)?
3.	Payment Management - internal control on payment process - payment registers / records - bill register - management of petty cash	Are the disbursements made by pre-numbered cheques?
		Are payment vouchers prepared when making payments?
		Are vouchers prepared for all disbursements from the petty cash fund?
		Is the person preparing payment documentation (e.g. payment voucher) different from the person signing cheques?
		Is the person approving payments different from the person preparing cheques?
		Does an independent person verify the accuracy of the payment vouchers before disbursement is made?
		Are there any limits imposed on payment approvals at various levels of the committee members / staff of the *Zakat* institution?
		Are all petty cash payments made from a petty cash float?
		Is the petty cash fund is used for minor cash payments?
		Are spot checks conducted regularly on the petty cash float?
		Is the balance of petty cash float counted during the spot checks?
		Are spot checks carried out by a person independent from the person responsible for the petty cash float?
		Are petty cash funds verified on a regular basis by someone other than the fund custodian?
		Are invoices for goods and services / distribution approved by a qualified person before payment is made?
		Are pre-numbered purchase order / distribution used for all disbursements that do not have standing authorization for payment?
		Are invoices checked for accuracy before being paid?
		Are requisition slips prepared for anticipated disbursements that do not have standing authorization?

The main indicators for asset management assessment and questions are presented in table 4.5 on p. 62.

Table 4.5 Financial management - Asset management

Area 4: ASSET MANAGEMENT		
1.	General Controls - asset committee - asset management unit - asset officer	Has any Asset Management Unit been established?
		Were the asset officers appointed by a Controlling Officer in writing?
2.	Asset Collection - receiving officer - collection regulation	Is there any clear control of the receipt of assets and inventories?
3.	Registration - registration administration - custody of register - asset labeling	Is there any custodial responsibility for the receipt of assets and inventories has been established?
		For the registration of assets, did the assets need to be registered within two weeks of receipt?
		Are the asset registers updated regularly?
		Are all assets labelled or embossed an "Ownership of the Government/name of *Zakat* Institution)?
		In whose name(s) are your organization's assets recorded/ registered?
4.	Usage, Custody and Inspection - usage - custody - asset verification - usage of department's vehicles	Are valuables (marketable securities, notes, valuable documents, jewels, etc.) afforded protection in a bank safe deposit box?
		Have the assets always been used for official purposes only?
		Have attractive and valuable items been kept separately and highly secured?
		Has the physical asset verification been carried out at least once a year?
		Has the vehicle log book been appropriately maintained?
5.	Asset Maintenance - maintenance regulation - maintenance of vehicles	Are scheduled reviews made to determine if insurance coverage is adequate?
		Is an updated inventory of securities, valuables, equipment and other major non-cash assets maintained according to schedule?
		Was the Statement of Purchase of Fuel or Fuel Indent Card checked and verified?
		Were the regulations on asset maintenance complied with?
		Is there any safekeeping of vehicles?
6.	Disposal - inspection board - disposal procedures	Was the disposal of assets and inventories appropriately authorized?
		Was the disposal has been done within 3 months of disposal?
7.	Loss and Write-off - management of loss - management of write-off	Were losses on disposal reported accordingly?
		Was the Investigating Committee appointed within two weeks after the report?

The main indicators and questions for budgeting assessment are as in table 4.6 on p. 63. The edited questionnaire contained more detailed queries on budgeting,

particularly in highlighting the areas covered by budgeting, frequencies of comparing budgets as well as authorization of the budget as below:

a. Post-budget preparation procedures

b. Reporting of budget implementation

Table 4.6 Financial management - Budgeting

Area 5: BUDGETING		
1.	Budget Preparation	Does the *Zakat* institution prepare budget(s) for the annual expenditure/activities?
		Is the budget prepared by the (financial) committee of the *Zakat* institution?
2.	Allocation Distribution	Is the allocation distributed accordingly?
		Is any reference made to the budget before making any financial commitments / payments?
		Are disbursements of the period limited to its budgeted amounts?
3.	Approval of Allocation	Is approval obtained for any virement or supplementary allocation?
		When an over-budget payment needs to be made, which of the following authorities have to approve?
4.	Monitoring of Expenditure	Are the performance or progress of expenditure/activities monitored?
		Is there any comparison made between budgeted expenditure/activities and actual expenditure/activities?
		If there is a significant budget variance, is it reported promptly and corrective actions are taken?
		Are there any practices of budget pad?
5.	Reporting	Are the reports prepared and submitted promptly?

Comparing with the original measures provided by FMAI, several qualities were added as below:

a. Financial report preparation

b. Auditing of financial reports

c. Disclosure of information to stakeholders

The main indicators and questions for the assessment of financial reporting are presented in table 4.7 on p. 64.

Table 4.7 Financial management - Financial reporting

Area 6: FINANCIAL REPORTING		
1.	Transparent to public -annual report	Does the *Zakat* institution prepare any financial reports?
		Does your *Zakat* institution prepare financial reports regularly?
		Are the following contents included and presented in the financial report? i. Cash in hand ii. Debt iii. *Zakat* Investment
		Are the financial reports audited?
		Are financial reports audited annually by an external auditor?
		If the financial reports are delayed, how long is the delay period normally?
		Are financial reports distributed to the Muslim public in its area?
		Are the financial reports made available for inspection by Muslim public in its area? (e.g. displayed on the notice board of the *Zakat* institution)
		Before its distribution, the following persons have to review financial reports; do *Zakat* payers receive periodic notices of their contributions?
		Are the *Zakat* payers instructed to report any irregularities or errors in their notices of contributions to an audit committee or someone other than the individual who keeps these records?
		Has any of those information been disclosed on your organization's websites? i.Mission ii.Activities iii.Board members listed iv.Key staff listed v.Annual report vi.Customer privacy policy

It can be argued that appropriate financial management and the transparency in operations are very important; the motivation for this study is to prepare a benchmark for financial management in *ZI*s.

The management practices assessment will be transform to scores based on 'Modified FMAI Scores' as in table 4.8 on p. 65. Originally, FMAI Scores includes eight (8) areas, of which two are not relevant to ZIs. Therefore, the scores have been modified as in table 4.8 on p. 65. By maintaining the weightage of the scores for each elements, 'Modified FMAI Scores' are developed, as displayed in table 4.9 on p. 65.

Table 4.8 'Modified FMAI Scores' of six management areas

Management areas	Scores (%)
Organizational management	24
***Zakat* collection and other receipts**	18
***Zakat* distribution and other expenditures**	29
Assets management	18
Budgeting	6
Reporting	5
Total	**100**

Table 4.9 'FMAI Scores' of six management areas

FMAI Management areas (6 relevant areas)	Scores (%)
Organizational management	20/85*100=24
***Zakat* collection and other receipts**	15/85*100=18
***Zakat* distribution and other expenditures**	25/85*100=29
Assets management	15/85*100=18
Budgeting	5/85*100=6
Reporting	5/85*100=5
Total	**85/85*100=100**

Based on FMAI framework, the scores for each management area represent the importance and significance level of each area. This supported past studies which showed that *Zakat* distribution has a significant influence on the confidence and satisfaction level of stakeholders (Ahmad, Wahid and Mohamad, 2006; Amran and Auzair, 2011; Wahid, Ahmad and Kader, 2009). However, due to the elimination of two items in actual item from FMAI because of incompatibility with ZIs, the scores based on percentage changed. Using this method, the significance level of each element is maintained. Subsequently, the scores will be put into the rating level as in Table 4.10 on p. 66. The rating is adopted from FMAI by NAD. In order to answer RQ, means of all six management areas will be compared.

Table 4.10 Star rating for score levels

Level	Scores	Rating
Excellent	90% - 100%	****
Good	70% - 89%	***
Satisfactory	50% - 69%	**
Not satisfactory	49% and Below	*

In order to compare various performances in ZIs, performance measures in many different perspectives have to be developed. Thus, RO3 involves the construction of Financial Performance Index (FPI), Employee Satisfaction Index and Customer Satisfaction Index. These three performance indexes are adopted from Said et al. (2012). Said et al (2012) proposed nine measures to assess the financial performance of ZI. However, in order to improve the comprehensiveness of performance indicator, another two indices were added. The first additional index is the coverage of *Zakat* system in 2012. It can be calculated by adding total *Zakat* payer and *Zakat Asnaf*, over the total number of Muslims in the state in 2012. Second additional index is the growth of *Zakat* system coverage. The index compares the coverage for year 2012 to previous year, 2011. Eleven indices of Financial Performance Index (FPI) are shown in table 4.11 on p. 67.

'Performances', discussed in Chapter 2, encompassed three main measures; financial performances, employee performances, and customer performances. Financial performances cover the efficiency, growth and coverage of *Zakat*. Employee and customer performances reflect the satisfaction level of ZI's employees and customers.

Table 4.11 Financial Performance Index

No.	Measurement	Category	
1.	**Measure Collection 1 (MC1)** $\frac{\sum \textit{Zakat} \text{ Collection (2012)}}{\text{Cost of employment for } \textit{Zakat} \text{ Collection (2012)}}$	**EFFICIENCY** of *Zakat* collection	**≥ good** **≤ bad**
2.	**Measure Collection 2 (MC2)** $\frac{\sum \text{Administrative cost (2012)}}{\sum \textit{Zakat} \text{ collection (2012)}}$	**EFFICIENCY** of *Zakat* collection	**≥ bad** **≤ good**
3.	**Measure Collection 3 (MC3)** $\frac{\sum \textit{Zakat} \text{ Collection (2012)}}{\text{Budgeted } \textit{Zakat} \text{ Collection (2012)}}$	**PERFORMANCE** of *Zakat* collection	**≥ good** **≤ bad**
4.	**Measure distribution 1 (MD1)** $\frac{\sum \textit{Zakat} \text{ distribution (2012)}}{\sum \textit{Zakat} \text{ collection (2012)}}$	**PERFORMANCE** of *Zakat* distribution	**≥ good** **≤ bad**
5.	**Measure Coverage 1 (MV1)** $\frac{\sum \textit{Zakat} \text{ payer} + \sum \textit{Zakat Asnaf} \text{ (2012)}}{\sum \text{Muslims in the state (2012)}}$	**PERFORMANCE** of *Zakat* system coverage	**≥ good** **≤ bad**
6.	**Measure Collection 4 (MC4)** $\frac{\sum \textit{Zakat} \text{ Collection (2012)}}{\text{Number of employees (2012)}}$	**PERFORMANCE** of Individual *'Amil* and other staff (collection)	**≥ good** **≤ bad**

Continued: Table 4.11 Financial Performance Index

No.	Measurement	Category	
7.	**Measure Distribution 2 (MD2)** Number of *Asnaf* (in assistance) Number of application of assistance	**PERFORMANCE** of *Zakat* distribution	**≥ good** **≤ bad**
8.	**Measure Collection 5 (MC5)** ∑ *Zakat* collection (2012) Number of Muslims (2012)	**AVERAGE** collection from individual Muslims	**≥ good** **≤ bad**
9.	**Measure Collection 6 (MC6)** *Zakat* collection (2012) – *Zakat* collection (2011) *Zakat* collection (2012)	**GROWTH** of *Zakat* collection	**≥ good** **≤ bad**
10.	**Measure Coverage 2 (MV2)** *Zakat* Payers (2012) –*Zakat* Payers (2011) *Zakat* Payers (2012)	**GROWTH** of *Zakat* coverage (collection)	**≥ good** **≤ bad**
11.	**Measure Coverage 3 (MV3)** Compare ratio 5 to this function: ∑ *Zakat* payer + ∑ *Zakat Asnaf* (2011) ∑ Muslims in the state (2011)	**GROWTH** of *Zakat* system coverage	**≥ good** **≤ bad**

FPI measures performance of Zakat collection, Zakat distribution and Zakat system coverage. FPI measure of Zakat collection consists of the efficiency of Zakat collected over cost of employing *'Amil* and other administration costs (MC1, MC2

and MC4), the achievability of the targeted Zakat collection (MC3 and MC5) and the increment of Zakat payer from past year (MC6). Zakat distribution was assessed by the proportion of distribution from the collection of Zakat (MD1). The number of Zakat *Asnafs* assisted over all the applications for assistance was also measured (MD2). Lastly, Zakat system coverage concerns the participation of Muslim people in the Zakat system throughout the years (MV1, MV2 and MV3).

MC1 (total *Zakat* collection for 2012 ÷ cost of employment for *Zakat* collection for 2012) determines the efficiency of RM1 cost of hiring *'Amil* in collecting *Zakat*. Therefore, a higher result shows greater efficiency. MC2 (total administrative cost for 2012 ÷ total *Zakat* collection for 2012) determines how much of every RM1 of the amount of *Zakat* collected was used for expenses. Therefore, a lower result indicates greater efficiency.

In measuring the performance of *Zakat* collection, two measures are used. MC3 (total *Zakat* collection for 2012 ÷ budgeted *Zakat* collection for 2012) describes the performance of *Zakat* collection in the year of 2012. It compares current collection to the budgeted *Zakat* collection for the year. Therefore, a score of more than 1 shows that the actual collection is better than the budgeted collection. Another measure indicates the average *Zakat* collection as per individual Muslims in the state. In MC5, a higher score indicates a higher performance.

In measuring the performance of *Zakat* distribution, MD1 is tested (total *Zakat* distribution for 2012 ÷ total *Zakat* collection for 2012). The test involves the allocation of *Zakat* money distributed over collection. Another test is the MD2 which shows the ratio of *Asnaf* who applied for assistance and received it. Therefore, results closer to 1 are the best.

In measuring the performance of coverage of *Zakat* practices among Muslims, MV1 [(total *Zakat* payer + *Asnaf*) ÷ total Muslims in the state for 2012] used to describe the *Zakat* participation among Muslims in the state. Therefore, a higher result is better. In measuring the performance of individual *'Amil* and other employees of ZIs, MC4 tests how much *Zakat* was over one employee of ZI. Thus, a higher amount is better.

In measuring the growth of *Zakat* collection from past year, MC6 shows the increase in *Zakat* collection from 2011 to 2012. In measuring the growth of the coverage of *Zakat* practices in every state, MV2 and MV3 are tested. MV2 shows the increase in *Zakat* payers from 2011 to 2012. MV3 shows the participation of Muslims in *Zakat* practices increased from 2011 to 2012.

In analyzing FPI, all indexes were transformed into positive style (x> is good, x< is bad). Therefore, index number 2 was transformed using (1-x) formula. Then, all scores were transformed to average percentage using the formula below. Then, the percentage was given the star rating.

$$Y = [(xFPI1+xFPI2+xFPI3+xFPI4+xFPI5+xFPI6+xFPI7+xFPI8+xFPI9+xFPI10+xFPI11) / N] * 100$$

Note: Y=total score (%) of FPI, x=score gained for each index, N=number of indexes included.

The formula above explains how FPI scores are calculated. All nominators (xFPI1+xFPI2+xFPI3+xFPI4+xFPI5+xFPI6+xFPI7+xFPI8+xFPI9+xFPI10+xFPI11) indicates the scores gained for each indexes 'N' as a denominator indicates number of indexes included in computing the scores. As information available for each *ZI*s varies, the denominator may also vary. Finally, 'Y' indicates the scores gained for each *ZI*s.

Q2 represents the Employee Satisfaction Index (ESI) as in Appendix III. Q3 comprises the Customer Satisfaction Index (CSI) (see Appendix IV). Although the CSI was adopted from Said et al. (2012), the first item in the index needs to be amended. This is because the first element in Said et al. (2012) is not applicable to ZI customers. ESI and CSI scores are calculated directly from Likert scale and transformed in terms of percentage. The percentage of significance for each element in Q2 are distributed equally.

Table 4.12 Percentage in Employee's Satisfaction Index

Elements	Percentage
Knowledge advancement	25%
Financial benefit	25%
Non-financial benefit	25%
Working environment	25%

However, in Q2, the allocated percentages are based on SERVQUAL ratio. After that, the scores are in percentages. Subsequently, the same star rating level as management assessment is used. All three measures are star rated, based on the percentage. Then, the scores are compared by average performance score among ZIs.

Table 4.13 Percentage of significance in CSI

	Description of performance	Weight
Assurance	Inspire trust and confidence	11%
Reliability	Performance of service in a dependable and accurate manner	32%
Tangible	Availability and appearance of facilities and personnel	22%
Empathy	Willingness of staff to understand the needs of customers	19%
Responsiveness	Willingness of the staff to assist customers and provide prompt service	16%

After the three questionnaire and FPI had been designed, soft copies of Q1 and FPI were emailed to all fourteen (14) ZIs. Q2 and Q3 were also distributed to hundred and forty (140) employees of ZIs', *Zakat* payers and *Asnaf.* After a long data collection period, the response rate for Q1 was 93%. Thirteen (13) of fourteen ZIs responded to the questionnaire. Q2 and Q3 obtained response rates of 51.4% (72 out of 140 responses) and 80% (112 out of 140 responses), respectively.

4.6 DATA ANALYSIS

The data analysis phase comprises editing, coding, data entry, data analysis and other advanced stages of analysis. Editing is performed when any error or omission in the data collected is encountered. The editing was done in order to produce accurate, consistent, uniformed, complete and arranged set of data. This enables data to attain the appropriate quality and be ready for coding. In coding, the fourteen (14) ZIs were denoted by numbers 1 to 14. The data collected from content analysis and questionnaire were coded accordingly. Then coded data were keyed in and analyzed using Statistical Package for the Social Sciences (SPSS) software. Before performing more advanced analysis, data analysis was conducted in order to see the pattern and the analysis has been presented in a more understandable form such as tables and graphs.

In analyzing data, inferential statistics are employed in order to answer the question: Is there a relationship between FMP and FPI?. In order to answer the questions, a combination of Correlation Bivariate and Pearson Correlation is employed. Correlation Bivariate tests the relationship between two variables, in this case FMP and FPI, to determine whether the increase in FMP will lead to the increase in FPI or an increase in FMP lead to a decrease in FPI. Thus two questions were

answered. First, is the relationships between FMP and FPI significant? The answer depends on the Pearson Correlation values. It is considered significant if the value is less than 0.05. Otherwise, the relationship is not significant. The second question is whether the relationship is positive or negative. The answer is also based on the positive or negative value of Pearson Correlation.

4.6 SUMMARY OF THE CHAPTER

Section 4.1 discussed the quantitative methodology used in the study in order to answer RQ1 to RQ4. This method is normally used in business studies to measure the ZI's FMPs and performances accurately. In section 4.2, there was a brief discussion on how this study was directed by research questions and research objectives. Section 4.3 to section 4.5 continues to present deliberate on the ZIs' population, the sampling of *Zakat* employees and customers, the methodology used in data collection process and the three questionnaires designing process. In section 4.6, the data analysis phase, i.e. editing, coding, data entry and basic analysis using SPSS software and other analysis techniques such as Correlation Bivariate and Pearson Correlation, was briefly presented. Lastly, section 4.7 summarizes the chapter.

CHAPTER FIVE

FINDINGS AND DISCUSSION

5.1 INTRODUCTION

After implementing all the steps in research methodology, Chapter Five discussed briefly all findings and results of this study. This chapter is key in the study as it presents and elaborates on the outcomes obtained from all the procedures employed. First, section 5.2 describes the response rate of sampling and background of respondents. Next, section 5.3 and section 5.4 examine the financial management practices and performance of ZIs (ZIs thereafter). Section 5.4 describes how financial management practices (FMP) and financial performances (FPI) tested by Correlation Bivariate and Pearson testing in order to determine whether any relationship exists. Lastly, section 5.5 summarizes all the findings.

5.2 DEMOGRAPHIC PROFILE OF RESPONDENTS

This study covers three types of respondents. Q1 and FPI respondents were from fourteen ZI*s* in Malaysia. Q2 required employees of ZIs to respond. Lastly, customers of ZIs were the respondents for Q3.

5.2.1 Demographics of Q1 and FPI Respondents

The first sampling set for Q1 is fourteen ZIs in Malaysia. After distributing Q1 and the FPI to the fourteen ZIs, thirteen institutions responded, while only Selangor did not. This makes the response rate 93 percent. Sekaran (2003) held that it was acceptable to have a 30% response rate for a mail questionnaire. Iglesias and

Togerson (2000) suggest that a questionnaire more than seven pages long will have a response rate of approximately 40.5%. Therefore, as shown in table 5.1 on p. 75, a 93% response rate in this study is acceptable and adequate. This also shows the level of transparency in ZIs and the awareness of their accountability to fulfill public demand for financial information.

Table 5.1 Response Rate for Q1

***Zakat* Institutions**	**Rate**
TOTAL samples	14 (100%)
Response	13(93%)
Non-response	1 (7%)

For financial performance index (FPI), some data given by respondents are incomplete. This is due to improper keepings of accounting records for the respective years (2012 and 2011). Table 5.2 on p. 75 shows the percentages of respondents for each index. Indices with a low response rate (less than 50%) are omitted, as Nulty (2008) and Sekaran (2003) suggest 50% as an acceptable response rate.

Table 5.2 Response rate for FPI

FPI	**Respondents**	**Acceptable (A) / Not acceptable (NA)**
1	9 (64%)	A
2	10 (71%)	A
3	9 (64%)	A
4	13 (93%)	A
5	9 (64%)	A
6	9 (64%)	A
7	0 (0%)	NA
8	14 (100%)	A
9	14 (100%)	A
10	11 (79%)	A
11	8 (57%)	A

Table 5.3 on p. 77 shows the structure of ZIs. Traditionally, the *Zakat* system had been administered under the SIRC which is a government statutory body, but as the environment evolved, some ZIs went through corporatization or privatization processes. Thus, ZIs have various organizational structures. (Asmah, Muslimah, Huzaimah and Nafisiah, 2013). Changes in organizational structure will affect various elements in an organization. For instance, the decentralization practices, the reduction of bureaucracies in procedures, the improvement of professionalism affects the effectiveness of organization.

Rahman et al. (2012) classify ZIs into four categories. The first category is that of a corporation which has been established under *Zakat* enactment, such as Jabatan *Zakat* Negeri Kedah and Tabung Baitulmal Sarawak. The second category is a corporation which has been established under the state administration of Islamic Law enactment, such as Lembaga *Zakat* Selangor and Pusat Urus *Zakat* Pulau Pinang. The third category is a corporation that has been established under an Act or State Administration of Islamic Law enactment. They are responsible only for collecting *Zakat*. Examples are PPZ-MAIWP, PZM-MAIM, PZNS-MAINS and PKZ-MAIP. Lastly, units or departments of SIRC themselves do the collection and the distribution. The SIRC are MAIJ, MAIP of Perlis, MAIP of Perak, MAIK, MAIDAM and MUIS.

Wahab and Rahman (2011) listed organizational structure as a factor that determines the efficiency of ZIs. A decentralization approach refers to the transfer of decision making responsibilities from higher levels to lower levels of government (Winkler, 2005). It can reduce bureaucracy, limit the unnecessary spending of resources, utilize the right experience and qualification, and improve accountability and transparency, as well as release the constraints caused by political influences.

Thus, appropriate organization and coordination is important in order to avoid overlapping problems as occurred in the structure of ZIs in Indonesia (Hudayati & Tohirin, 2010). Wahid and Kader (2010) proposed the localization of *Zakat* distribution through local mosques; because of the ease of distributing *Zakat*, this promotes good governance, and increases accountability. This approach was also supported by Iqbal (2000). Standardization in accounting for ZI is important to improve financial management and reporting, as asserted by Ihsan, Hudayatul and Shahul (2007).

Table 5.3 Structures of *Zakat* Institutions

No.	***Zakat* Institutions Type**	**No of *Zakat* institution**	**%**
1	Government department	6	46.15
2	Corporatized	2	15.38
3	Privatized	5	38.46
	Total	13	100

Table 5.4 on p. 77 indicates the *Zakat* functions of ZIs. Eleven ZIs manage the collection and distribution of *Zakat*, while three other institutions only manage collection. This is due to the delegation of power by the state council.

Table 5.4 Function(s) of *Zakat* institutions

No.	***Zakat* Institutions Function**	**No of *Zakat* institution**	**%**
1	Collection and Distribution	8	61.5
2	Collection	4	30.8
3	Distribution	1	7.7
	Total	13	100

Table 5.5 on p. 78 shows that Q1 was answered by accountants or head of finance divisions or assistant executives of *Zakat*. The respondents either have an accounting background or a higher level post in ZI. This indicates that these individuals are qualified and have knowledge of these subject matters.

Table 5.5 Positions of respondents

No.	Position	No. of respondents	%
1	Accountant	8	61.5
2	Head Finance Division	4	30.8
3	Assistant Executive *Zakat*	1	7.7
	Total	13	100

The demographics of Q1 and FPI again highlighted the variety of structure and different practices of *Zakat* administration bodies. Moreover, the response rates are acceptable for both Q1 and FPI. The respondents who represent ZIs are qualified individuals. Therefore, the data should be reliable and valid.

5.2.2 Demographics of Q2 Respondents

For Q2, due to constraints of time and funds, only one hundred and forty (140) samples were distributed to employees of ZIs. As shown in Table 5.6 on p. 79, seventy-two employees of fourteen (14) ZIs replied to the survey. This makes the response rate to 51.4 percent and this rate is acceptable according to Sekaran (2003) and others.

Table 5.6 Response Rate for Q2

***Zakat* Institutions**	**Rate**
TOTAL samples (10 from each of the 14 *Zakat* institutions)	140 (100%)
Response	72 (51.4%)
Non-response	68 (48.6%)

As presented in tables 5.7 and 5.8 on p. 80, one hundred and forty (140) sets of Q2 were distributed to ten employees in fourteen (14) ZIs in Malaysia. The purpose of Q2 is to examine the satisfaction level of employees towards ZIs. Only seventy-two (72) sets of Q2 were returned. Of the respondents, 45.8 percent are female and 54.2 percent are male.

Table 5.7 State of Respondents Q2

No.	**State**	**No. of respondents**	**%**
1	Perlis	1	1.4
2	Kedah	5	6.9
3	Kelantan	1	1.4
4	Perak	4	5.6
5	Terengganu	10	13.9
6	Johor	5	6.9
7	Pahang	10	13.9
8	Penang	10	13.9
9	Selangor	5	6.9
10	Wilayah Persekutuan	5	6.9
11	Sabah	5	6.9
12	Sarawak	1	1.4
13	Melaka	10	13.9
14	Negeri Sembilan	5	6.9
	Total	72	100

Table 5.8 Gender of respondents Q2

No.	**Age**	**No. of respondents**	**%**
1	Male	33	45.8
2	Female	39	54.2
	Total	72	100

As presented in table 5.9 on p. 80, the majority of respondent employees were aged between 20 and 30 years old (55.6%), followed by those aged 31 to 40 years old (30.6%). ZIs currently tend to employ young staff as they need to meet the demands of efficiency. The majority of male staff also shows the requirement for field work to access *Zakat* beneficiaries.

Table 5.9 Age of respondents Q2

No.	Age	No. of respondents	%
1	Below 20	1	1.4
2	20 – 30	40	55.6
3	31 – 40	22	30.6
4	41 – 50	6	8.3
5	Over 50	3	4.2
	Total	72	100

5.2.3 Demographics of Q3 Respondents

For Q3, one hundred and forty (140) samples were issued to either *Zakat* payers or *Zakat Asnaf*, and one hundred and twelve (112) responses were returned (Table 5.10 on p. 80), making an 80 percent response rate. Thus, these rates are also adequate according to prior studies.

Table 5.10 Response Rate for Q3

***Zakat* Institutions**	**Rate**
TOTAL samples	140 (100%)
Response	112 (80%)
Non-response	28 (20%)

One hundred and forty (140) sets of Q3 were distributed among a sample of customers of ZIs. This set contains questions about how well the ZIs satisfy and

fulfill the needs of its customers. Thus, the questionnaire is named the 'Customer Satisfaction Index'.

Q3 was distributed to customers of all ZIs' and one hundred and twelve (112) out of hundred and forty (140) replied and submitted the answers as shown in table 5.11 on p. 81. An ideal collection should consist of ten (10) samples or 8.9 percent for each state.

Table 5.11 State of Respondents Q3

No.	State	No. of respondents	%
1	Perlis	1	0.9
2	Kedah	10	8.9
3	Kelantan	6	5.4
4	Perak	10	8.9
5	Terengganu	10	8.9
6	Johor	9	8.0
7	Pahang	10	8.9
8	Penang	10	8.9
9	Selangor	5	4.5
10	Wilayah Persekutuan	10	8.9
11	Sabah	10	8.9
12	Sarawak	1	0.9
13	Melaka	10	8.9
14	Negeri Sembilan	10	8.9
	Total	112	100

Of hundred and twelve (112) respondents from the *Zakat* payers and *Zakat Asnaf* group, fifty-five (55) are male and fifty-seven (57) are female, as shown in table 5.12 on p. 81.

Table 5.12 Gender of respondents Q3

No.	Age	No. of respondents	%
1	Male	55	49.1
2	Female	57	50.9
	Total	112	100

Of the respondents, the majority are aged from twenty to fifty years old. 6.3 percent of the respondents are below twenty years old, 38.4 percent are aged from 20 to 30 years old, 25.9 percent are 31 to 40 years old, 22.3 percent 41 to 50 years old and only 7.1 percent are above 50. The breakdown is shown in table 5.13 on p. 82.

Table 5.13 Age of respondents Q3

No.	Age	No. of respondents	%
1	Below 20	7	6.3
2	20 – 30	43	38.4
3	31 – 40	29	25.9
4	41 – 50	25	22.3
5	Above 50	8	7.1
	Total	112	100

5.3 FINDINGS ON FINANCIAL MANAGEMENT PRACTICES (FMP)

When the data in Q1 were analyzed, the results generated are shown in tables 5.14 and 5.15 on p. 85. These are the overall scores for six financial management practices.

Table 5.14 on p. 84 shows that ZIs' practices scores 90.90 percent in *Zakat* distribution and disbursement, the highest scores. In contrast reporting scores only 61.06 percent, the lowest of the management areas.

The study found that in all six management areas, *Zakat* distribution and disbursement, *Zakat* collection and receipt and asset management show the highest scores. This can be seen in the top three rankings in table 5.14 on p. 84. The higher the score, the better the practice by ZIs. Thus, it can be concluded that these three FMPs are considered significant to ZIs' perspectives. These ZIs tend to have better practices, particularly in financial management areas.

Referring to the star rating scale, ZIs applied 'excellent' practices in receipts and collection, and disbursement and distributions (average mean = 90.90 and 90.74) and 'good' practices in asset management, budgeting and organizational management practices (average mean = 80.54, 73.65, 71.63). The rationale behind these results are that these practices are those of most concern to ZIs' stakeholders. Muslims often ask the management how they distribute and handle the collection money. In addition, the way they manage their assets are always their concern. This is reflected in the majority of literature on ZIs, which are studies of the performance of collection and the distribution of the *Zakat* money. It is also supported by prior studies that receipts, disbursements and asset management, particularly money, demand highest internal controls. Weak practices make the organization vulnerable to fraud, mismanagement, waste and abuse (McCoy, 2010; General Accounting Office of United States, 1981). Furthermore, ZIs show their accountability by enhancing the reporting on the collection and distribution.

Bakar and Ismail (2011) report that the allocation of percentages provided by FMAI leads to different conclusions. The FMAI shows organizational management to have the highest significance. However, ZIs score second last among all the practices. This might indicate two possible situations. First, OM might be a less significant area for ZIs in Malaysia as the FMAI was prepared by NAD for general organizations in Malaysia. It has also been in practice only since 2012. Second, ZIs in Malaysia are not implementing these OM practices sufficiently well. According to the percentages determined by NAD, 24 percent was allocated for organizational management. This means that from NAD's point of view, organizational management is among the most significant areas in financial management. However, the FMP score for the area is

among the least significant. Therefore, ZIs may view this result as a potential gap to be closed in future.

According to the overall scores of FMP, the results imply that ZIs in Malaysia are fulfilling their accountability in a 'good' manner. However, the reporting is inadequate and it is not always 'satisfactorily' reported. This is consistent with Raedah, Siti Normala and Sherliza (2013), who highlighted the gap in disclosure improvement in Malaysian ZIs. It shows the lack of transparency in the reporting of standard practices in ZIs. This may be due to the lack of regulation and supervision in these accounting institutions.

Table 5.14 Six financial management practices scores ranking

		6 Financial Management Practices						**Average score (%)**	**Rank**
	States	**OM**	**RT**	**DB**	**AM**	**BG**	**RPT**		
		24%	**18%**	**29%**	**18%**	**6%**	**5%**		
1	Perlis	24.00	16.47	26.10	14.82	4.42	3.23	89.05	2
2	Kedah	17.25	16.47	27.07	15.88	4.42	3.96	85.05	4
3	Kelantan	18.75	17.39	24.65	14.82	4.74	3.33	83.68	6
4	Perak	23.25	16.17	27.07	16.41	4.11	3.23	90.23	1
5	Terengganu	18.00	16.78	28.52	14.29	3.47	3.13	84.19	5
6	Johor	18.00	16.47	28.52	14.82	5.05	3.33	86.20	3
7	Pahang	16.50	13.12	24.65	15.35	4.74	3.33	77.69	12
8	Pulau Pinang	15.00	17.08	27.55	12.71	3.47	3.13	78.94	9
9	Selangor	NA	NA	NA	NA	NA	NA	NA	NA
10	WPersekutuan	13.50	16.78	27.55	12.71	5.37	2.60	78.51	11
11	Sabah	14.25	16.78	27.55	12.71	5.37	2.71	79.36	8
12	Sarawak	17.25	16.17	28.03	14.29	4.74	3.13	83.61	7
13	Melaka	13.50	16.78	18.85	14.82	3.16	1.88	68.99	13
14	Negeri Sembilan	14.25	15.86	26.58	14.82	3.16	2.71	78.62	10
	SCORE, N=13 (%)	71.63	90.74	90.90	80.54	73.65	61.06	81.86	
	RANK	5	2	1	3	4	6		

Table 5.15 Six financial management practices scores and star ratings

No.	Financial management practices	Scores	Ratings	star
1	Organizational management	72%	Good	***
2	Receipts and collections	90.74%	Excellent	****
3	Disbursements and distributions	90.90%	Excellent	****
4	Asset management	81%	Good	***
5	Budgeting	74%	Good	***
6	Reporting	61%	Satisfactory	**

This shows that ZIs always do their best to fulfil primary and secondary accountability by distributing and collecting *Zakat* funds according to *Shari'ah.* However, due to lack of limited sources such as staff and management knowledge, there are rooms for improvements for secondary accountability, particularly in the area of reporting. Analyzing the level of accountability, ZIs seem to have a 'good' level of fiscal accountability as adherence to applicable regulation, consistency with good accounting principles, the accuracy and fairness of the reports and the reality and legitimacy of transactions have always been observed adequately. These are reflected in the scores gained from this FMP evaluation.

5.3.1 Organizational management

According to table 5.15 on p. 85, ZIs in Malaysia, ZIs practice organizational management in a 'good' manner. All ZIs basically have an appropriate organization chart, delegation of power, a written Work Procedural Manual and Desk Files. However, some ZIs do not maintain computerized accounting system. Internal and external audit systems are not delegated appropriately to independent parties such as external auditors.

The existence of basic organizational management indicates that ZIs in Malaysia have structured internal procedures which enable their staff to do their job in the best manner.

5.3.2 Receipt and collection

According to table 5.15 on p. 85, receipt and collection as implemented in ZIs in Malaysia are 'excellent' practices. All procedures are carried out appropriately. However, due to the shortage of staff, segregation of duties and the responsibility rotation do not yet obtain perfect marks.

Some *ZI*s use a corporate style as one of the ways to solve this issue. Staff are employed under a professionalism scheme of '*Amil*. There are many differences between professional *'Amil* and traditional *'Amil*. Professional 'Amil are more proactive and innovative in terms of their approaches (Wahid and Kader, 2010). In addition, they are equipped with required *Shari'ah* and accounting knowledge and skills. They have to undergo appropriate training and be bound by appropriate human capital and knowledge advancement planning (Obaidullah, 2012). Unlike professional *'Amil*, traditional *'Amil* are appointed informally. They have a religious background only and have not undergone relevant proper training and human capital and knowledge advancement plans. Furthermore, they are employed under sub-standard human resource planning.

By appropriate management and planning of human resource, staff can be optimally utilized and employment can be planned under a competitive employment schemes. For example, in Melaka, MAIM have their own professional *'Amil* and supporting *'Amil* as their subordinates in enhancing proper administration of collecting *Zakat* (MAIM, 2015). One of the success factors in the golden age of

Caliph Umar Abdul Aziz was that their *Zakat* was controlled, collected and disbursed by trustworthy and professional *'Amil* (Ayuniyyah, 2011).

5.3.3 Disbursements and distributions

The average score for distribution and disbursement shows that ZIs are practicing these in an 'excellent' manner. They manage to operate with full accountability. All documented procedures, segregation of duties and processes are carried out in the best way.

ZIs as holistic institutions are accountable to manage *Zakat* money at its best way. Appropriate distribution of *Zakat* money is one of the ways to show their accountability to Allah and to the *Zakat* beneficiaries. As the distribution of *Zakat* money is among the highest potential risks of mismanagement, the majority of ZIs implement excellent financial management practices. Thus, they can employ best practices to prevent any irregularities.

5.3.4 Asset management

ZIs in Malaysia practice asset management in a 'good' manner. All of them secured their assets in appropriate places and maintained them according to schedule. All assets are labeled with the name of the institutions. However, upon disposal of the assets, some ZIs did not appropriately report and investigations were not made by a specific committee. Again, this explains the low score of reporting.

*ZI*s should make it transparent how they recognize an asset to avoid the misperception that *Zakat* money has been used to buy assets. This highlights the importance of unique accounting standards for ZIs.

5.3.5 Budgeting

'Good' budgeting practices by ZIs in Malaysia suggests that the organizations are planning and managing *Zakat* funds with full awareness of accountability to Allah. All ZIs prepare their annual budget and make a comparison between the actual and budgeted amount. As the accounting regulations vary, monitoring budget variance and scope of budgets also vary. As the reporting of budgets also varies, some ZIs do not show their secondary accountability towards their stakeholders. Some ZIs consider budgeting as internal information only.

5.3.6 Reporting

The average score for reporting practices shows 'satisfactory' practices by ZIs. All ZIs are satisfactorily discharging their secondary accountability by providing annual reports on income and expenditure, balance sheets, cash flow and the principle activities. They also have a particular standard that regulates their accounting practices, such as Malaysian Financial Reporting Standards (MFRS) and Treasury Instruction (TI). They are also accountable and disclose on their websites the mission, activities and key staff of the organization.

On the other hand, the lack of standardization of regulation is the reason for several differences. Accounting standards and accounting requirements vary according to the style of the institution. For example, not all ZIs disclose their budget, have the annual report audited by independent auditors and generate reports in the same period.

5.4 PERFORMANCE OF *ZAKAT* INSTITUTIONS

This study examines three types of performance measures: financial performance index (FPI), employee satisfaction index (ESI) and customer satisfaction index (CSI).

5.4.1 Financial Performance Index (FPI) scores

Adopted from Said et al. (2012), eleven indicators were assessed in *Zakat* institutions. FPI indicators assessed three performance areas, which are *Zakat* collection, *Zakat* distribution and *Zakat* system coverage. The result of the financial performance index is shown in table 5.16 on p. 90. The result shows a 'good' performance of *Zakat* distribution and a 'satisfactory' performance of *Zakat* collection. However, the performance of *Zakat* system coverage is 'not satisfactory'.

First, as shown in table 5.17 on p. 91, the distributions of *Zakat* monies are 'good' level and acceptable. Good performance of distribution indicates that ZIs in Malaysia are managing *Zakat* funds with full accountability. This is shown by their always discharging their accountability towards Allah and Muslims. ZIs always try their best to allocate *Zakat* monies fairly and appropriately to the eight *Asnaf*. As required by *Shari'ah*, *Zakat* funds collected should be distributed in the same year. The result shows 'good' distribution of the funds.

This result is quite surprising as it contradicts the rumours from the public and prior researches. Some rumours in Selangor arose about the mismanagement of Zakat distributions which involved the intervention of political parties (Utusan Online, July 25, 2015). Even, in social media, an open letter from public to high authority of *Zakat*, questioning the efficiencies of Zakat in solving social problem. (The Malaysian Insider, December 19, 2014). In addition, Kamil (2005) found that most *Zakat* payers were doubtful as to the credibility of ZIs in terms of managing *Zakat*

fund. Furthermore, many prior studies such as Abdul Halim et al. (2005) and Ahmad and Ma'in (2014) discovered a lack of efficiency in the distribution.

This research has shown a different result; therefore further research is required to understand why public raise doubts and dissatisfaction on ZIs' distribution. It may be due to the amount of *Zakat* given to *Asnaf* having to be revised or to Malaysia's economy itself having created such difficulties. At the same time, future research should also use more FPI measures in the *Zakat* distribution category in order to gain a deeper understanding in this area.

Table 5.16 FPI result ranking

State	FPI 1	FPI 2	FPI 3	FPI 4	FPI 5	FPI6	FPI 8	FPI 9	FPI 10	FPI 11
Perlis	221.32	0.05	1.83	0.69	NA	1,127,320	358.69	0.22	NA	NA
Kedah	55.99	0.08	1.00	0.94	0.10	1,150,005	70.28	-0.01	NA	0.01
Kelantan	NA	NA	1.32	0.88	0.06	404,143	77.19	0.17	0.21	0.01
Perak	48.54	0.12	1.04	0.66	NA	576,125	74.07	0.14	0.13	NA
Terengganu	18.59	0.08	NA	0.79	0.04	NA	106.26	0.18	1.00	-0.04
Johor	NA	NA	NA	NA	NA	NA	88.19	0.20	NA	NA
Pahang	8.11	0.27	NA	NA	0.06	829,644	91.57	0.14	1.00	0.01
Pulau Pinang	NA	NA	NA	NA	0.13	NA	109.95	0.19	1.00	0.65
Selangor	NA	0.13	1.05	0.89	0.09	1,111,576	142.76	0.13	0.19	0.02
WPersekutuan	42.95	0.02	1.14	0.66	NA	2,952,599	529.65	0.15	0.19	NA
Sabah	17.82	0.08	1.28	0.75	NA	1,063,683	23.31	0.31	NA	NA
Sarawak	7.94	0.10	0.98	0.72	0.90	466,055	63.87	0.13	0.07	0.04
Melaka	NA	NA	NA	NA	0.08	NA	81.09	0.14	1.00	0.03
N. Sembilan	18.80	0.08	1.28	0.94	0.07	NA	106.25	0.11	0.10	NA
Score (%)	22.09	93.65	66.30	70.71	18.89	37.47	25.93	50.69	54.94	31.38
Average score										47.21
Star Rating	*	****	**	***	*	*	*	**	**	*
FPI	P-C	P-C	P-C	P-D	P-CV	P-C	P-C	P-C	P-C	P-CV

Note. Financial Performance Index. P-C =Performance of Collection, P-D=Performance of Distribution, P-CV=Performance of *Zakat* system Coverage.

Table 5.17 FPI star rating – ranking

Performance Areas	Score	Star Rating	Rank
***Zakat* collection**	50.16	**	2
***Zakat* distribution**	70.71	***	1
***Zakat* system coverage**	25.14	*	3

The performance of *Zakat* collection is 'satisfactory' but there is still potential for improvement. For example, the efficiency level of *Zakat* collection as compared to its cost of employing *'Amil* should be optimized. Every staff member should have their targets and KPIs which are aligned to the aim of ZIs. In addition, the increment rate for *Zakat* collections should also be improved.

On the other hand, the satisfactory result may show due to the coverage of this study cover all *ZI*s in Malaysia. It is understood that *ZI*s in more urbanized states such as *ZI*s in Wilayah Persekutuan has more efficiency and effectiveness in *Zakat* collection. But, for less urbanized states such as Perak, Pahang and Kelantan which require a lots of improvement have to be taken to this area.

5.4.2 Employee Satisfaction Index (ESI)

Adopted from Said et at. (2012), four elements of ESI were tested. These are knowledge advancement, financial benefit, non-financial benefit and working environment offered by ZIs to its employees.

The first element is knowledge advancement opportunities offered to the employees of ZIs. This is to evaluate the satisfaction of employees in viewing the knowledge advancement opportunities in their workforce. On average, this element ranked as 'good' performance. K3 shows a 'satisfactory' performance score. This

indicates that employees are least satisfied with offers of any scholarship or loan in order to further their study at higher education level. K1 and K2 shows a ‘good’ performance level. This shows that the employees have greater satisfaction with supervision, feedback, training and development in the ZI and personal knowledge development.

The second element is financial benefit offered to the employees of ZIs. This is to evaluate the satisfaction of employees regarding the financial benefits offered such as bonus, job promotion as well as various loans. On average, all ZIs gain a ‘good’ satisfaction score as shown in table 5.18 on p. 93. This indicates a good level of satisfaction with opportunities for job promotion and career advancement and loan and benefit offered, bonus and overtime pay.

The third element is non-financial benefits offered to the employees of ZIs. This is to evaluate the satisfaction of employees regarding the non- financial benefits offered, such as the provision of benefits to support family needs, understanding benefit options, comparability and favorable benefit compared to other organizations and staff assistance programs. In average, all ZIs gain a ‘good’ performance score. This indicated a ‘good’ level of satisfaction with the provision of benefits offered to fulfill family needs and understanding of other benefit options and staff assistance programs.

The last element is the working environment offered to the employees of ZIs. This is to evaluate the satisfaction of employees regarding the working environment offered, e.g. inter-departmental cooperation, appropriate and organizes structure, clear assignment of responsibilities, facilities, safety, teamwork and fairness in treatment of all employees. On average, employees have ‘good’ satisfaction with the working environment.

Table 5.18 Overall performance in ESI

	KL	FB	NF	WE	Total
Percentage (%)	77.10	79.74	75.07	81.03	78.25
Star Rating	***	***	***	***	***

Note: KL=knowledge advancement, FB=financial benefit, NF=non-financial benefit, WE=working environment.

Overall, ESI shows a 'good' level of satisfaction among employees. This indicates that ZIs in Malaysia have good practices in providing benefit plans, facilities and working environment to their employees. This is consistent with the commandment of Allah to treat employees fairly and not be a tyrant. They should pay their salaries before their sweat has dried on their brows. This is to show primary accountability to Allah, as the concern is not only to manage funds, but also to treat others well. These are the roles of vicegerents of Allah.

5.4.3 Customer Satisfaction Index (CSI)

Five major elements are evaluated based on SERVQUAL and Adjusted Customer Satisfaction Index by Said et al. (2012) and others. These are assurance, reliability, tangibles, empathy and responsiveness.

ZIs were tested on these five elements. First element is assurance. This is to evaluate the performance in inspiring trust and show confidence to customers. In average, all ZIs gained more than 68 percent. Perlis and Sarawak had the highest marks (95.0%), followed by Negeri Sembilan (90.5%), Melaka (88%), Perak (86%), Kedah (84.5%) and Johor (84.44%). Sabah however, obtained the lowest mark (68.5%).

According to table 5.19 on p. 96, Kelantan state gained a lower score for measure A3 (mean=2.83). This indicates customers have little satisfaction and trust that staff manage the *Zakat* fund in an appropriate way. Selangor state obtained a lower score in measure A2 (mean=2.80). This shows that the customers lack trust that ZIs can help and solve customer problems. In Sabah, measure A1, A2, A3, A4 and A5 all obtained less than 3.0 mean scores. This suggests a low assurance in the services provided to customers.

The second element is reliability. This is to evaluate the reliability of services provided and whether the services are delivered in a dependable and accurate manner. On average, all ZIs gain more than 69 percent. Melaka obtained the highest marks (90.83%). Perlis, Sarawak and Negeri Sembilan obtained second highest marks (86.11%), followed by Terengganu (84.56%), Johor (82.41%) and Kedah (81.94%). Sabah however had the lowest mark (69.17%).

Kelantan state had a lower score for measure R2 (mean=2.83) and measure R6 (mean=2.83). This indicates a lower level of reliability in meeting deadlines in providing services as well as poor provision of added value services. Selangor state obtained a low score in measure R4 (mean=2.80) and R8 (mean=2.60). This shows that the customers are less satisfied with first time services and with friendliness while dealing with them. Wilayah Persekutuan scores less in measure R9 (mean=2.90), which illustrates poor ease of access to the network by customers. In Sabah, measure R1 to R9 all obtained less than 3.0 mean scores. This portrays a low level of reliability in the services provided to customers.

The third element is tangibles. This is to evaluate the availability and appearance of facilities and personnel. In average, all ZIs scoremore than 66 percent. Sarawak obtains the highest marks (90.0%), followed by Melaka (87.50%), Johor

(85.83%), Negeri Sembilan (85.75%), Kelantan (77.5%) and Wilayah Persekutuan (77.5%). Sabah however had the lowest mark (66.5%).

Kedah, Selangor and Sabah are among the lowest scorer in this 'tangible' element (73.67%, 68.88%, and 66.5%). Selangor state gains the lowest score for measure T4 (mean=2.4). This indicates less accessibility and convenience in terms of the physical location of the office. Sabah state obtains a low score in measure T1 (mean=2.40) and T2 (mean=2.40). This shows that the office of the ZI is lacking in terms of interior comfort and physical facilities.

The fourth element is empathy. This is to evaluate the willingness of staff to understand the needs of customers. On average, all ZIs score more than 70.5 percent. Perlis had the highest marks (92.5%), followed by Sarawak (90%), Melaka (87.25%), Johor (85%), Negeri Sembilan (83.5%), Terengganu (81.86%) and Perak (80.5%). Sabah however had the lowest mark (70.5%).

Kedah, Selangor and Sabah are the lowest scorers in this 'empathy' element (77.5%, 73.13%, and 70.5%). Kedah state gains the lowest score for measure E10 (mean=2.7). This indicates that fewer value added services are provided such as photocopying service and filling in forms for customers. Wilayah Persekutuan state gets less score in measure E3 (mean=2.7). This shows that the staff are lacking a sense of humor when dealing with customers. Sabah state scores low marks on measure E5 (mean=2.7) and E7 (mean=2.7). This shows the confidentiality of customers' information is in doubt and there is a lack of value added services in terms of financial and personal counseling.

The fifth element is responsiveness. This is to evaluate the willingness of the staff to assist customers and provide prompt service responsibly. On average, all ZIs obtain more than 65 percent. Perlis, Melaka and Sarawak gets highest marks

(88.89%), followed by Terengganu (83.92%), Negeri Sembilan (83.61%), Johor (82.41%) and Perak (80.83%). Sabah however had the lowest mark (66.11%).

Selangor and Sabah are among the lowest scorers in the 'responsiveness' element (66.11%, 71.53%). Sabah state scores low marks on measure RP4 (mean=2.5) and RP9 (mean=2.5). This shows that the efficiency of counter services and number of staff available are inadequate. The overall evaluation of states shows Negeri Sembilan with the highest performance (85.62%) on the CSI score, followed by Johor (83.88%), Terengganu (81.83%) and Perak (80.37%).

Table 5.19 Overall performance in CSI

	A	**R**	**T**	**E**	**RP**	**Total (%)**
Percentage (%)	83.57	81.37	78.58	81.20	80.19	**80.76**
Star Rating	***	***	***	***	***	*******

Note: A=assurance, R=reliability, T=tangible, E=empathy and RP=responsiveness

According to table 5.20 on p. 97, overall performance for ZIs in Malaysia is only at a 'satisfactory' level. ESI and CSI performances are 'good', but FPI is 'not satisfactory'. This indicates that ZIs in Malaysia have to improve their performances to achieve better results.

Three star (***) rating states such as Perlis and Kelantan are states with high religious awareness and Perlis have advantage as the population of Muslim is small and easy to managed. In the cases of Pulau Pinang and Wilayah Persekutuan, these two states are among the most developed states in Malaysia. Thus, they are expected to be more advanced in terms of technology and the collection and distribution were high compared to less developed states. The Muslim population in the states are also highly aware of the obligation of *Zakat* and they are more demanding regarding the

accountability and transparency of *Zakat* management. Sabah and Sarawak, on the other hand, have relatively small Muslim populations and they are able to manage the *Zakat* administration under their jurisdictions.

Table 5.20 Overall Performance Star Rating

Country	Mean			Total	Star Rating
	FPI	ESI	CSI		
Perlis	76.49	83.33	87.40	82.41	***
Kedah	32.73	74.90	78.72	62.11	**
Kelantan	37.72	100.00	78.76	72.16	***
Perak	40.09	83.20	80.37	67.89	**
Terengganu	32.42	60.12	81.83	58.12	**
Johor	40.58	75.94	83.88	66.80	**
Pahang	27.68	62.14	77.56	55.79	**
Pulau Pinang	74.85	79.22	79.37	77.81	***
Selangor	45.44	0.00	72.21	58.82	**
Wilayah Persekutuan	63.80	68.75	78.98	70.51	***
Sabah	63.21	81.77	68.27	71.08	***
Sarawak	43.43	82.29	89.13	71.62	***
Melaka	30.87	88.80	88.59	69.42	**
Negeri Sembilan	41.35	76.82	85.62	67.93	**
Total Average	46.48	78.25	80.76	68.03	**
Star Rating	*	***	***	**	

5.4.4 Relationship between FMP and FPI

This section examines the relationship between financial management practices (FMP) and financial performance (FPI) in ZIs in Malaysia. Therefore, inferential statistics will be employed in order to answer these sub questions:

Is there any relationship exists between FMP and FPI?

In order to answer these questions, three methods of inferential statistics were used. Firstly, there is the Pearson Chi-square test. This test is used to examine whether a

statistically significant relationship exists between two ordinal category variables. It accompanies a cross-tabulation between two variables. Categorical independent, FMP and dependent variable, FPI, are needed. Hence, the procedure needs to use star ratings as the values. If the star ratings (1 star, 2 stars, 3 stars and 4 stars) are used as values, this Pearson Chi-square test will be appropriate even if the variables are ordinal type. The Pearson model was chosen to examine the strength of the relationship. Based on the cross-tabulation, when FPI is 1, 2 or 3 stars, FMP is 3 stars.

Table 5.21 FMPSTAR * FPISTAR Cross-tabulation

		FPISTAR			Total
		1.00	**2.00**	**3.00**	
FMPSTAR	2.00	2	0	0	2
	3.00	5	3	2	10
	4.00	1	0	0	1
Total		8	3	2	13

Table 5.22 Chi-Square Test of Association

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	2.438[a]	4	.656
Likelihood Ratio	3.460	4	.484
Linear-by-Linear Association	.165	1	.685
N of Valid Cases	13		

a. 8 cells (88.9%) have expected count less than 5. The minimum expected count is .15.

However, FPI and FMP variables produced percentages greater than 20% (value of a), which indicates the violation of the Chi-square assumption. Therefore, the study needs another analysis tool.

Hence, the study employs Correlation Bivariate and Pearson Correlation. In accounting, it is conventional that if the value of significance is less than 0.1, then the correlation is considered to be significant (meaning that the researcher can be 90% confident that the relationship between these two variables is not due to chance). In this sample, since all Sig values are more than 0.1, we can say that there is no significant correlation between financial management practices and financial performances.

Table 5.23 Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
FMPSCORE	13	68.99	90.23	81.8554	5.64277
FPISCORE	14	27.68	76.49	46.4757	16.31015
Valid N (listwise)	13				

Table 5.24 Correlation test of association

		FMPSCORE	FPISCORE
FMPSCORE	**Pearson Correlation**	1	.132
	Sig. (2-tailed)		.667
	N	13	13
FPISCORE	**Pearson Correlation**	.132	1
	Sig. (2-tailed)	.667	
	N	13	14

The Pearson correlation also shows an insignificant relationship between these two variables as the value is not close to -1 or 1. A positive Pearson Correlation score shows a positive relationship between FMP and FPI (Pearson score =0.132). This implies that when FMP increases, the FPI scores also increase and vice versa. As a result, this study concludes that there is no significant relationship between financial

management practices and financial performances of ZIs in Malaysia. This might be the reason why ZIs do not focus greatly on financial management practices.

The Correlative Bivariate test was also done for each indicator and element of FPI and FMP. The result in Table 5.25 on p. 101 shows that Organizational management score and FPI1 have a significant relationship as the value of Significance (2-tailed) is less than 0.05. This indicates that excellent organizational management is related closely to the efficiency of cost of employment staff. It is parallel with the measures proposed in FMAI, that human resource management and delegation of tasks are related closely to staff. This is a possible reason for the relationship between these two variables.

Furthermore, FPI4 has a negative relationship with all FMPs. FPI4 represents the distribution over collection. Although this relationship is not significant, the total collection for the year has an influence on or is influenced by FMP.

Ideally, better management will lead to better and sustainable performance. However, in the ZI environment in Malaysia there remains a long journey to ensure that improvement in the management will lead to better performance, due to the challenges described in the earlier chapter.

Table 5.25 Pearson Correlation test of association

		FPI1	FPI2	FPI3	FPI4	FPI5	FPI6	FPI8	FPI9	FPI10	FPI11
FMPOM	**Pearson Correlation**	.680*	.111	.400	-.384	.145	-.259	.014	.112	-.088	-.057
	Sig. (2-tailed)	.044	.760	.286	.195	.710	.501	.962	.704	.798	.860
	N	9	10	9	13	9	9	14	14	11	12
FMPRC	**Pearson Correlation**	.239	.342	.245	-.076	.203	.016	.014	.153	.073	.109
	Sig. (2-tailed)	.536	.334	.525	.806	.600	.968	.962	.600	.831	.736
	N	9	10	9	13	9	9	14	14	11	12
FMPDB	**Pearson Correlation**	-.252	.233	.173	-.340	.284	.028	.023	.148	.062	.099
	Sig. (2-tailed)	.512	.517	.656	.256	.459	.944	.937	.614	.857	.760
	N	9	10	9	13	9	9	14	14	11	12
FMPAM	**Pearson Correlation**	.149	.036	.193	-.131	.047	-.163	-.105	-.051	-.143	-.046
	Sig. (2-tailed)	.703	.921	.618	.669	.905	.676	.722	.862	.674	.887
	N	9	10	9	13	9	9	14	14	11	12
FMPBG	**Pearson Correlation**	-.098	.168	.212	-.418	.159	.129	.123	.203	-.134	-.144
	Sig. (2-tailed)	.802	.643	.585	.155	.682	.742	.674	.487	.694	.656
	N	9	10	9	13	9	9	14	14	11	12
FMPRP	**Pearson Correlation**	.197	.026	.162	-.301	.175	-.182	-.096	-.071	.021	.067
	Sig. (2-tailed)	.611	.944	.678	.318	.653	.639	.743	.810	.951	.836
	N	9	10	9	13	9	9	14	14	11	12

5.5 SUMMARY OF THE CHAPTER

This chapter discussed the research findings of the present study. Section 5.3 provided a discussion on the six financial management practices of all respondents (ZIs). *Zakat* distribution, *Zakat* collection and asset management are seen as significant FMPs according to ZIs, as these three areas gained the highest scores. ZIs applied 'excellent' practices in collection and 'good' practices in distribution, but only 'satisfactory' in reporting. Section 5.4 discussed the findings and analysis on the

performance according to the perspective of management, customers and employees of ZIs. FPI was the measure for the management perspective. The result was that the performance of *Zakat* distribution is 'good', *Zakat* collection 'satisfactory' and *Zakat* coverage 'not satisfactory'. Overall performance for ZIs was 'satisfactory' only. These results support the FMP result and are aligned with the prior studies on the disclosure part. An interesting finding shows there are at least significant relationships between FMP and FPI. Finally, section 5.5 provides a summary of the chapter.

CHAPTER SIX

CONCLUSION AND RECOMMENDATION

6.1 INTRODUCTION

This study started with problem statements, literature review and research gap, theories which explains the framework, research methodology employed and the results gained from this study. Thus, Chapter Six concludes these processes in section 6.2, explains the contribution of the study to the related field in section 6.3 and its limitations in section 6.4. Lastly, section 6.5 makes recommendations for future research. Overall, this chapter gives a summary of the research in the first part and highlights its significance and its limitations in the second part.

6.2 SUMMARY OF THE STUDY

In reaching towards year 2020, the role of ZIs have become very crucial. Mission 2020 requires all organizations and individuals to play their role to their full potential. Acknowledging the functions of *Zakat* in realizing the mission, and the past success of the *Zakat* system, the importance of appropriate accounting and auditing practices were highlighted. This creates a demand for more accountability and transparency in ZIs' operations and performances and for more appropriate and systematic financial management and reporting. As the requisition of the subject matters, ZIs have to prove their efficiency and effectiveness through their performances or outcome.

Thus, this study aims to examine financial management practices of ZIs in Malaysia. There are six areas of concern: organizational management, collection and receipt, distribution and disbursement, asset management, budgeting, and reporting.

In addition, this study also expands its scope to performance insights and examines the relationship between the FMP and FPI. The accountability framework was used in defining the transcendence responsibilities of ZI to Allah the Real Owner and to mankind, particularly *Zakat* payers, *Zakat* beneficiaries and the Muslim public.

The study used a quantitative technique by distributing questionnaires to all the main ZIs in Malaysia. Three (3) sets of questionnaire and one (1) financial index were distributed to various respondents in all fourteen states in Malaysia. The data collected came from various respondents from thirteen ZIs, seventy-two employees of fourteen (14) ZIs and one hundred and twelve (112) customers of the fourteen (14) ZIs.

The study found that, on average, all ZIs have implemented 'good level' financial management practices. Collection and distribution practices are accounted to be 'excellent' in the assessment. This indicates the high significance of financial management practices in ZIs. These results show that ZIs in Malaysia perform their obligations with full responsibility and accountability to Allah. They continuously try to improve their collection every year and distribute it to all recognized *Asnaf*. It can be seen in their reports that the amount of the collection rises annually. Further, many activities and innovative actions have been taken by ZIs throughout Malaysia which enable *Zakat* monies to reach to *Asnaf*. The least important in the ZIs' perspective is reporting. In terms of fulfilling the needs of information to its stakeholders, there are many areas which could be improved.

Secondly, this study found that overall, performances of ZIs are at a 'good' level. ESI and CSI have 'good' results. However, FPI are 'not satisfactory'. These show that there are many potential areas for improvements. FPI shows that more developed states are expected to be more advanced in terms of technology this factor

can be significant in ensuring the effectiveness and efficiencies in the *Zakat* administrations. This supports past research by Wahab et al. (2012). Furthermore, the Muslim population in more developed states are more aware of the *Zakat* administration and their demand for accountability and transparency are higher. Small Muslim populations also can be one of the advantage for states such as Perlis, Sabah and Sarawak as this makes it easier to manage the *Zakat* among Muslims.

Thirdly, this study reveals that in general, there is no significant correlation between the financial management practices and the financial performance of ZIs. However, there are positive correlations between financial management and financial performance. Specifically, organizational management has significant relationship with the efficiency of employment cost. This shows that organizational management has a significant relationship with the efficiencies of cost of employment in raising *Zakat* fund.

6.3 CONTRIBUTION OF THE STUDY

6.3.1 Theoretical Contribution

This study contributes to the existing literature by collating the best financial management practices for future use in research. Furthermore, although the findings on the relationship between FMP and FPI are not significant, future research may challenge this result and establish a closer relationship between FMP and FPI, as ideally, their relationship should be significant. In addition, this study contributes in terms of an extension to Said et al.'s (2012) study. In short, this study is the first research which tests the relationship between financial management and financial performance, which adopt Said et al. (2012) framework as the performance measure and provides the objectives of each financial management practice.

6.3.2 Practical Contribution

This research will impact on all non-profit organizations, particularly religious-based ones, in terms of their ability to self-regulate and upgrade their financial management towards best practices. They will be able to use the benchmark as a checklist for further improvements. The benchmark has been used in this study to assess financial management practices (Q1 development) in ZIs. Therefore, the benchmark can be a sound guideline to enhance financial management practices.

In addition, this study may be able to strengthen the confidence in and eliminate the doubts of the public about ZIs. As the study discloses the 'good' result of ZIs in their financial management practices, people may become more considerate and investigate first before believing any rumors.

Thirdly, by promoting better transparency in reporting, ZIs may be able to prove their existence and disclose their positive impacts to tackle social problem. Thus, the potential of ZIs can be further developed and to play a larger role in the development of socio-economy of Muslims. Current practices also show a lack of transparency in reporting. Thus, the study encourages comprehensive and standardized reporting.

Fourthly, appropriate recording and reporting can assist in making the *Zakat* fund a vital tool which is full of potential. This will improve the acknowledgement of the Muslim public as well as the non-Muslim public of the *Zakat* system. This is also a part of *Da'wah*.

Fifthly, by creating an environment conducive to fair competition among ZIs which more or less have same KPIs, these non-profit institutions will be on the right path to serve the public and be accountable to authority. Healthy competition will also

lead to better performances. Therefore, ZIs' will progress towards greater development and dynamism will be real.

Lastly, policy makers can reflect on and discuss how to use the *Zakat* system to solve the 'begging' problem in Malaysia. This is due to the majority of beggars being Malay and Muslims. Policy makers also have to find an equivalence point to monitor ZIs' operations, particularly in enhancing transparency in reporting their finances. In order to fully utilize the potential of ZIs, policy makers may wish to consider the relevance of including the *Zakat* system in the Annual Budget Presentation.

6.4 LIMITATIONS

Certain limitations have been found in this study. First, in this study there is the possibility of 'towards perfect results' which are YES answers in Q1. This is due to the consistent 'positive-style questions' in the questionnaire. This may cause misrepresentation in the findings.

Secondly, out of fourteen (14) ZIs of the target sample, only those in thirteen states respond to the questionnaire. As the population is already small, the non-respondents may represent another level of financial management practices or performances. In addition, the majority of the samples of hundred and forty (140) employees and hundred and forty (140) customers were sampled in the headquarters areas (convenience sampling). Therefore, the collection of data focuses on specific areas only. In addition, the sample size is small. However, this is acceptable as it will be used as supporting evidence only.

Moreover, the study only focuses on state-managed ZIs and does not cover any other small ZIs; for example, ZIs which operate within other institutions such as

universities and colleges. In addition, ZIs in Malaysia are strongly influenced by the regulation of state and federal governments. Therefore, their structure or the *Zakat* environment in Malaysia might be unique compared to other countries.

Furthermore, all the questionnaires were assumed to be valid and reliable as they were adopted from prior studies. They were also has been sent to experts and potential respondents for testing. Several adjustment were made after the process. However, no scientific methods were used to prove the validity and reliability of these instruments.

Finally, the major limitation of the study is the challenge to establish a relationship between FMP and FPI. Logically, any organization with improved and sustainable performance always been backed by good management practices. However, due to the lack of uniformity of ZIs in Malaysia and the non-competitive environment of ZIs in Malaysia, the relationship between FMP and FPI does not appear to have been established. This is the major challenges which future studies should address.

6.5 RECOMMENDATIONS FOR FUTURE RESEARCH

In recent years, many researchers have taken an interest in these research areas. However, there remain many potential areas for future research. Such academic studies will help religious based non-profit organizations to upgrade their practices and become more competitive and reputable in the eyes of the public. This will also enhance the accountability and integrity of religious-based organizations in the public eye as historical events and more recent events in Christian churches have created a negative impression of religious-based organizations.

Through this study, the levels of practices and the performances of ZIs in Malaysia have been revealed. In the view of the researcher, further study on the impact of the 'best management benchmark' could extend this study. Furthermore, a continuous performance measurement as proposed by Mohd Noor et al. (2012) can be used as an assessment measurement framework for ZIs in future.

Secondly, a recommendation to practitioners, particularly the front line of ZIs' executives, is to investigate further the main factors that hinder Muslims from seeking help from ZIs. It would also be useful to conduct a survey on the extent to which ZIs assist Muslim *Asnaf* to improve their poor and difficult lives become more independent, and perhaps also with the aim of becoming *Zakat* payers.

Finally, ultimately, the relationship between FMP and FPI should progress towards having a competitive ZIs in Malaysia. All stakeholders should put pressure on *ZI*s to use uniform reporting of financial performance and assessment of their financial management practices. By doing this, future researchers may find new areas to demonstrate that better management will lead toward better performance.

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APPENDIX I
COVER LETTER

24th September 2013

Dear Participant

My name is Fatimah Sakeenah bt Anuar and I am a post-graduate student at International Islamic University of Malaysia. For my thesis, I am conducting a research on **'Management Best Practices of *Zakat* Institutions in Malaysia'.** I would appreciate if you could participate in this research study by completing the attached questionnaire.

The following questionnaire will require approximately 45 minutes to complete. If you choose to participate in this project, please answer all questions as honestly as possible and return the completed questionnaire promptly through email (fatimahsakeenah@gmail.com), by mail at **No. 74, Jalan Bukit Coral 5, Taman Coral Heights, 70400 Seremban, Negeri Sembilan**, or by hand if convenient.

I thank you for your kind cooperation.

Sincerely,

FATIMAH SAKEENAH BT ANUAR
Student
Master of Science (Accounting)
International Islamic University Malaysia
(019-359 2711 /fatimahsakeenah@gmail.com)

APPENDIX II

QUESTIONNAIRE 1

QUESTIONNAIRE 1: FINANCIAL MANAGEMENT TEST

A Research Survey on the Financial Management Practices of State *Zakat* Institution in Malaysia

Please answer each question by placing a tick (/) in the appropriate box. You may need to tick more than one response to each question. You can be assured that the details you provide will be treated in the STRICTEST OF CONFIDENCE. The results will be reported in aggregate form and individual *Zakat* institutions will not be identified.

SECTION A: GENERAL INFORMATION

RESPONDENT'S INFORMATION

1. Position of respondent (in the *Zakat* institution):
_____

2. Employment status of respondent in the *Zakat* institution:

Fulltime ☐ Part – time ☐ Volunteer ☐

***ZAKAT* INSTITUTION'S INFORMATION**

3. State: _____
4. Name of *Zakat* institution:
_____
5. Function of *Zakat* institution:
   - *i.* *Zakat* collection ☐
   - *ii.* *Zakat* distribution ☐
6. Types of *Zakat* institution:
   - i. Government department ☐
   - ii. Corporatized (Board of Trustee) ☐
   - iii. Privatized (Board of Directors) ☐
7. Sources of finance for the *Zakat* institution (you may tick more than one):
   - i. Allocation from State Religious Department ☐
   - ii. *Zakat* collection ☐
8. Type of *Zakat* managed:
   - *i.* *Zakat* on income ☐
   - *ii.* *Zakat* on business ☐

iii. *Zakat* on savings
iv. *Zakat* on shares
v. *Zakat* on Employee Provident Fund (EPF)
vi. *Zakat* on gold or silver
vii. *Zakat* on crops
viii. *Zakat* on livestock
ix. *Zakat* Fitrah, Ma'dan, Kanz and Rikaz
x. Others _____

9. *Methods of receiving Zakat* collection and other receipts:
   i. Income Deduction Scheme (SPG)
   ii. Internet banking
   iii. Bank Counter and Post
   iv. Credit Card / Bank Card
   v. Cheque / Bank Draft
   vi. Tax Firm
   vii. *Zakat* Institution's counter
   viii. Others_____

10. Types of support provided:
   i. Education
   ii. Cost of living
   iii. Accommodation
   iv. Medication
   v. Disasters
   vi. Wages / allowances / gifts
   vii. *Muallaf*
   viii. Decease management
   ix. Others _____

11. *Zakat* distribution methods:
   _____

12. What accounting regulation(s) are followed by the organization?
   _____

13. Published documents for public:
   i. Audit report
   ii. Bulletins
   iii. Others _____

SECTION B: ORGANIZATIONAL MANAGEMENT (24%)			
		YES	**NO**
1.	Has any organizational chart been prepared?		
2.	Has the delegation of power been appropriately authorized?		
	Who was responsible for authorizing it? _____		
3.	Is any segregation of duties been made clearly in all control areas?		
	Does the financial secretary's or treasurer's activity involve only keeping records for cash collection and preparing the support for disbursement?		
4.	Does your *Zakat* institution have updated and written financial policies and procedures?		
5.	Does your *Zakat* institution have updated and written Work Procedure Manual and Desk Files?		
6.	If YES, are the financial policies and procedures made available for all committees and administrative staff members?		
	i. Written financial policies and procedures		
	ii. Work Procedure Manual		
	iii. Desk Files		
7.	Is there any Surprise Checks has been carried out?		
	If YES, is it according to schedule?		
8.	Is the Financial and Management Accounts Committee has been established?		
	What are their roles? _____		
9.	Is an internal audit committee operational?		
10.	Is there any improvement suggested by Internal Audit Unit that has been acted upon?		
11.	Does your *Zakat* institution have a controlling/finance committee?		
	If YES, does the controlling/finance committee review financial reports regularly?		
12.	Does your *Zakat* institution maintain an accounting system?		
	If YES, which type of accounting system is kept by your institution:		
	i.Manual		
	ii.Computerized		
	iii.Combination		
13.	Does your *Zakat* institution have a chart of accounts?		
14.	Are the accounting records and underlying internal controls audited annually?		
	If **YES**, who performs the audit?		
	i.An independent CPA		
	ii.A CPA who is a member of your organization		
	iii.Person(s) within your organization		
	iv.An auditor of your nomination		
	v.Other _____		
15.	Have all posts been filled according to the approved Establishment Warrant?		
	What are the procedures? _____		

	Who is involved? _____		
16.	Employment status: **Employment status** / Full – time / Part - time / Volunteer Council members Committee members Administrative staff		
17.	Is there any training mechanism in place to ensure personnel have been trained at least 7 days per year?		
18.	Does your organization have a formal code of conduct for employees regarding acceptable operating practices and expected standards of ethical and moral behaviour?		
19.	Did your organization practices the Code of Good Governance as proposed by Charity Commission of United Kingdom?		
	If **Yes**, please state the organization practices the Code of Good Governance?		
	i. **Board leadership**(ensures delivery of objects and sets strategic and value)		
	ii. **Board in Control** (ensuring and monitoring that the organization performing well)		
	iii. **High Performance Board** (compose and organize responsibilities and functions to discharge effectively)		
	iv. **Board review and renewal** (review organization's effectiveness and take any necessary steps)		
	v. **Board delegation** (set out the functions of organization's member and monitor their performances)		
	vi. **Board and trustee integrity** (ensure the conflicts of interest appropriately dealt with)		
	vii. **Board openness** (ensure all parties with and interest in its work)		

SECTION C: FINANCIAL CONTROLS – RECEIPTS (18%)

		YES	NO
1.	Do LOG book for receipt maintained (include amount receipts, payers, purpose, cash or check)?		
2.	Does *Zakat* payers/donors are identified and pre-listed before collection starts?		
3.	For any cash / cheque received:		
	i. Are official receipts issued for any cash / cheque received?		
	ii. Are the official receipts pre-numbered?		
	iii. Have two copies of official receipts issued (for payer and payee)?		
	iv. Are checks are stamped "For deposit only - Name of *Zakat* institution"?		
	v. Is a record of all persons who have been issued with official receipt books kept?		
	vi. Does the reconciliation is committed to the receipt issued and the total receipts in the General Ledger?		
	vii. Is a reconciliation of official receipts issued and income received done by people who do not make the collection and issue receipts?		
	viii. Are official receipt books kept in a safe place? (e.g. safe, locked box or locked drawer)		
4.	Are checks conducted to ensure the incoming receipts are recorded regularly?		
	If YES, how frequent are checks conducted?		
	i. Monthly		
	ii. Quarterly		
	iii. Half-yearly		
	iv. Random period		
5.	Is the handling of *Zakat* money always controlled by at least two people?		
6.	Is cash handling responsibility rotated among different people?		
7.	Does the *Zakat* institution maintain a cashbook for cash/cheques received?		
	If YES, how is it being maintained?		
	i. Manually		
	ii. Computerized		
8.	Are the pay-in slips and/or cash receipts recorded in the cashbook verified with the relevant bank statements?		
	If YES, what is the frequency of this action?		
	i. Daily		
	ii. Weekly		
	iii. Monthly		
	iv. Quarterly		
	v. Other intervals: _____		
9.	How often is the cash amount received are recorded in the accounting system:		
	i. Every day		

	ii. Every two days		
	iii. On a weekly basis		
	iv. On a monthly basis		
10.	Are all employees having access to *Zakat* cash?		
11.	Are all collection boxes sealed or locked?		
12.	Is cash safeguarded in a safe, lock box, or similar protective container when at the mosque or *Zakat* office?		
13.	Are all of these boxes opened regularly?		
	If YES, please state the frequency of opening the boxes:		
	i. Daily		
	ii. Weekly		
	iii. Monthly		
	iv. Annually		
	v. Other intervals: _____		
14.	How many people are present during the opening of the collection boxes?		
	i. One person		
	ii. Two persons		
	iii. More than two persons		
15.	Are counting of money from collection boxes done promptly once opened?		
16.	Are counting the money from collection boxes done by a different person from the person who makes entries in the cashbook?		
17.	Are cash collected/received are deposited, on the same day, in the bank account (within 24 hours)?		
	If NO, please state the frequency:		
	i. Weekly		
	ii. Monthly		
	iii. Other intervals: _____		
18.	Do you use incoming monies not deposited in the bank to pay any expenses (i.e.without banking – in first)?		
19.	Is there any money transferred from the hands to other hands of individual?		
	If YES, is the receipts issued?		
	Is the amount of money and the cash or cheque been verified first?		
	Did the drop-off / pick-up LOG been used?		
20.	Are all cash / cheques received placed in a safe place? (e.g. safe, locked box or locked drawer) if it cannot be banked on the same day?		
21.	Is ACCESS to the safe / locked box limited to authorized person (s) only?		
22.	If the two people that are allowed access to a locked box or drawer no longer hold the position, are the keys will be returned and the password will be changed?		
23.	Is the collection function separate from the recording function?		
24.	Is the collection function separate from the depositing function?		
	Are deposits made by someone independent of accounting and		

	cashiering functions?		
25.	Are an independent person (independent from task to collect, count, record and deposit money) verifies the accuracy of the collected/received amounts?		
26.	Are cash / cheques recorded in the cashbook verified with the bank pay-in slips regularly?		
	If YES, what is the frequency of this action?		
	i. Daily		
	ii. Weekly		
	iii. Monthly		
	iv. Quarterly		
	v. Other intervals: _____		
27.	Are cash register and credit card machines balanced and verified daily?		
28.	Are copies of *Zakat* collection report prepared by the counters given to both the financial secretary and treasurer for entry into the accounting records, and an audit committee for subsequent audit purposes?		

SECTION D – FINANCIAL CONTROLS OF DISBURSEMENTS OF FUND (29%)

		YES	NO
1.	Did the disbursements are made by pre-numbered cheques?		
2.	Is the opening or closing of bank accounts undertaken after being approved by authorized council / committee?		
	If YES, please state the authorizing council / committee: _____		
3.	How many persons are authorized to be cheque signatories?		
	i. One person		
	ii. Two persons		
	iii. More than two persons		
4.	How many signatories are required to sign a payment cheque at one time?		
	i. One signatory		
	ii. Two signatories		
	iii. More than two signatories		
5.	Is there any limit on the amounts specified for individual signatories?		
6.	Do all cheque signers inspect all supporting documents before signing?		
7.	If there any situation where cheques are signed in advance (blank cheque)?		
	If YES, please specify the situation: _____		
8.	If there any situation where cheques are drawing payable to cash?		
	If YES, please specify the situation: _____		
9.	Are supporting documents marked 'paid' when cheques are issued?		
10.	Are all deliveries received compared with the bill of lading on receipt?		
11.	Are any payments by cheques registered in the Register or cash disbursement book?		
12.	Are chequebooks kept in a safe place? (e.g. Safe, locked box, locked drawer)		
13	Is access to the safe / locked box limited to authorized person (s) only?		
14.	Are all payments by cheques recorded in the cashbook?		
	If YES, how is the recording being done?		
	i. Manually		
	ii. Computerised		
15.	Are signed cheques mailed promptly?		
16.	Are all details of payment transactions entered in the chequebook butts at the time of payment?		
17.	Are all chequebook butts retained for reference?		
18.	Are all cancelled cheques marked as “CANCELLED”?		
19.	Are all cancelled cheques retained for reference?		
20.	Are all voided cheques marked and retained?		

21.	Is the Accounting control for *Zakat* distribution / expenditure has been established?		
22.	Did the disbursements are made through approval of authorized person(s)?		
23.	Are the following documents normally used to support payments?		
	i. Quotation		
	ii. Purchase order		
	iii. Invoice		
	iv. Delivery note / order		
	v. Others: _____		
24.	Are payment vouchers prepared when making payments?		
25.	Are prepared payment vouchers containing these details?		
	i. Date of cheque		
	ii. Cheque number		
	iii. Payee		
	iv. Amount of cheque		
	v. Expense account paid		
	vi. Signature of authorize person		
	vii. Accompanying receipt		
26.	Are vouchers prepared for all disbursements from the petty cash fund?		
27.	Is the person preparing payment documentation (e.g. payment voucher) different from the person signing cheques?		
28.	Is the person approving payments different from the person preparing cheques?		
29.	An independent person verifies the accuracy of the payment vouchers before disbursement is made?		
30.	Are all expenditures approved in advance by authorized persons?		
31.	Are there any limits imposed on payment approvals at various levels of the committee members / staff of the *Zakat* institution?		
32.	Are all petty cash payments made from a petty cash float?		
33.	A petty cash fund is used for minor cash payments?		
34.	Are spot checks conducted regularly on the petty cash float?		
	If YES, how frequently are they conducted?		
	i. Monthly		
	ii. Quarterly		
	iii. Half-yearly		
	iv. Other period (please specify): _____		
35.	Is the balance of the petty cash float counted during the spot checks?		
36.	Are spot checks carried out by a person independent from the person responsible for the petty cash float?		
37.	Are petty cash funds verified on a regular basis by someone other than the fund custodian?		
38.	Are invoices for goods and services / distribution approved by a qualified person before payment is made?		
39.	Are pre-numbered purchase/distribution orders used for all disbursements that do not have standing authorization for		

	payment?		
40.	Are invoices checked for accuracy before being paid?		
41.	Are requisition slips prepared for anticipated disbursements that do not have standing authorization?		

SECTION E: BANK OPERATIONS

		YES	NO
1.	Are bank reconciliations prepared regularly?		
	If YES, please state the frequency?		
	i. Weekly		
	ii. Monthly		
	iii. Quarterly		
	iv. Annually		
	v. Other intervals: _____		
2.	Are accounting balances in the books ever reconciled with the amounts presented in financial reports?		
3.	Is the person recording entry in a cashbook different from the person preparing bank reconciliation?		
	If NOT, is the bank reconciliation checked by an independent person?		
4.	Is bank reconciliation is prepared by someone independent of the cash receiving, processing or recording activities?		
5.	Are all discrepancies in the bank reconciliation fully investigated?		
6.	Are all investigated discrepancies in the bank reconciliation fully resolved?		
7.	Is recording of amounts received is made in the accounting record before any amount is disbursed?		
8.	Are all bank accounts reconciled monthly by a person who is not involved in writing cheques?		
9.	Does an audit committee regularly compare the list of checks received with the bank deposit slip?		

SECTION F: ASSET MANAGEMENT (18%)

		YES	NO
1.	Are valuables (marketable securities, notes, valuable documents, jewels, etc.) afforded protection in a bank safe deposit box?		
2.	Are two signatures required for access to the safe deposit box?		
3.	Are scheduled reviews made to determine if insurance coverage is adequate?		
4.	Is an updated inventory of securities, valuables, equipment and other major non-cash assets maintained according to schedule?		
5.	Has any Asset Management Unit been established?		
6.	Are the asset officers appointed by the Controlling Officer in writing?		
7.	Is there any clear control on receipt of assets and inventories?		
8.	Is there any custodial responsibility for the receipt of assets and inventories has been established?		
9.	For the registration of assets, did the assets need to be registered within two weeks of receipt?		
10.	Are the asset registers been updated regularly?		
11.	Are all assets labelled or embossed an "Ownership of the Government/name of *Zakat* Institution)?		
12.	In whose name(s) are your organization's assets recorded/ registered? _____		
13.	Have the assets always been used for official purposes only?		
14.	Did the attractive and valuable items been kept separately and in highly secured?		
15.	Is the physical asset verification carried out at least once a year?		
16.	Is the vehicle log book appropriately maintained?		
17.	Is the Statement of Purchase of Fuel or Fuel Indent Card checked and verified?		
18.	Are the regulations on asset maintenance complied with?		
19.	Is there any safekeeping of vehicles?		
20.	Are the disposal of assets and inventories appropriately authorized?		
21.	Is the disposal done within 3 months of disposal?		
22.	Are losses on disposal reported accordingly?		
23.	Was the Investigating Committee appointed within two weeks after the report?		

SECTION G: BUDGETARY CONTROL (6%)

		YES	NO
1.	Does the *Zakat* institution prepare budget(s) for the annual expenditure/activities?		
	If YES, please specify the type of budget(s) prepared: _____		
2.	Is the budget prepared by the (financial) committee of the *Zakat* institution?		
	If NO, please state who prepares the budget for the *Zakat* institution expenditure: _____		
3.	Is there any comparison made between budgeted expenditure/activities and actual expenditure/activities?		
	If YES, what is the frequency of the comparison?		
	i. Monthly		
	ii. Quarterly		
	iii. Half -yearly		
	iv. At year end		
4.	If there is a significant budget variance, is it reported promptly and corrective actions taken?		
5.	Is any reference made to the budget before making any financial commitments / payments?		
6.	Are disbursements of the period limited to its budgeted amounts?		
7.	Is approval obtained for any virement or supplementary allocation?		
8.	Is the performance or progress of expenditure/activities monitored?		
9.	When an over-budget payment needs to be made, which of the following authorities have to approve it?		
	i. Finance committee		
	ii. Only director/manager		
	iii. Only finance officer		
	iv. Only treasurer		
	v. Other (please specify) _____		

SECTION H: FINANCIAL REPORTING (5%)

		YES	NO
1.	Please indicate the financial reporting and activities provided by your institution:		
	i. Income and Expenditure		
	ii. Balance Sheets		
	iii. Cash Flows		
	iv. Receipts and Payments		
	v. Next year's proposed budget		
	vi. Principal activities		
	vii. Problem encountered during the financial year		
	viii. A summary of social activities undertaken by the *Zakat* institution		
	When does the financial year end? _____		

2.	Does your *Zakat* institution prepare financial reports regularly?		
	How frequent is the preparation of the financial reports:		
	i. Monthly		
	ii. Quarterly		
	iii. Yearly		
	iv. When asked		
3.	The following contents are reported in the financial report:		
	i. Amount of cash on hand		
	ii. Debt outstanding and liabilities		
	iii. *Zakat* investments		
	iv. Other _____		
4.	Are there any financial guidelines or standards practiced by your *Zakat* institution?		
	If **YES**, please state the guidelines or standards referred to.		
	i. Malaysian Financial Reporting Standard (MFRS)		
	ii. Treasury Instructions		
	iii. Others (please specify): _____		
5.	Are the financial reports audited?		
6.	Are financial reports audited annually by an external auditor?		
	If **YES**, who of the following audits the financial reports?		
	i. Public Accounting firm		
	ii. Auditor General's Office		
7.	If the financial reports are delayed, how long is the delay period normally?		
	i. Less than 3 months		
	ii. 4 – 6 months		
	iii. 7 – 10 months		
	iv. More than 10 months		
8.	Do *Zakat* payers receive periodic notices of their contributions?		
	If **Yes**, how often are notices sent? _____		
9.	Are the *Zakat* payers instructed to report any irregularities or errors in their notices of contributions to an audit committee or someone other than the individual who keeps these records?		
10.	Has any of this information been disclosed in your organization's websites?		
	i. Mission		
	ii. Activities		
	iii. Board members listed		
	iv. Key staff listed		
	v. Annual report		
	vi. Customer privacy policy		

OTHERS

Does the *Zakat* institution rely on any internal controls not listed in this questionnaire? If yes, please list them below:

_____

Thank you for your cooperation

APPENDIX III

QUESTIONNAIRE 2

Employee Satisfaction Index

Please answer each question by placing a tick (/) in the appropriate box. You can be assured that the details you provide will be treated in the STRICTEST OF CONFIDENCE. The results will be reported in aggregate form and individual will not be identified.

1. Types of *Zakat* institution:

Government ☐ Corporate ☐ Private ☐

Please state: _____

2. Gender:

☐ Male ☐ Female

3. Age: Below 20 ☐ 20 – 30 ☐ 31 – 40 ☐ 41 – 50 ☐ above 50 ☐

Please tick the appropriate box to indicate your degree of satisfaction.
Where: 1 = Poor, 2 = Satisfactory, 3 = Good, 4 = Excellent

No.	Measurement	1	2	3	4
Knowledge advancement	Receiving supervision and feedback, training and development				
	Opportunities for knowledge personal development				
	Scholarship for higher education				
Financial benefit	Bonus / overtime pay				
	Opportunity for job promotion and career advancement				
	Staff loan, housing benefit, car loan, medical benefit, insurance benefit, pension benefit, salary structure, and long term welfare				
Non-financial benefit	Provision benefit to fulfill family needs				
	Understanding *Zakat* institution's benefit options				
	Zakat institution's benefits comparable and favorable with other organizations				
	Staff assistance program				
Working environment	Inter departmental cooperation				
	Appropriate and organize structure				
	Assigning clear responsibilities, working environment, IT facilities, adequate high level of safety and health standard, fairness in employees treatment				
	Teamwork				

APPENDIX IV

QUESTIONNAIRE 3

Customer Satisfaction Index

Please answer each question by placing a tick (/) in the appropriate box. You can be assured that the details you provide will be treated in the STRICTEST OF CONFIDENCE. The results will be reported in aggregate form and individuals will not be identified.

1. Gender:

☐ Male ☐ Female

2. Age:

☐ Below 20 ☐ 20 – 30 ☐ 31 – 40 ☐ 41 – 50 ☐ above 50

Please tick the appropriate box to indicate your degree of satisfaction.
Where: 1 = Poor, 2 = Satisfactory, 3 = Good, 4 = Excellent

No.	Measurement	1	2	3	4
ASSURANCE Inspire trust and confidence (11%)	Confidence the *Zakat* fund been calculated and distributed fairly according to Shari'ah				
	Trust *Zakat* institution help and can solve customer problem				
	Trust staff manage *Zakat* fund in appropriate procedure				
	Staff are polite				
	Staff answer question with confidence				
RELIABILITY Performance of service in a dependable and accurate manner (32%)	Staff's knowledgeable				
	Meet deadline in providing services				
	Staff's show sincere interest to assist customers				
	Staff's provide service right the first time				
	Staff's give appropriate advise				
	Integrated value - added service that is according to Islam				
	Friendliness of *Zakat* personnel				
	Knowledgeable and experience management team				
	Wide and easy access to network				

TANGIBLE Availability and appearance of facilities and personnel (22%)	Interior comfort of *Zakat* institution				
	Physical facilities of *Zakat* institution				
	External appearance such as parking space				
	Location convenience such as accessibility via public transport				
	Counter partitions / special room for customer with "issue"				
	Material associated with the service such as brochure or magazine				
	Operation hours				
	Number of counters during peak hours				
	Relevant forms associated with the service				
	Facilities for disabled people				
EMPATHY Willingness of staff to understand the needs of customers (19%)	Employees understand customers' need				
	Employees give personal attention				
	Employees have a sense of humor				
	Employees take care of customers' specific needs				
	Confidentiality of customers' information				
	Confidentiality of customer morale issues				
	Value added services in terms of financial / personal counseling				
	Zero service charge				
	Availability of user-friendly forms				
	Value added services such as photocopy service and filling forms for customers				
RESPONSIVENESS Willingness of the staff to assist customers and provide prompt service (16%)	Employees always willing to assist customers				
	Ability to fulfill individual needs				
	Courteous counter service staff				
	Fast and efficient counter service				
	No of branches available				
	Prompt service				
	One stop center that has everything under one roof				
	No of staff / counters available				
	Staff never too busy to respond to customers' needs				

APPENDIX V

BENCHMARKS USED IN THE STUDY

BEST PRACTICES:
FINANCIAL MANAGEMENT BENCHMARKS for *ZAKAT* INSTITUTIONS

This benchmark is developed as a result and inspired by this study. This study encompassed six areas in financial management and three performance measures of *Zakat* institutions.

AREA 1: ORGANIZATIONAL MANAGEMENT

Best Practices in Organizational Management: Four major elements must have been practiced in the best way.

Element 1.1: Structure of *Zakat* institutions

Objectives of having the 'Best Organization's Structure'(Hill, 2014):

a. To ensure individuals and departments that need to coordinate their efforts have lines of communication built into the structure
b. To understand their responsibilities and know to whom they are accountable
c. To ensure that the company has the right people in the right positions
d. To facilitate the completion of projects
e. To lead the reorganization and reposition on the organization chart

Best Practices in Organization's Structure:

a. Organizational chart prepared and available for all individual in *Zakat* institution
b. Delegation of power have been appropriately authorized and clearly in appointment paper.
c. Segregation of duties has been made clearly.

Element 1.2: System and Procedure

Objectives of having 'Best System and Procedure' (Indiana Arts Commission, 2014):

a. To develop plans for all ongoing programs, evaluate program implementation and incorporates its findings
b. To ensure clearly defined policies and procedures for program operation
c. To provides its programs in ways that most closely meet the needs of the target population of each program

Best Practices in System and Structure:

a. Updated and written financial policies and procedures are always available for all personnel.

b. Work Procedure Manual
c. Desk Files
d. A committee has been established in ensuring the understanding and implementation of every policies in every personnel in organization

Element 1.3: Committee and Internal Audit

Objectives of having 'Best Committee and Internal Audit':

a. To ensure all operations at all level follow the correct system and procedures
b. To analyze any loopholes or weaknesses in current system and policies
c. To recommend improvement actions to be implemented in future

Best Practices in Committee and Internal Audit:

a. Surprise Checks has been carried out regularly to check whether the operations follow Procedure Manual.
b. Committee and Internal Audit cooperate in meeting to rise up any 'arising issues' related to system and procedures, in its policy, implementation or results.

Element 1.4: Human Resource Management

Objectives of having 'Best Human Resource Management':

a. To ensure all employees know their rights and responsibilities
b. To ensure all positions are revised and filled with the right candidates and procedure
c. To lead and supervise all employees towards their career goals and achievement
d. To utilize efficiently community volunteers opportunities

Best Practices in Human Resource Management:

Information on Personnel interest and rights have been always available as follows:

a. Personnel policies detailing employee responsibilities, rights and benefits
b. Written policy
c. Includes grievance policies, hiring and termination procedures and job descriptions
d. No evidence of discrimination
e. Upon employment, all employee receive personnel policies, job description and compensation information
f. Maintain confidential personnel records
g. Ensure all possible candidates get equal opportunities for fill in the vacancy position.
h. Have established orientation program

Position classification system and salary administration plan:

a. Established salary ranges and benefits for each job category and revise them to ensure competitiveness
b. Specific job description detailing the qualification and responsibilities to each position
c. Salary ranges are reviewed at least every two years or upon special cases
d. Revision on job description and job content once the position become vacant

System on staff supervision and evaluation to develop and retain qualified staff

a. Annual evaluation on performance
b. Monitoring of staff turnover and its effects towards organization programs
c. Department meeting held on regular scheduled basis
d. Key performance indicators (KPI) are well understand by employees
e. Supports staff development plan in annual budget

Plan for utilizing community volunteers

a. Have system to determine areas of volunteer, recognized volunteers, trained and supervise them.

AREA 2: FINANCIAL CONTROL ON RECEIPTS

Best Practices in Financial Control on Receipt: Five major elements must have been practiced in the best way.

Element 2.1: Control of *Zakat* Collection Form

Objective of having 'Best Control of *Zakat* Collection Form':

a. To ensure the all collection been traced, kept and recorded appropriately.

Best Practices in Control of *Zakat* Collection Form:

a. Pre-numbered *Zakat* collection form appropriately kept in a safe place.
b. *Zakat* payers are identified and pre-listed before collection start.
c. Official pre-numbered receipt books kept in a safe place.

Element 2.2: Policies upon Receiving *Zakat* Monies

Objective of having 'Best Policies upon Receipt':

a. Receipt are appropriately authorized
b. Cash is safeguarded in a safe places
c. Appropriately segregate duties for receipt procedures

Best Practices in Policies upon Receipts:

a. When cash or cheque received:
    i. Official receipt been issued
    ii. Handling *Zakat* money controlled by at least two people

iii. Official receipt are pre-numbered
iv. The receipt record kept

b. When opening the collection box, at least two people present
c. All cash / cheques received placed in a safe place (e.g. safe, locked box or locked drawer) if it cannot be banked on the same day.
d. Access to the safe / locked box is limited to authorized person (s) only.
e. Two people that are allowed access to a locked box or drawer who are no longer hold the position, will return the keys and the password will be changed.
f. An independent person (not collect, count, record and deposit money) verify the accuracy of collected amount.
g. Collection function separate from deposit function.
h. Deposit function separate from accounting and cashiering function.
i. Collection function separate from recording function.

Element 2.3: Accounting Control

a. Cash / cheques recorded in cashbook are verified with the bank pay-in slip every day.
b. Cash register and credit card machines are balanced and verified every day.
c. Copies of *Zakat* collection report prepared by the counters given to both the financial secretary and treasurer for entry into the accounting records, and an audit committee for subsequent audit purposes

Element 2.4: Management of *Zakat* Receivables

a. Pay-in slip and cash receipts recorded in the cash book verified with the relevant bank statements

AREA 3: FINANCIAL CONTROL ON DISTRIBUTIONS

Best Practices in Financial Control on Disbursement: Five major elements must have been practiced in the best way.

Element 3.1: Policies upon Disbursing *Zakat* Monies

Objective of having 'Best Policies upon Disbursement':

a. To ensure that cash is disbursed only upon appropriate authorization supported by the appropriate documentation, is for valid business purposes, and is appropriately recorded.

Best Practices in Policies upon Disbursements:

a. Individual signatories should be able to sign on disbursement with a restricted amount of payments
b. All cheque signers should inspect all the supporting documents before sign
c. Cheques should not be sign in advance (blank cheque)
d. Supporting documents should be marked 'paid' when cheques are issued
e. All deliveries received should be compared to the bill of lading on receipt
f. Cheque book should be kept in safe place
g. Accessibility to safe box will be restricted to authorised persons only
h. Signed cheques should be mailed promptly
i. All details of payments should be included in cheque book butt at the time of payment
j. Cheque book butt should be retained for reference
k. All cancel cheques marked as 'CANCELLED' and be retained for reference
l. All distributions and disbursement should get approval from authorized persons (including payments from petty cash)
m. Documents used to support payment (quotation, purchase order, invoice, delivery note etc.)
n. Payment voucher prepared when making payment (date of cheque / receipt, cheque/receipt number, payee, amount, expense account, signature of authorize person, other supporting documents)
o. Disbursements made by pre-numbered cheques
p. Prepare payment vouchers for all distribution from petty cash fund
q. Specified expenditures approved in advanced should be clearly stated.
r. Authorized persons and approval limit amounts should be clearly stated.
s. Spot checks should be conducted regularly (specified time- monthly)
t. The requisition slip is prepared for anticipated disbursements that do not have standing authorization.
u. Petty cash payment for minor cash payment made from petty cash float

Element 3.2: Banking Procedures

a. Opening and closing bank account gets approval from authorize council / committee

b. At least two authorized persons to be cheque signatories

Element 3.3: Accounting Control

a. Accounting control on distribution and payments should be established
b. All payments should be registered in cash/bank disbursement book

Element 3.4: Segregation of duties

a. Person who signs cheque different from that who prepares payment voucher
b. Person who approves payment different from that who prepares cheque
c. Accuracy of payment voucher or invoices should be verified by independent individuals before payment been made

AREA 4: FINANCIAL CONTROL ON ASSET MANAGEMENT

Objective of best asset management practices:

a. Effectively manage and safeguard *Zakat* institution's assets
b. Ensure purchases and disposal of assets are appropriately authorized and in accordance to regulation
c. Maintain accurate and timely asset information for decision making and reporting purposes
d. Encourage efficient and economic use of *Zakat* institution's assets

Best asset management practices:

a. All valuable assets should be kept in secured place
b. At least two signatures are needed to access the safe box
c. All assets should be maintained according to schedule
d. Asset Management Unit established in *Zakat* institution
e. All asset officer been appointed formally with writing arrangement.
f. All assets or inventories receipt have clear SOP
g. PIC on assets custody should be appointed and the responsibilities should be appropriately established
h. Registration of assets should be as soon as possible. Max 2 weeks
i. Assets register should be updated immediately and regularly
j. All assets should be labeled as 'Ownership of ....*Zakat* institution'
k. All assets should be used for official purposes only
l. Carry out physical assets verification at east once a year
m. Maintain vehicle log book regularly
n. Check and verify Statement of Purchase of Fuel/ Fuel Indent Card
o. Follow regulation on asset maintenance
p. Disposal of assets / inventories should get authorization
q. Gain / losses from disposal should be reported promptly
r. Investigating Committee has to be appointed within two weeks after the report.

AREA 5: FINANCIAL CONTROL ON BUDGETING

Objective of best budgeting practices:

a. Give direction to *Zakat* institution for future aim
b. Predict future *Zakat* collection and distribution as well as disbursement
c. Allocate funds for resources / assets
d. Multiple set of budgeting will become as backup plan
e. As part of financial performance measure

Best budgeting practices:

a. Financial committees prepare annual budget for all activities and expenditures
b. Compare the budgeted expenditure/activities with actual expenditure/activities monthly
c. Significance budget variance should be reported and corrective actions should be taken promptly
d. Refer to budget before make any financial commitment/payments
e. Control over disbursement should be restricted to the budgeted amount for current period
f. Any virement or supplementary allocation should get approval from authorities
g. Over budget payment should get approval from authorities

AREA 6: TRANSPARENCY IN REPORTING

Best Practices in Reporting: Seven major elements must have been practiced in the best way.

Element 6.1: Relevance

Objective of having 'Best Relevancy in Reporting':

a. To ensure the information fulfill the needs of stakeholders in making decisions.

Best Relevancy of Reporting:

To disclose:

a. Missions
b. Activities
c. Board member listed
d. Key staff listed
e. Customer privacy policy

To prepare financial report:

a. Income and expenditure
b. Receipts and Payments
c. Balance sheets
d. Cash flow
e. Proposed budget
f. Principle activities

g. Problems encounter during the year

Element 6.2: Understandability and Comparability

Objective of having 'Best Understandability and Comparability of Reporting':

a. To ensure the stakeholders understand the financial report
b. To ensure the reports to be comparable to other organizations or to past years.

Best Understandability and Comparability of Reporting:

a. Follow the common financial guidelines and standard (Malaysian Financial Reporting Standards and Treasury Instruction).

Element 6.3: Faithful representation and Verifiability

Objective of having 'Best verifiability of Reporting':

a. To ensure the values in the reports are truth and valid.

Best Verifiability of Reporting:

a. Send the monthly/annually statements to *Zakat* payers.
b. Send notice of contributions to all *Zakat* payers.
c. Report irregularity or errors in notice of contributions to audit committee or others who do not keep the record.
d. Financial report should be audited annually by external auditor.

Element 6.4: Timeliness

Objective of having 'Best Timeliness of Reporting':

a. To ensure the financial reports are out on time and when is needed.

Best Timeliness of Reporting:

a. Prepare financial reports regularly (in-time)
b. If the financial reporting has delayed, lesser period the better.