



PERFORMANCE MEASUREMENT OF MALAYSIAN  
*ZAKĀT* INSTITUTIONS: PERCEPTIONS OF THE SENIOR  
MANAGERS OF THE MALAYSIAN *ZAKĀT* INSTITUTIONS

BY

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## ABSTRACT

The government initiatives through various public sector reforms all over the world have resulted to a new notion of accountability. The notion of accountability, which formerly focused on fiduciary stewardship and compliance with laws, has been extended towards external stakeholders. In order to achieve this new notion of accountability, performance measurement has been employed. Thus, performance measurement has played an important role in demonstrating an internal as well as an external accountability.

Despite this important role, there are relatively few research studies that analyze the implementation of performance measurement in religious organization. In view of this point plus very minimal studies of performance measurement in the Malaysian public sector organizations, this study then aims at analyzing the implementation of performance measurement in the Malaysian *Zakāt* institutions. Further, the study explores the nature and extent of the performance measures being used by the said institutions.

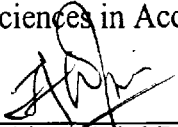
Using a self-designed questionnaire, a sample of 42 senior managers working in *Zakāt* institutions through out Malaysia is obtained. The results indicate that performance measurement is perceived to be important in Malaysian *Zakāt* institutions but it is relatively lesser importance in terms of reporting it to the public than its importance in the institution itself. Also, the nature of performance measures being used focused too heavily on means, i.e. how much is spent (input) or what has been done (output), rather than the end results such as an organizational performance as a whole (efficiency) or its impact on society (outcome). Thus, these results suggest that the notion of accountability prevails in Malaysian *Zakāt* institutions focus more on accountability for probity, legality and process rather than accountability for performance and policy.

## ملخص البحث

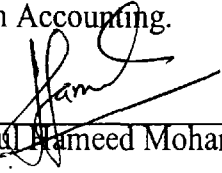
إن الجهود التي تبذلها حكومات الدول حول العالم من خلال مختلف القطاعات الحكومية أدت إلى تكوين نظرة جديدة حول كفاءة الفرد لأداء المهام. فقد امتدت هذه النظرة التي كانت ذات طابع إشراف انتمائي موافق للقوانين واللوائح إلى نطاق أوسع لتشمل الملكية الخارجية للأسهم. وفي سبيل تحقيق ذلك فقد تم اتخاذ معايير معينة لقياس الأداء، وتعد هذه المعايير حالياً الوسيلة التي على ضوئها يتم تفعيل الأداء الوظيفي. ونجد أن معايير قياس الأداء لدى الإداريين في الشركات قد مكنتهم من توظيف وتوزيع الموارد المتوفرة، وبالتالي القدرة على إدارة الشركة بشكل أكثر فعالية. أما بالنسبة لحملة الأسهم فتعتبر هذه المعايير أداة للتقويم المستمر لأداء الشركة. ولهذا نجد أن معايير قياس الأداء تلعب دوراً هاماً لتصوير الوضع الواقعي للكفاءة الخارجية والداخلية. ورغم هذه الأهمية لم يُجرَ إلا القليل من الأبحاث والدراسات التي تقوم بتحليل مدى تطبيق معايير قياس الأداء في المؤسسات والشركات الإسلامية، حيث أنها تتمتع بنفس المواصفات الموجودة في المؤسسات الحكومية كاندماج ملكية الأسهم ومحدودية فرص توليد الدخل، فضلاً عن ذلك ندرة الدراسات التي أجريت حول هذا الجانب في مؤسسات القطاع الحكومي كذلك. ومن هذا المنطلق، يهدف هذا البحث إلى تحليل مدى فعالية تطبيق معايير قياس الأداء في الشركات الإسلامية الماليزية، وبالتحديد مؤسسات الزكاة الماليزية. بالإضافة إلى ذلك، فإن هذا البحث يكشف عن مستوى الإفادة من معايير الأداء المطبقة في هذه المؤسسات وطبيعتها. وقد تم اختيار عينة للدراسة الاستبائية تتكون من 42 مديراً عاملاً في مؤسسات الزكاة من كل أنحاء ماليزيا. وقد أشارت نتائج البحث إلى أن هناك وعي عام بأهمية تطبيق قياس الأداء في مؤسسات الزكاة الماليزية، إلا أن هذه الأهمية تقل نسبياً من حيث إبلاغها إلى العامة مقارنة بأهميتها للمؤسسة نفسها. كما أن تطبيق المعايير المستخدمة تتركز أكثر على الوسائل، أي طريقة التقويم والتنفيذ، بدلاً من أن تولي اهتماماً بالنتائج كالنظر في فعالية أداء الشركة ككل، أو أثرها على المجتمع. وبناء على ذلك، فإن هذه الدراسة توصلت إلى أن مؤسسات الزكاة الماليزية ما زالت تحت إشراف الإدارة الحكومية السابقة حيث تنحصر الكفاءة على جوانب الأمانة والالتزام بالقوانين واللوائح وتنفيذ الأعمال.

## APPROVAL PAGE

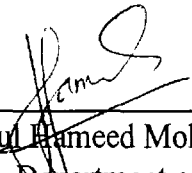
I certify that I have supervised and read this study and that in my opinion it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a dissertation for the degree of Master of Sciences in Accounting.

  
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Abdul Rahim Abdul Rahman  
Supervisor

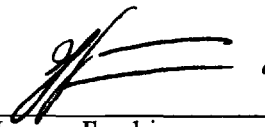
I certify that I have read this study and that in my opinion it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a dissertation for the degree of Master of Sciences in Accounting.

  
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Shahul Hameed Mohamed Ibrahim  
Examiner

This dissertation was submitted to the Department of Accounting and is accepted as partial fulfillment of the requirements for the degree of Master of Sciences in Accounting.

  
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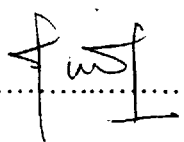
This dissertation was submitted to the Kulliyah of Economics and Management Sciences and is accepted as partial fulfillment of the requirements for the degree of Master of Sciences in Accounting.

  
\_\_\_\_\_  
Mansor Ibrahim  
Dean, Kulliyah of Economics  
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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.

**JAMALIAH BINTI ABD MAJID**

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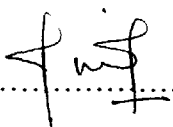
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**PERFORMANCE MEASUREMENT OF MALAYSIAN ZAKĀT  
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بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

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## LIST OF ABBREVIATIONS

‘3 Es’	Economy, Efficiency, and Effectiveness
AIMES	Annual Impact Monitoring and Evaluation System
ANOVA	Analysis of Variance
CCF	Christian Children’s Fund
CEO	Chief Executive Officers
CEO-SIRC	Chief Executive Officers of State Islamic Religious Council
CFO	Chief Financial Officers
CFO-SIRC	Chief Financial Officer of State Islamic Religious Council
CICA	Canadian Institute of Certified Accountant
ECFA	Evangelical Council for Financial Accountability
e.g	( <i>exempligratia</i> ); for example
etc	( <i>et cetera</i> ): and so forth
FASB	Financial Accounting Standard Board
GASB	Governmental Accounting Standard Board
GPRA	Government Performance and Results Act
IRS	Inland Revenue Service
JAWI	Federal Territory Islamic Department or ‘Jabatan Agama Islam Wilayah Persekutuan’
PPZ	<i>Zakāt</i> Collection Center or ‘Pusat Pungutan <i>Zakāt</i> ’
PPZ-WP	<i>Zakāt</i> Collection Center at the Federal Territory or ‘Pusat Pungutan Zakat Wilayah Persekutuan’
PZS	Selangor <i>Zakāt</i> Center or ‘Pusat Zakat Selangor’
RMNCA	Revised Model Nonprofit Corporation Act

## List of Abbreviations (continued)

SAO State Auditor's Office

SEA Service Efforts and Accomplishments

SIRC State Islamic Religious Council

SIRC-WP State Islamic Religious Council of the Federal Territory (Wilayah  
Persekutuan)

UK United Kingdom

USA United States of America

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# CHAPTER 1

## INTRODUCTION

This study aims to provide a basis for an understanding of performance measurement implemented in Malaysian *Zakāt* institutions. To achieve this objective, the study analyzes the perception of the key personnel working in *Zakāt* institutions all over Malaysia. Thus, a sample of 42 senior managers working in *Zakāt* institutions in all of the fourteen states in Malaysia is surveyed using a self-designed questionnaire. It is hoped that by having a better understanding of performance measurement in Malaysian *Zakāt* institutions, necessary actions could be taken so as to improve the institutions' performance and hence reinstate the importance role of *Zakāt* in creating a sense of mutual economic commitment, and social harmony in society. Also, this study is expected to fill the void of researches in the field of performance measurement in religious organizations in general and the Malaysian environment in particular.

### 1.1 Objectives of the study

Specifically, the study seeks to explore the implementation of performance measurement in Malaysian *Zakāt* institutions and to analyze the nature of the performance measures being used, their level of usefulness as well as the preferred performance measures in the said institutions. This analysis is carried out from two perspectives, namely, the collection of *Zakāt* and the distribution of *Zakāt*.

Thus, five research objectives have been formulated. These are;

- i. to examine the importance of and satisfaction with performance measurement existing in Malaysian *Zakāt* institutions
- ii. to determine the nature of performance measures of *Zakāt collection* being used and their level of usefulness in Malaysian *Zakāt* institutions
- iii. to determine the nature of performance measures of *Zakāt distribution* being used and their level of usefulness in Malaysian *Zakāt* institutions
- iv. to identify the preferred performance measures of *Zakāt collection* in Malaysian *Zakāt* institutions
- v. to identify the preferred performance measures of *Zakāt distribution* in Malaysian *Zakāt* institutions

In seeking answers to these research objectives, the researcher attempts to analyze the perception of senior managers working in Malaysian *Zakāt* institutions. Senior managers here refer to all of the Secretaries of State Islamic Religious Councils (or the Chief Executive Officers – CEO), Chief Financial Officers (CFO) involved in *Zakāt* matters and general managers as well as senior managers in charge of the collection and distribution of *Zakāt*. These individuals are selected mainly due to their experience and involvement in the management and administration of *Zakāt*. Thus, they may be able to provide an overall picture of performance measurement implemented in Malaysian *Zakāt* institutions.

## 1.2 Background of the study

Why do public sector organizations implement performance measurement in the first place? Unlike private sector organizations which employed performance measurement



as a means of measuring shareholders' wealth (Ittner and Larcker, 1998), performance measurement has been applied in the public sector organizations, particularly in the late twentieth century, to demonstrate concern about internal as well as external accountability (Kerr, 2003). This concern arises through pressures initiated by government all over the world. For example, the establishments of the Government Performance and Results Act (GPRA) 1993 in the United States of America (USA), the introduction of compulsory competitive tendering in the United Kingdom (UK), and the state government's amalgamation process in the Australia coerced many public sector organizations in developed countries to introduce managerial practices adapted from private sector (Ghobadian and Ashworth, 1994; Kloot, 1999; Cavaluzzo and Ittner, 2004).

The managerial practices mostly aim to improve performance and demonstrate greater transparency and accountability (Ghobadian and Ashworth, 1994; Lawrence et al., 1997; Guthrie and English, 1997; Schacter, 2002). The enhanced accountability is quite different from the traditional stewardship accountability, which focuses largely on the examination of tangible inputs and outputs (Lawrence et al., 1997). Accordingly, public sector organization is said to be under new public management (Hoque and Moll, 2001).

The enhanced accountability exercised under new public management necessitates managers to be responsible for the impact of public sector activities on the lives of society (Schacter, 2002). This means that in addition to complying with laws, managers in the public sector have to be accountable to the societies that have been affected by the organization's activities. Thus, the notion of accountability introduced

by the new public management stresses largely on the benefits, which are outside an individual contractual period (Glynn and Murphy, 1996).

To achieve this enhanced accountability, the new public management then implemented performance measurement. Performance measurement is defined as a comparison of results against expectations with an objective of improving the organization (Rouse and Putterill, 2003). Therefore, performance measurement is seen to be a tool of increasing visibility in order for accountability to be put into effect (Townley, 1996).

Further, since performance measurement under the new public management stresses on the impact of an organization's activities to the world outside the organization, it encompasses largely outcome or impact-oriented measures (Schacter, 1999). This is somewhat different from performance measurement applied traditionally, which focused mostly on internal measurement such as input and output measures (Beeton, 1988).

To date, studies on the usefulness of performance measures implemented in the public sector organizations, in particular performance measures introduced under the new public management have produced mixed findings. One stream of studies found that these performance measures have been used extensively (Brignall, 1993; Parry et al., 1994; Kerr, 2003) while the other research stream observed that even though there are a variety of innovative performance measures, these measures have limited evaluative usefulness (Ammons, 1995; Modell, 2003).

As an example, Brignall's (1993) study of one social service department's childcare team in the UK found that the local government employed new and innovative performance measures as a way of coping with the environmental and organizational changes, which occurred within the council. Similarly, the study of Parry et al. (1994) of 120 USA municipal fire departments discovered that finance directors and fire chiefs used a mixture of new and innovative performance measures such as outcome and output measures to monitor organization performance. Additionally, a recent case study performed by Kerr (2003) in the Texas State Auditor's Office (SAO) also discovered that the organization applied a variety of measures to track organization performance.

On the contrary, a study conducted by Ammons (1995) revealed that there is a modest use of performance measures among the 97 libraries and leisure services in the USA local government. Ammons (1995) provides evidence that despite having four categories of performance measures, i.e. workload, efficiency, effectiveness and productivity; most municipalities tend to use workload measures at the expense of other measures.

Similar to Ammons' (1995) study, Modell's (2003) analysis of performance measures in the Swedish university sector also observed that despite loads of performance measures, outcome and quality measures are hardly being used. Further, most of the measures compiled by the university were not linked to goals stipulated in the government charter. Modell (2003) viewed that the performance measures which existed in the university sector are more ritualistic in nature rather than of instrumental use.

Accordingly, findings provided by Ammons (1995) and Modell (2003) demonstrate that despite variety of performance measures available in the public sector organization, these measures have limited evaluative usefulness. Ammons (1995) reasons that this may be to government not insisted on adequate performance measurement or the performance measures themselves are too complicated to be understood.

### **1.3 Motivations of the study**

The contradicting evidences found in studies on the usefulness of performance measures in the public sector highlighted above, plus the very minimal number of studies on performance measurement in the Malaysian public sector (Ibrahim, 2002) motivated the researcher to provide additional evidences on the implementation of performance measurement and the usefulness of performance measures, especially in the Malaysian environment.

In addition, difficulties in measuring the performance of religious organizations due to intangible benefits and outputs being hard to measure (Barber et al., 2002), plus with the notion of accountability which is considered as a secondary issue in these organizations (Laughlin, 1990; Taylor et al., 1996; Abdul-Rahman and Goddard, 1998; Duncan et al., 1999; Lightbody, 2000), raises concern whether religious organizations regard the implementation of performance measurement as important and whether the performance measures existing have any evaluative usefulness. This concern then inspires the researcher to analyze performance measurement in Malaysian religious organizations, namely Malaysian *Zakāt* institutions.

The motivation to focus on *Zakāt* institutions stems largely from the important role played by *Zakāt* in society. Most Islamic scholars explained that payment of *Zakāt* represents not only fulfillment of a religious obligation but also contributes to the economic well-being of society, once *Zakāt* funds are being properly managed (Faridi, 1984; Ahmed-Abbasi, 1985; Kahf, 1991; El-Badawi and Al-Sultan, 1992; Sadeq, 1994). Thus, the researcher believes that it is essential to analyze whether the performance of *Zakāt* institutions is being monitored in the right manner.

This analysis becomes particularly crucial when the performance of Malaysian *Zakāt* institutions is said to have improved tremendously due to the substantial amount of *Zakāt* funds collected every year<sup>1</sup> (*Zakāt* Report, 2002). However, even with the large amounts of *Zakāt* collected, prior studies found that amounts of *Zakāt* distributed were too small to be significant or quite sizeable amounts of *Zakāt* continued to be retained by *Zakāt* institutions (Ahmad, 2000; Mahmud, 2001).

This phenomenon caused the researcher to become concerned about the management of *Zakāt* funds in Malaysian *Zakāt* institutions and hence motivated to examine the management accounting tools, in particular, performance measurement used by *Zakāt* institutions in monitoring their performance. In so doing, this study hopes to understand the notion of accountability prevailing in the Malaysian *Zakāt* institutions.

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<sup>1</sup> E.g. in the year 2000, RM259 millions *Zakāt* were collected, in 2001, RM320 million and in 2002, RM374 millions were collected throughout Malaysia (*Zakāt* Report, 2002)

## 1.4 Organization of the chapters

The thesis will be presented in six chapters, including this chapter, which represents an introductory part of the thesis. The second chapter reviews the literature on performance measurement in the public sector. Basically it starts by highlighting the literature on accounting and accountability in the public sector and links with issues of performance measurement in the public sector (in general) and religious organizations (in particular).

Chapter three briefly introduces the meaning of *Zakāt* and reviews its role in society. Then, it analyzes the structure of *Zakāt* institutions in Malaysia and attempts to bring in the issue of accounting and accountability in these institutions. Further, it provides a preliminary study on performance measurement in the Malaysian *Zakāt* institutions.

Chapter four attempts to integrate the literature reviewed in the previous two chapters, and highlight gaps found in the previous studies of performance measurement in the public sector and Malaysian *Zakāt* institutions. Then, it outlines five research objectives and nine research questions formulated based on the literature reviewed. Next, it presents the methodology adopted for the research and explains the procedures involved in data collection and data analysis.

Chapter five analyzes the data collected and provides findings of statistical tests performed. Finally, Chapter six discusses findings for each of the research objectives and underlines few limitations faced in the study. It also highlights contributions made by the study and offers some suggestions for future research.

## **CHAPTER 2**

### **PERFORMANCE MEASUREMENT IN THE PUBLIC**

#### **SECTOR:**

### **A REVIEW OF LITERATURE**

#### **2.1 Introduction**

The purpose of this chapter is to provide a review of literature in the area of performance measurement in the public sector. In particular, the chapter attempts to review the notion of accountability in relation to the role of performance measurement in the public sector, with particular reference to religious organizations.

The chapter is organized into four parts. Firstly, the chapter explores the concept of accounting and accountability in the public sector. Secondly, the chapter defines performance measurement and brings in several issues on performance measurement in the public sector. Thirdly, the chapter analyses the literature concerning the concept of accountability in religious organizations. Finally, the chapter examines emerging issues related to performance measurement in religious organizations.

#### **2.2 Accounting and accountability in the public sector**

Accounting emerges largely out of business practices (Whittington, 1986). It evolves in response to the needs of society. Thus, the role of accounting has progressed from record keeping in ancient times, through accounting for decision and control during the industrial revolution, to the multi-purpose internal and external accounting of the

modern industrial state (Earl, 1983). Accounting influences not only businesses, through taxation and credit accounting but also has an effect on the economy and society via measurement procedures in the allocation of resources and distribution of income. Hence, accounting is seen as a tool to serve variety of purposes and interests for the public.

In the public sector, accounting initially acted as a means of recording activities of the state (Hopwood, 1984). For example, accounting is used in recording of specific government contracts or documenting exchanged-priced transactions and related government possession and obligations. Thus, in this context, the accountant working in the public sector is in effect the manager of recorded activity.

Also, accounting is frequently being used to restrain expenditure, action and policies within the public sector (Hopwood, 1984). Hence, the function of accounting at this stage focuses more on ensuring a proper control of public money (Jones and Pendlebury, 2000). Some of the most important accounting techniques used is vote accounting, gross budget principle, annuality and specification.

However, recently, there has been an increasing demand for accounting practices to be more implicated in the public sector (Hopwood, 1984). For one thing, government action of requesting its agencies to account for their actions and achievements has resulted in a renewed emphasis on costs and financial information. In the international arena, for example, the state government's amalgamation process in Australia (Kloot, 1999) and the introduction of compulsory competitive tendering in UK local government (Ghobadian and Ashworth, 1994) have resulted in financial standards,