

Composite Performance Measurement for Zakat Organisations

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ABSTRACT

This study proposes a composite performance measurement which is often used in profit-making organisations to be also used in *Zakat* Organisations. *Zakat* Organisations are non-profit organisations in Malaysia formed to collect funds from eligible Muslims and then distribute the funds to the eligible recipients. This study modified and developed a composite performance measurement which comprise of financial index, employee index, *Zakat* recipient index and *Zakat* payer index. Using a series of focus group interviews, the results in this study show that in terms of financial performance index, the proposed nine ratios to capture the performance of *Zakat* distribution is expected to encourage *Zakat* managers to become more creative and innovative in increasing *Zakat* collection. Similarly, the managers are expected to distribute all the collection to the rightful recipients within the same year. Total *Zakat* collected for the year as a proportion of total collected for the year tends to show high ratio if the amount collected is not distributed. In addition, the dimensions of organisational performance proposed in this paper include input from the employees as well as major stakeholders; *Zakat* payers and *Zakat* recipients through satisfaction survey. It should be noted that the performance ranking of each *Zakat* organisation also depends highly on the satisfaction level of the major stakeholders. The unique of this proposed model is that it does not only include the efficiency performance of *Zakat* organisation but also on the evaluation of stakeholders.

Keywords: Composite Performance Measurement, Non-profit organisations, *Zakat* Organisations, Financial Performance, Service Quality Performance

1.0 Introduction

The management of non-profit organisations has gone through significant changes. Such changes are attributed to the aim of the non-profit organisations to deliver better services which are often measured in terms of efficiency and effectiveness. With the emergence of the global economy, advances in technology, increased societal demands and the need to provide more social services with fewer resources, such evolution suggested that the role of managers in non-profit organisations has become more challenging than ever (Kaul, 1997). The demand for improvement in the provision of their services by the recipients of non-profit organisations has provided a significant distinct and powerful pressure for change (Kaul, 1997; Carmeli and Cohen, 2001).

Subsequently, many non-profit organisations worldwide are now devoting time, money and attention to satisfy multiple stakeholders' expectations. The managers of non-profit organisations have been challenged to place a higher emphasis on customer-focused strategies in delivering their services to their stakeholders

(Parhizgari and Gilbert, 2004). Their challenge is to demonstrate that there have successfully provide improvement in performance with goal and objective being achieved (McAdam et al., 2005).

A similar situation has appeared in one of the non-profit organisations in Malaysia. This organisation is known as *Zakat* Organisation. As non-profit organisation, the performance of *Zakat* organisations in Malaysia has currently revealed negative perceptions (Syed Yusuf et al, 2011; Said et al, 2011). *Zakat* organisations carry huge responsibilities in managing the collection and distribution of *Zakat* in Malaysia. *Zakat* is a compulsory contribution made by Muslims in their submission to Allah. This is revealed in the Holy Quran: “*Establish your prayer and pay zakat*” (2:110). As one of the pillars in Islam, *zakat* is a mandatory religious levy imposed on Muslims (Omar Abdullah, 2004) who have reached puberty, are sane and possess minimum wealth according to the conditions stipulated in the *Shariah* (Al-Qardawi, 1999, 2004a, 2004b). Denial of the obligation of *zakat* leads to disbelief and is considered as apostate in Islam (Al-Qardawi, 1999). Since *Zakat* is accountable to all interested parties especially the *Zakat* payers and *Zakat* recipients it is therefore crucial to establish performance index to access performance of *Zakat* organisations.

A group of studies in Malaysia have examined performance of *Zakat* organisations (such as Jamaluddin et al., 2011; Mohd Noor et al., 2011; Syed Yusuf et al, 2011; Said et al, 2011). For example: Jamaluddin et al (2011) focused on the financial performance of *Zakat* collection and distribution. Mohd Noor et al. (2011) examined on the financial aspect of the gap between collection and distribution of *Zakat* money. On the other hand, Wahab (2011) examined performance in terms of technical efficiency, pure technical efficiency and scale efficiency. However, these studies did not examine the performance of *Zakat* organisations in terms of comprehensive measures of performance. It would be beneficial if a study is conducted to systematically propose a multi-dimensional performance for *Zakat* organisations. Given the increasing interest worldwide in measuring multi-dimensional aspect of performance into a single composite measure, this study attempts to propose a composite performance measure of *Zakat* organisations that comprise of financial index, employee index, *zakat* recipient index and *Zakat* payer index.

The remainder of this paper is structured as follows. The next section provides the background of *Zakat* organisations in Malaysia. Section 3 provides the composite performance measurement of *Zakat* organisations in Malaysia and section 4 outlines the research methodology. The construction of the composite performance measurement for *Zakat* organisations are presented in section 5. A summary and conclusion are provided in the last section.

2.0 ZAKAT ORGANISATIONS IN MALAYSIA

In Malaysia, the institution of *Zakat* takes the mandate as a recipient, collector as well as a distributor of *Zakat*. *Zakat* organisations play an important role in executing the function of collecting and distributing *Zakat*. In distributing the *Zakat*, the organisations apply various methods and approaches in channelising the donation to the *Asnaf*. The donation and the distribution are extended in various forms from the form of unproductive aid to the form of productive aid (Ibrahim, 2005; Abdul Wahab and Abdul Rahim, 2011). The unproductive aids are such as monthly remuneration, special aid, home rental, and educational aid. This type of aid is intended to help the poor to continue their life and fulfilling their principal needs. On the other hand, the productive aid is in the form of productive capital assistance either in cash or equipment.

The Malaysian Constitution provides that the management of *Zakat* is to be under the jurisdiction of each state in Malaysia. These councils are mainly policy-making and supervisory bodies. Over and above the State Religious Councils is the Federal Government Department of Islamic Development Malaysia (JAKIM) which co-ordinates Islamic affairs nationally. JAKIM is also involved in drafting and streamlining Islamic laws and regulations and coordinating their implementation at the state level. JAKIM becomes the body that provides consultation to the State Religious Councils. There are 14 Islamic Religious Councils representing each state in Malaysia.

3.0 COMPOSITE PERFORMANCE MEASUREMENT OF ZAKAT ORGANISATIONS

Over the last two decades, a number of new frameworks have emerged in the management literature to assess organisational performance. For example: Kaplan and Norton (1992) have developed four perspectives of organisational performance measure which is known as the balanced scorecard. Under the balanced scorecard, performance is tracked and measured using multiple dimensions consisting of financial perspective, customer perspective, internal perspective as well as learning and growth perspective.

Maltz et al. (2003) have also introduced a dynamic multi-dimensional performance framework. The framework has five dimensions, namely financial, market, process, people and future. The inclusion of the 'people' dimension in Maltz's framework has highlighted the importance of the role of employees to organisational success. However, Maltz et al. (2003) have designed this framework to measure the success of commercial firms. Due to the different nature between commercial firms and the non-profit organisations such as *Zakat* organisations, the suitability of this framework to the non-profit organisations context is arguable.

Studies that have examined the performance of private sector organisations, have generally placed high emphasis on financial performance (Zahra, 1991; Lu, 2006). This is in line with the goal of the private sector that is to acquire profit and market share while enhancing shareholders' wealth (Porter, 1980). However, the major role of non-profit organisations particularly, *Zakat* organisations are to provide services and fulfil social objectives. Hence, the performance of *Zakat* organization should be measured both in terms of its financial and non-financial performance. Fernandez (2002) believed that non-financial indicators are more effective since they deal with causes rather than effects, difficult to manipulate, can be calculated more rapidly and are more meaningful to the workforce.

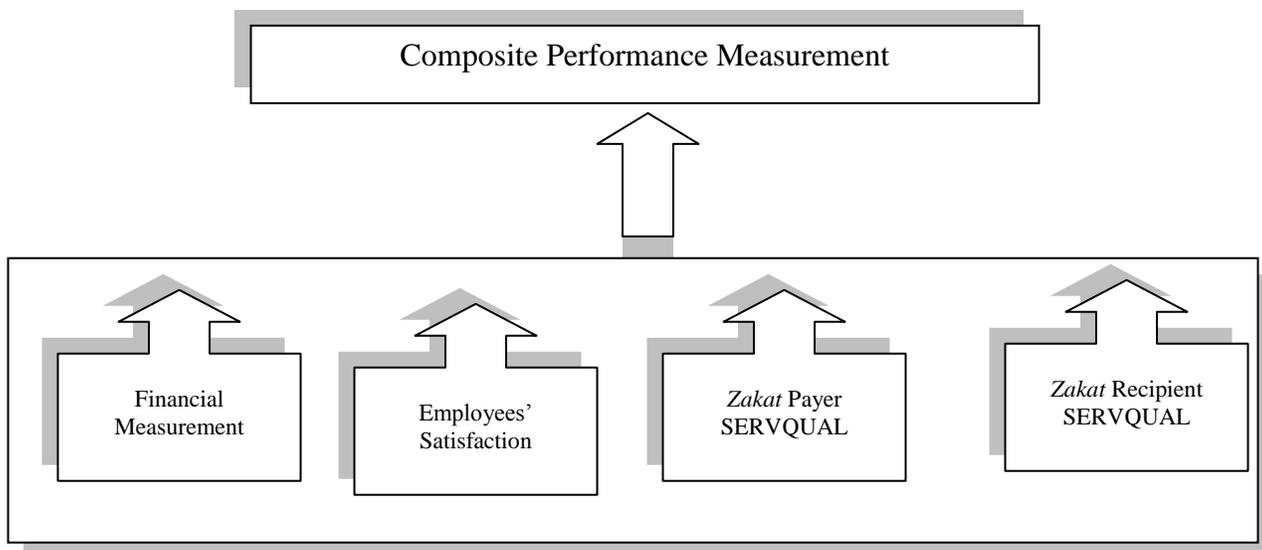
Non-financial measures include decreasing products cycle time, service delivery performance, customers' satisfaction and employees' satisfaction. Kaplan and Norton (1992) have argued that although they are called non-financial performance, in the long term this measure actually drives financial performance. One of the important non-financial measures is service quality performance. A series of literature has conceptually agreed that service quality is a major element that affects long-term profitability of organizations (Reichheld and Sasser, 1990; Zeithaml et al, 1996; Agus et al, 2000). Reichheld and Sasser (1990) stressed that in order for an organisation to survive, it needs to deliver quality services.

Many studies have identified that service quality is the most important performance indicator to customers' satisfaction (Levesque and McDougall, 1996; Jeffers, 2003). One of the established service quality measures (SERVQUAL) has been developed by Parasuraman et al., (1988). SERVQUAL is a multi-item scale

developed to assess customer perceptions of service quality on five key dimensions namely tangibles, reliability, responsiveness, assurance and empathy.

Following framework established by earlier scholars that organisational performance should include both financial and non-financial indicators, this study proposes that performance measurement of *Zakat* organisation in Malaysia should also comprise of financial measure. Financial measure represents output measure of *Zakat* performance. In addition, employees' evaluation of the organisation should also be part of the measurement construct. As the main objectives of *Zakat* organisations are to collect funds from eligible Muslims and subsequently distribute the funds to eligible recipients, the inclusion of their assessment on the *Zakat* performance is vital. The proposed framework is depicted in Figure 1.

Figure 1: Research Framework



Zakat organisations can use composite performance index to assess their position relative to others. On the part of employees, the performance index could motivate the staff towards achieving results. Establishing the composite performance index can motivate *Zakat* organisations to initiate mechanisms to improve and perform better organisational success. In addition, the index can be used as guideline or motivation for this non-profit organisations that are currently performing below average to learn from those who are currently are ranked higher in the ranking index

4.0 METHODOLOGY

This study aims to propose a more comprehensive performance measurement model for *Zakat* organisations in Malaysia. Based on reviewing the literature that supports multi-dimensional construct of performance

measurement, this study develops measurement attributes for each construct measure. For the purpose of identifying the attributes for each performance construct, a series of focus group interviews were conducted.

The first interview session lasted about three hours with seven panel expert member of Lembaga *Zakat* Selangor, Lembaga *Zakat* Wilayah Persekutuan and Majlis Fatwa Negeri Selangor as participants. The participants comprise of top management including an accountant of the organisations. The purpose of this focus group interview is to develop items to measure the financial performance of *Zakat* organization. The second focus group interview involved staff working in the *Zakat* Organisations was carried out during the First World Conference on *Zakat* in Kuala Lumpur. The purpose of second focus group interviews is to gather items that should be included to measure employees' satisfaction. The third stage involved interviewing the major customers of *Zakat* organization which include both *Zakat* payers and *Zakat* recipients.

5.0 CONSTRUCTION OF COMPOSITE PERFORMANCE MEASUREMENT FOR ZAKAT ORGANISATIONS

The ability of an organisation to perform better have often been measured in terms of profit (Hansen and Wernerfelt, 1989; Wiklund and Shepherd, 2003; Galbreath, 2005; Lu, 2006), market growth (Carmeli and Tishler 2004b; Hansen and Wernerfelt, 1989; Galbreath, 2005; Lu, 2006), customer orientation (Carmeli and Tishler 2004a; O'Regan, 2004; Wiklund, 2003), revenue collection (Carmeli and Tishler, 2004a) service quality performance (Reichheld and Sasser, 1990; Zeithaml et al, 1996; Agus et al., 2000). However, these measures might be less relevant in the context of non-profit organisation such as *Zakat* organisations.

Studies examining non-profit organisations have also used multi-construct measures of financial and non-financial performance (Caruana et al., 2002; Carmeli, 2003; Carmeli and Tishler, 2004a; Abas and Yaacob, 2006). Carmeli (2003) has used self-income, per resident collection ratio, per resident deficit/surplus ratio, current ratio and income to expenditure ratio to measure the performance of Isareali local authorities. From the focus group discussion with panel experts of *Zakat* Administration in Malaysia, the measurement should include:

5.1 Financial Measurement

Nine ratios have been agreed as important indicators of financial performance of *Zakat* organisations. Table 1 presents the ratios:

Table 1: Financial Performance Measurement

Number	Financial performance measure
1	Total <i>Zakat</i> collected for the year as proportion to projected <i>Zakat</i> collection for the year
2	Total <i>Zakat</i> collection for the year as proportion cost of employment for <i>Zakat</i> collection for the year
3	Total <i>Zakat</i> distributed for the year as proportion to total <i>Zakat</i> collected for the year
4	Total <i>Zakat</i> collection for the year as proportion number of employees for the current year

5	Total administrative cost for the year as proportion to total <i>Zakat</i> collected for the year
6	Total <i>Zakat</i> collected for the current year as proportion to number of Muslims population during the year
7	Number of <i>Zakat</i> recipients received <i>Zakat</i> assistance for the current year as proportion to number of application for assistance
8	Percentage increase of <i>Zakat</i> collected as compared to previous year
9	Percentage increase of <i>Zakat</i> payers as compared to previous year

5.2 Employees' Satisfaction

Four dimensions have been proposed to develop employees' satisfaction index for *Zakat* organisations. Table 2 presents the four dimensions.

Table 2: Employees' satisfaction index

Number	Index
1	<ul style="list-style-type: none"> • Knowledge advancement benefit. • Receiving supervision and feedback, training and development provided by the organisation. • Opportunities for knowledge personal development. • Scholarship for higher education
2	<ul style="list-style-type: none"> • Financial benefit such as bonus and overtime pay. • Opportunity 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	<ul style="list-style-type: none"> • Non-financial benefit: the organisation provides you with the type of benefits needed. • Provision of type of benefits to fulfil family needs. • Understanding organisation's benefit options. • Organisation provides comparable benefits favourable with other organisations. • The organisation provides personal assistance program.
4	<ul style="list-style-type: none"> • Environment: Departmental cooperation. • Inter-departmental cooperation. • Organisation 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

5.3 Customers' Satisfaction: *Zakat* payers and *Zakat* recipients

Five dimensions of service quality performance have been agreed to measure customer satisfaction index for *Zakat* organisations. Table 3 presents the five dimensions of service quality performance.

Table 3: Service quality dimensions

Number	Dimension
1	Compliance to Islamic principles, Not involve in any interest paid/ taken activities, Investment only in Islamic compliance financial institution, Financial transactions only with Islamic compliance financial institution, In-house religious advisors Dispose non- <i>shariah</i> compliant earnings, Fulfil its social role as well as promote Islamic finance, No contradictory to Islamic teaching; incorporate Islamic business ethical principles.(8 items).
2	Reliability Performance of service in a dependable and accurate manner 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 proper advice, Integrated value-added service that is according to Islam, Staff's ability to provide courteous and knowledgeable service, Knowledgeable and experience management team, Friendliness of <i>Zakat</i> personnel, Wide and easy access to network (10 items)
3	Tangibles Availability and appearance of facilities and personnel, Interior comfort of the organisation, Physical facilities of the organisation, 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 brochure or magazines, Operation hours, Number of counters during peak hours, Relevant forms associated with the service, Facilities for disabled people. (10 items)
4	Empathy Willingness of staff to understand the needs of customers, Employees understand customers' needs, Employees give personnel attention, Employees have a sense of humour, Employees take care of customers' specific needs, Confidentiality of customers' information. Confidentiality of customers' morale issues, Value-added services in terms of financial/ personal counselling, Zero service charge, Availability of user-friendly forms, Value-added services such as photocopy service and filling forms for customers (10 items)
5	Responsiveness Willingness of staff to assist customers and provide prompt service. Employees' knowledgeable about <i>Zakat</i> , Employees always willing to assist customers, Ability to fulfil individual needs. Courteous counter service staff, Fast and efficient counter service, Number of branches available, Prompt service, One stop centre that is everything under one roof, Number of staff/ counters available, Staff never too busy to respond to customers' needs.(10 items)

6.0 CONCLUSION

The model of composite performance proposed in this study is a preliminary attempt to rank the performance of *Zakat* organisations in Malaysia according to the financial indicators, service quality indicator, employees' satisfaction and subsequently the combined indicators comprising the four indicators. This framework can be used as a guideline or motivation for *Zakat* organisations that are performing below average to learn from those *Zakat* organisations that ranked higher in the ranking index.

In terms of financial performance index, the proposed nine ratios to capture the performance of *Zakat* distribution is expected to encourage the *Zakat* managers to be more creative and innovative in increasing the *Zakat* collection. The use of social media for example, should be enhanced to facilitate the collection of *Zakat*. Similarly, the managers are expected to distribute all the collection to the rightful recipients within the same year. Total *Zakat* collected for the year as a proportion of total collected for the year tends to show high ratio if the amount collected is not distributed. As such, managers are motivated to ensure those recipients who are entitled for the *Zakat* money should be getting an immediate assistance and aid (Makhtar and Ahmad, 2010).

In addition, the dimensions of organisational performance proposed in this study include input from the employees as well as from the major stakeholders that is the *Zakat* payers and *Zakat* recipients through satisfaction survey. It should be noted that the performance ranking of each *Zakat* organisation depends highly on the satisfaction level of these groups of major stakeholders. The uniqueness of this proposed model is that it includes not only efficiency performance of *Zakat* organisation but also on evaluation of stakeholders.

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