
Abd. Halim Mohd Noor
Zakat Research Institute of Malaysia
Universiti Teknologi MARA Kampus Melaka
KM 26, Jalan Lendu
78000 Alor Gajah, Melaka, MALAYSIA
Tel: +606-5582272
Fax: +606-5582271
Email: drabdhalim@bdrmelaka.uitm.edu.my

Mohamed Saladin Abdul Rasool
Rashidah Abdul Rahman
Rozman Md. Yusof
Siti Mariam Ali

Abstract

Zakat management agencies, like any other organizations, must be able to demonstrate the capability to operate at its optimum and efficient level in ensuring the rationale of its existence. As such a performance indicator to measure organization effectiveness in collecting and distributing zakat is of paramount importance. The paper reviews and synthesises the relevant literature on the organisational performance measurement. The paper then develops and proposes a performance measurement framework for zakat institutions, taking into account non-financial measures where input, process, output measures are as important as outcome measures. This performance management and measurement systems to be developed in the zakat institution must have the mean to monitor and maintain organizational control, which is the process of ensuring that an organization pursues action plans that lead to the achievement of overall goals and objectives.

Keywords: zakat, performance measurement,

Introduction

Zakat is one of the five basic pillars in Islam. It is an obligation for Muslims to give a specific amount of their wealth (with certain conditions and requirements) to beneficiaries called al-mustahiqqin (asnaf) with the main objective of the achievement of socioeconomic justice. Zakat institutions are trusted bodies that manage zakat in Muslim countries. In Malaysia, such zakat institutions are State Islamic Religious Councils (SIRCs). Besides the core activities of zakat institutions in collecting compulsory donations from eligible Muslims and distributing them to the rightful beneficiaries, they also provides various kinds of assistance such as food, shelter, health and education to rightful beneficiaries. With huge resources to safeguard, it is of prime importance that these institutions are being managed effectively and efficiently. As such, an objective measurement of performance is necessary if zakat is to fulfill its objectives.

Despite being administered by the States and those eligible are by law have to fulfill their obligations; payments and distributions of zakat have yet to reach its full potential. Data on zakat collection and distribution in all states suggests that despite its increase, it is yet to be fully utilized (Pusat Pungutan Zakat-
Majlis Agama Islam Wilayah Persekutuan, 2009). More so for distribution of zakat fund, some argued that zakat were not effectively distributed (Mahmood, Musa, Abd Halim & Syahbudin 2006; Hairunizam & Radiah, 2010).

In fact, there have been reported incidences of negative perceptions on the management of zakat funds that, if not addressed adequately, will have an impact on further development of zakat institutions (Hairunizam, Sanep & Radiah 2008; Hairunizam, Sanep & Radiah 2009). Zakat organizations have a task to ensure and convince the public that not only the fund collected and distributed is in accordance with syariah but also zakat institutions are professionally and efficiently administered (Ismail Ibrahim, 2006). The failure to achieve these objectives will reduce public confidence and zakat payees will decline and may choose other alternatives to fulfill their zakat obligations. The ability of the zakat organizations to exhibit excellent performance is of paramount importance in sustaining the confidence of the Muslim public. Maintaining excellent performance is not an option, it is a requirement for organizational existence.

Thus, the paper proposes a comprehensive conceptual framework to measure performance of zakat institutions. This paper will contribute to the dearth of empirical studies on zakat especially on the performance of zakat institutions in managing the zakat funds. A comprehensive conceptual framework to measure performance of zakat institutions is timely to enhance the organization's ability to deliver its mission of achieving socio-economic justice. Previous studies on zakat institutions have been theoretically and empirically undertaken. Hairunizam et al. (2008, 2009) focused on the shortcomings in the distribution of zakat funds, Nur Barizah & Abdul Rahim (2007) distinguished between zakat and modern taxation in Malaysia whilst Norazlina & Abdul Rahim (2011) proposed a conceptual model on the efficiency and governance of zakat institutions. The proposed performance measurement framework in this paper is hoped to fill the gap in the current literature, which would be useful for further empirical research in this area.

The structure of the remaining paper is as follows. The next section reviews and synthesises the relevant literature on organizational performance measurement. Section 3 explores the proposed conceptual framework to measure performance of zakat institutions in Malaysia and Section 4 concludes the paper.

**Organizational Performance Measurement**

The concept of performance measurement has existed for many years, and there is an increasing demand that agencies begin to transform their organizations to institutionalize these practices (Keehley & Abercrombie 2008). This pressure is due to increasing demand for accountability and result oriented performance. A good performance measurement framework will focus on the customer and measure the right things.

As cited in Job & Sanghamitra (2010), the classical approach to performance measurement, as described by the Sink & Tuttle model (1989) & Rolstadas (1998), claims that the performance of an organizational system is a complex interrelationship between six performance criteria: effectiveness, efficiency, quality, productivity, innovation and profitability. Most of these criteria are multidimensional in nature and are context dependent. This poses a problem of finding a common objective measure for all these dimensions. The design of a model for a particular situation is applicable to another (Kaczmarczyk & Murtough, 2002). Sometimes, different performance dimensions may have to be combined to get a balanced and complete view of the situation (Tangen, 2003). Organizational performance needs to be measured along multiple levels: the organizational level, the key process level and the work unit level that require complementary dimensions.

Lowery (2001) argues that organization measurement includes (1) Inputs (2) Core activities or programs (3) Program outputs (4) Immediate outcomes (5) Intermediate outcomes and (6) long term
outcomes. Organisational inputs include the financial, human, technological, programmatic and informational capacities that are required for an organization to perform critical operational tasks. While program outputs are units of services or the traditional measures of quantity, quality and timeliness and client satisfaction. The immediate outcomes of the organization include changes in customer or client perception, understanding or commitment. The changes in individual’s behaviour are expected to accrue from the immediate outcomes that are produced, hence improve life chances for the client in the future.

Based on literature, consultancy experience and action research, numerous processes have been developed that organizations can follow in order to design and implement performance measurement systems (Bourne, Neely, Mills & Platts 1999). There are numerous, major methods and movements to regularly increase the performance of organizations. Each includes regular recurring activities to establish organizational goals, monitor progress toward the goals, and make adjustments to achieve those goals more effectively and efficiently. Typically, these to become integrated into the overall recurring management systems in the organization. Any or all of the following approaches will improve organizational performance depending on whether they carry out implementation comprehensively and remain focused on organizational results. Some of the commonly used tools to measure the performance of an organization are Balanced Scorecard (Kaplan & Norton, 1992), ISO9000 and Total Quality Management (TQM). Other types of measurement such as the performance prism (Kennerley & Neely, 2003), the performance measurement matrix (Keegan et al., 1989), the results and determinants framework (Fitzgerald, Johnston, Brignall, Silvestro, & Voss 1991), and the Strategic Measurement Analysis and Reporting Techniques (SMART) pyramid (Lynch & Cross, 1991) that support these processes have been proposed. The objective of such frameworks is to help organizations define a set of measures that reflects their objectives and assesses their performance appropriately. The frameworks are multidimensional, explicitly balancing financial and non-financial measures.

The Balanced Scorecard (BSC) is an example of a performance measurement tool originated in the business world. The BSC was introduced by Robert Kaplan, a Harvard Business School professor, and David Norton, the founder and president of Balanced Scorecard Collaborative, Inc., in the early 1990s as a new way to measure business performance. Organizations measure their performance to monitor how they are doing in achieving their overall mission and goals. Traditionally, companies measured their performance by looking only at how they were doing financially, for example measuring only profit increase or cost efficiency. Kaplan’s and Norton’s BSC concept challenged this traditional, single focused approach to performance measurement. They noted that examining only financial outcomes did not provide a company with the full picture of its overall performance – that it in fact ignored the other factors at play in a company’s achievement.

Kaplan and Norton proposed the Balanced Scorecard, which is made of four components: mission, perspectives, objectives, and measures. The organizations must consider all these factors that influence the overall performance in order to get a balanced view. They urged companies to ask and to measure, “If we’re going to succeed financially (the overall mission for businesses), what is that we’re doing well from our customer’s perspective?” and “If we are to meet these customer needs, what is it that we must do well internally?” By answering such questions, organizations would be considering their performance from all perspectives – financial, customer, and internal. The answers to the questions would define for a company what was the most important to do in achieving the overall goal of financial success. Once an organization has identified what was the most important to do, it could then develop measures to keep track of how the company was doing at those.

Another organizational performance measurement is Total Quality Management, a management approach originated in the 1950’s and has steadily become more popular since the early 1980’s. Total Quality
is a description of the culture, attitude and organization of a company that strives to provide customers with products and services that satisfy their needs. The culture requires quality in all aspects of the company’s operations, with processes being done right the first time while defects and waste eradicated from operations. Total Quality Management (TQM), was coined to describe a philosophy that makes quality the driving force behind leadership, design, planning, and improvement initiatives. For this, TQM requires eight key elements that can be divided into four groups according to their function. The groups are: I. Foundation – It includes: Ethics, Integrity and Trust that allows involvement by everyone II. Building Bricks – It includes: Training, Teamwork and Leadership. III. Binding Mortar – It includes: Communication that binds everyone together. IV. Roof – It includes: Recognition. As people are recognized, there can be huge changes in self-esteem, productivity, quality and the amount of effort exorted to the task in hand.

ISO 9000 is another tool of organizational performance measurement. There are eight quality management principles on which the quality management system standards of the ISO 9000:2000 and ISO 9000:2008 series are based. These principles can be used by senior management as a framework to guide their organizations towards improved performance. They are customer focus, leadership, involvement of people, process approach, system approach to management, continual improvement, factual approach to decision making, and mutually beneficial supplier relationships.

White, Samson, Rowland-Jones & Thomas (2009) adopted a case study approach by outlining the process of ISO 9001:2000 implementation in a single not-for-profit Small and Medium Enterprises (SME). The paper identifies the process by which the organisation prepares for certification and appraises both the changes required by the organisation and the scope of opportunistic improvements that resulted in the correct development of the Quality Management System (QMS); hence the company was able to generate bottom-line savings and business performance enhancement. The paper shows that when the QMS is developed as part of a coherent initiative, lasting performance improvements are achieved. It also proposes that the integration of the new quality management system would also support the culture change that has been recently initiated to enable the society to become a more business-led organisation that capitalised on its creativity, making maximum use of its assets. The new system would allow functional planning, monitoring and control of processes and performance measurement and thus enabling decision-making at various levels and as a result liberating the Chief Executive from micromanagement. The performance of the executive team will be improved due to the new processes that would enable better collaboration and project management and through the improved availability of sound business information on which to base decisions.

Moreover, in explaining the performance of organizations, the other competing model is the Goal Model. The model views an entity as to serve the purpose of key influential figures, including owners, managers and others regardless whether they are inside or outside the organization. The model refers not to goals inherent in the organization but to goals that people have for the organizations (Herman & Heimovics, 1994). This model is consistent with multiple stakeholder views of effectiveness. Meanwhile, the Decision Process Model highlights relationship between how things happen in an organization and what occurs as a result. The model assumes quality of decision-making is central in influencing performance (Flynn & Hodgkinson, 2001)

Keehley & Abercrombie (2008) utilized multiple types of measurements as mentioned earlier. The achievement of organization’s performance goals is significant through its employees. An effective performance measurement and management system link individuals and teamwork behaviors to the organization’s strategies, goals, and values. For an organization to achieve its goals, it is essential for each employee to understand individual’s roles and responsibilities for goal achievement.
In summary, as seen from the above discussions, performance is an abstract concept and it should represent concrete measurable phenomena or events in order to be measured. Performance is a measure of results achieved while performance efficiency is the ratio between efforts expended and results achieved (Schacter 1999). Performance has several dimensions: individual performance; group performance and organizational performance. The difference between current performance and the theoretical performance limit is the performance improvement zone. Measuring performance is crucial for all organizations, more so for Islamic-based organizations.

Performance measurement for Islamic based organizations such as zakat institutions is essential to maintain trust between muslims and these institutions as mentioned by Abdul Quddus Suhaib (2009) who stresses that an ideal zakat institutions should be able to synchronize collection and distribution of zakat funds at any given time. Shirazi (1996 & 2006) highlights that the main roles of zakat institutions are to facilitate the muslims to pay zakat and distribute it efficiently to the appropriate recipients (Shirazi, 1996 & 2006). However, if the zakat institutions are unable to distribute efficiently the collected zakat funds, this would bring the feelings of distrust among the muslims especially the zakat payers. Hence, muslims would resort to distributing zakat directly to recipients without the intermediary of government controlled zakat organizations. In other words, zakat organizations must exemplify efficiency to the muslim society in various ways such as the distribution ratio based on collection, the ability to reduce the poverty incidence among muslims, and efficient services to the potential recipients. Thus, it is crucial to measure the performance of these institutions as the society is eager to gauge their ability in performing their role. In brief, performance measurement is a key element in the success of Islamic organizations to fulfill their function in facilitating the muslims to perform their religious obligations.

**Performance Measurement Framework in Zakat Institutions**

As deliberated in the previous section, performance is about doing the work and the results achieved. Similarly, in an Islamic-based organization, performance is the outcomes of work since it provides the strongest linkage to an organization’s strategic goals (such as syariah compliance), customer satisfaction and economic contributions. With respect to the economic dimensions of zakat, it aims to achieve the favorable effects on several dimensions such as aggregate consumption, savings and investment, aggregate supply of labor and capital, poverty eradication and economic growth.

Thus, performance management and measurement systems developed in an Islamic-based organization like the zakat institution must have the mean to monitor and maintain organizational control, which is the process of ensuring that an organization pursues action plans that lead to the achievement of overall goals and objectives (Keehley & Abercrombie 2008). These goals are manifestation of the mission and strategic orientation of an organization. The measurement system ought to support the agreed strategy which focuses on the key question of what constitutes the ultimate public value that the institution seeks to produce. As mentioned earlier, the value that is to be produced by zakat institutions usually involves social objectives such as bringing relief to the poor, or altering social conditions in some important ways, or producing some important public works that can be enjoyed by all. In setting a strategy and successfully managing the institute, it is important that these goals be explicitly stated and defended as an important social goal to pursue.

The second point to consider in setting the measurement strategy is the legitimacy and support circle of zakat institutions. The zakat payers (upstream customers) who contribute resources as well as the asnaf (downstream customers), the recipients of zakat at the “production” end of the institute, are certainly practically important to the existence of the zakat institutions. Moreover, their support essentially constitutes
a vote in favor of the public values that the zakat institution produces. Hence, it is important to determine the strategy in zakat institutions to ensure where the legitimacy and support from the organizations come from as well as the value produced.

The third point to consider in setting the organizational strategy is operational capacity, the question of whether the zakat institution has the ability to achieve the desired goals. This is the point that converts the political authorization and the fungible material resources provided to the organization into important public values. In essence, the technologies or processes available at zakat institutions convert inputs into outputs; and outputs into satisfied asnafs (benefits) and desired social outcomes. Thus, managing performance requires consideration of all the process involved in achieving stated goals or objectives. It also involves the process of quantifying the efficiency and effectiveness of actions. Evaluations from the perspective of economics, efficiency and effectiveness are fundamental in judging organizational performance (Poister, 2003).

Hence, performance measurement for nonprofit organizations, such as zakat institutions, should include multiple types of measures: inputs, processes, outputs and outcomes (Keelihy & Abercrombie 2008). This is due to the varying level of services and monetary aids provided by the institutions. The existence of multiple stakeholders also makes it necessary to include multiple measures to capture organizational performance adequately.

**Proposed Zakat Performance Framework**

In Malaysia, zakat falls under the purview of the 14 states governments. Zakat management agencies, like any other organizations that are striving to remain relevant must be able to run their operations at an optimum level. Delivery of distribution methods should be in a manner that the benefits are not only maximized but must also be seen to be distributed equitably. This distribution is important to ensure zakat funds reach those who rightfully deserve while assuring zakat payers that the zakat revenue is appropriately distributed. Trust and responsibility in managing zakat funds on behalf of the ummah emphasizes how important that this job be done efficiently. As such, an objective measurement of performance is necessary if zakat is to fulfill its objectives.

Towards this aim, one of the goals of a performance indicator is to measure the efficiency and effectiveness of zakat agencies in disembarking their duties. Thus, building a performance indicator for zakat institutions must take into account various aspects or dimensions of collection and distribution of zakat. Following the Input, Process, Output, Link and Outcome (IPOLO) model (Keelihy & Abercrombie, 2008) and Zakat Performance Indicator (Abd Halim, Rozman & Ahmad, 2007), the performance of zakat institutions is influenced by four dimensions namely; input, process, output and outcome. As illustrated in Figure 1, the dimensions of input, process, output and outcome are interrelated, hence influencing the overall zakat institutions performance measurement.
The first dimension of the zakat performance measurement framework involves input or resources available. Input dimension refers to the factors needed to run an organization. Data for input includes the perspective of asnaf, staff and the institution. To assess the level of input of the institution, the following items namely the infrastructure availability, number of staff, knowledgeable staff and the presence of data are considered. Performances of organizations are inevitably linked to the resources available to them. Moreover, inputs have significant influence in ensuring smooth processes or activities of organizations.

Processes are activities generated by a program. Processes within an organization are one of the components to measure performance. There are many processes in collecting and distributing zakat fund, for example the budgeting process. The second dimension encompasses, among others, the process of identifying the recipients of zakat.

The third dimension is output. Output refers to activities completed by the institutions, which include the recipients of zakat funds, activities completed and funds disbursed. Measuring output is challenging due to the difficulty in attributing output to the production process when there are multiple goals and diverse recipients (Sullivan, 1995).

Outcomes are consequences of the process and outputs (Keehley & Abercrombie, 2008). It changes the status of the recipients due to their involvement in the programs. Measuring outcome, though possible, must take into account that achievement is not exclusively due to the program. Issues of selection bias and lack of counterfactual must be considered in assessing the outcome. Proxy for outcome would include, for example number of asnaf who are paying zakat instead of receiving it. Zakat fund should enable past recipients to increase their income. Other outcome proxies include whether zakat given fulfill their necessities, perception of asnaf on the organization and satisfaction towards amount and type of zakat received by the asnaf. These would indicate success of the institution in the distribution of zakat.

The identified dimensions will assist in providing accurate information on the performance of an organisation. Table 1 illustrates the summary of the dimensions that can be used by zakat institutions in measuring its performance.
Table 1
Operations of Performance Measurement

<table>
<thead>
<tr>
<th>Dimensions</th>
<th>Examples</th>
<th>Dimensions</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Input</td>
<td>Organization’s infrastructure, Distribution budget, Data base system, Number of staff, Understanding level of asnaf and staff, Employment status of staff, Level of competency of staff</td>
<td>Output</td>
<td>Appropriateness of assistance given, Sufficiency of assistance given, Status of collection, Status of distribution, Efficiency of resources used</td>
</tr>
<tr>
<td>Process</td>
<td>Collection and distribution procedures, Identification of asnaf, Selection process, Time taken for approval, Training, Accounting &amp; Auditing system</td>
<td>Outcome</td>
<td>Number of recipients remove from receiving aids due to increase in economic status, Perception on service rendered, Accountability</td>
</tr>
</tbody>
</table>

Table 2
Illustration of Performance Measurement

<table>
<thead>
<tr>
<th>Performance Measurement</th>
<th>Task</th>
<th>Inputs</th>
<th>Process</th>
<th>Output</th>
<th>Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>Providing business assistance to poor asnaf</td>
<td>Salary of staff, Level of competency among staff, Costs of training</td>
<td>Identifying and selecting recipients, Training and monitoring</td>
<td>Number of asnaf recipients obtaining funding and training</td>
<td>Improved business performance of asnaf</td>
<td></td>
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</tbody>
</table>

Table 2 illustrates the flow of the performance measurement process in zakat institutions. The analysis involves the four dimensions: inputs, process, output and outcomes. Each of the dimensions is quantifiable. For example, a common task of providing business assistance to poor asnaf will involve the following steps. First, the application from the asnaf is received by zakat personnel, whose salary, level of competency and costs of training are considered as input. Next, the process of approving the application involves identifying and selecting recipients who will be trained and monitored. Outputs are measured based on the number of asnaf recipients obtaining funding and training. Finally the outcome is measured by the improved business performance of those particular asnaf.

Conclusions

Overall, zakat institutions in Malaysia have experienced tremendous growth in terms of collection and distribution. However, despite the remarkable increase in collection of zakat, similar gains in distribution did not reach the same quantum. Zakat organizations being an Islamic and a nonprofit concern requires a
performance measurement in order to guide and measure its deliverable objectives. The present paper proposes a comprehensive framework in measuring performance for zakat institution, taking into account that non-financial measures are as important as input, process and output measures and outcome measures.

Some of the measures are those that are associated with the public value produced by the institution – the extent to which it achieves its mission, the benefits it delivers to clients (asnaf), and the social outcomes it achieves. Others are associated with the legitimacy and support enjoyed by the organization – the extent to which government and zakat payers beyond those who benefit from the institutions (asnaf) remain willing to license and support the institutions. These measures do not only indicate the capacity of the institutions to stay in operation over time but also act as measures of value creation in themselves. The value created by the zakat institutions lies in the opportunities they afford to public spirited individuals to contribute not just to obligations they care about, but also to link contributing individuals to one another in a common effort to realize shared social stands.

There are still other measures that are associated with the operational capacity of the zakat institutions and they are relying on those to achieve their goals. These include not only measures of organizational output, but also of organizational efficiency and fiscal integrity. The measures also include staff morale and capacity, the quality of the working relationships with other zakat institutions, and the capacity of the organization to learn and adapt and innovate over time. The ultimate goal is not to capture and seize value for themselves, but to give away their capabilities to achieve a larger impact on social conditions.

Future research should be undertaken to formulate a robust measurement of each dimension identified in this study.

References


delivering foster care services under contract with New York City's Child Welfare Administration.
New York University: Robert F. Wagner Graduate School of Public Service.

**Author Bio Profile**

Abd. Halim Mohd Noor is an Associate Professor at Faculty of Business Management, Universiti Teknologi MARA, Malaysia and also the Deputy Director of Zakat Research Institute of Malaysia. He obtained his PhD in economics from University of Wales, Cardiff, UK. drabdhalim@bdrmelaka.uitm.edu.my

Mohamed Saladin Abdul Rasool is a Senior Lecturer at Faculty of Business Management, Universiti Teknologi MARA, Malaysia and also ARI Associate the Accounting Research Institute (ARI), Universiti Teknologi MARA, Malaysia. In addition he is an Associate Researcher at Zakat Research Institute of Malaysia. He obtained his MBA from University Kebangsaan Malaysia. saladin@melaka.uitm.edu.my

Rashidah Abdul Rahman, is a Professor in Corporate Governance, Universiti Teknologi MARA, Shah Alam, Malaysia. She is currently the Deputy Director, Accounting Research Institute. With research interest in corporate governance, risk management, Islamic Finance, financial reporting, ethics, environmental reporting, zakat and wakaf, she has presented and published various articles in these areas. shidah@salam.uitm.edu.my

Rozman Md Yusof is a Senior Lecturer at Faculty of Business Management, Universiti Teknologi MARA, Malaysia and also the Fellow of Zakat Research Institute of Malaysia. He obtained his PhD in Management from University of Putra Malaysia, Serdang, Malaysia. rozman@melaka.uitm.edu.my

Siti Mariam Ali is a lecturer at Faculty of Business Management, Universiti Teknologi MARA, Malaysia and also Associate Researcher of Zakat Research Institute of Malaysia. She obtained her Master Degree in economics from International Islamic University Malaysia (IIUM), Malaysia. smali@melaka.uitm.edu.my