



PERFORMANCE OF *WAQF* INSTITUTIONS IN  
MALAYSIA

BY

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## ABSTRACT

As charity organisations founded on solid Islamic religious values to meet specific religious, social, political and economic objectives, it is necessary to ensure that *waqf* institutions monitor their own performance and achieve their objectives effectively, efficiently and in the most economic manner. However, allegations of mismanagement have long been the concern of researchers because of the severe deterioration of *waqf* fortunes. Although this has been widely acknowledged, limited studies have investigated how *waqf* institutions assess their performance and the extent of their efficiency and effectiveness. This research examined the performance of *waqf* institutions in Malaysia using content and ratio analysis of the 2008 audited financial statements of the *waqf* institutions. Administrative ratio, returns on investment, rental efficiency ratio and revenue expense ratio were used to measure efficiency. Equity balances, administrative costs, revenue concentration index were applied for effectiveness performance evaluation. The findings indicate that, on average, the institutions were inefficient but satisfactorily effective in administering and managing *waqf* properties. Although this is the first humble attempt, it should contribute to the performance measurement literature, provide a reference for researchers and students, and guide policy makers concerning the formulation of policies for the revitalisation of *waqfs*.

## خلاصة البحث

فكما أن المنظمات الخيرية تأسست على القيم الدينية المتينة لتحقيق أهداف دينية، واجتماعية، وسياسية، واقتصادية محددة، فمن الضروري التأكد من أن المؤسسات الوقفية كذلك تراقب أدائها وتحقيق أهدافها بفعالية وكفاءة، وبالطريقة الأكثر اقتصاديا. ومع ذلك، فقد كان الباحثون قلقين نتيجة ادعاءات سوء الإدارة بسبب التدهور الشديد الملحوظ من ثروات الوقف. وعلى الرغم من أن هذا محل اعتراف، فقد حققت دراسات محدودة كيفية تقييم المؤسسات الوقفية أدائها ومدى فعاليتها وكفاءتها، فإن هذه الدراسة تناولت المؤسسات الوقفية في ماليزيا بالدراسة، عبر استخدام المحتوى وتحليل النسب المئوية من البيانات المالية المدققة لعام 2008م. وقد تم استخدام النسبة الإدارية، والعائد على الاستثمار، ونسبة تأجير الكفاءة، ونسبة حساب الإيرادات لقياس الكفاءة. وتم كذلك استخدام أرصدة الأسهم، والتكاليف الإدارية، ومؤشر تركيز الإيرادات لتقييم أداء الفعالية. وقد خلصت نتائج الدراسة إلى أن المؤسسات الوقفية كانت غير فعالة بشكل أكثر واقعية لكنها فعالة بصورة مرضية في إدارة وتنظيم الأملاك الوقفية. بيد ما تعتبر هذه الدراسة أول محاولة متواضعة، إلا أنها ساهمت في أدب قياس الأداء وتوفير مرجع للباحثين والطلبة، وتوجيه واضعي السياسات على صياغة السياسات الهادفة لتنشيط الأوقاف.

## APPROVAL PAGE

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## DECLARATION

I hereby declare that this dissertation is the result of my own investigation, 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.

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*In recognition of his sincere brotherly care and financial support, this humble work is dedicated to Salihin Abang, the Founder and Managing Partner of Salihin Consulting Group.*

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# CHAPTER ONE

## INTRODUCTION

### 1.1 BACKGROUND TO THE STUDY

Around the globe are numerous charitable (also known as philanthropic or welfare) organisations founded on firm religious or social values. They command significant economic resources in their bid to provide assistance to the poor and the needy in the society (Saj, 2004). Iwaarden, Wiele, Williams and Moxham (2009) stressed that charity organisations assume an important position in Western society in terms of the amount of financial resources they receive from donors.

Notwithstanding the significant amount of charitable giving, there are indications that donors are not satisfied with their performance (Iwaarden et al., 2009) due to high profile cases of wrongdoing (Gibelman and Gelman, 2004). These well-publicised mischievous acts and their resulting huge financial losses are not unique to only non-Islamic charity organisations. Although Islamic charity institutions (*zakat* and *waqf*) have not relatively attracted media attention, it is not an indication that they are immune from financial scandals. Recently, ISNA Canada, a reputable Islamic organisation, attracted wide media publicity for allegedly squandering *zakat* and charitable donations meant for the poor and needy. In Malaysia, for instance, mismanagement of *zakat* contribution scared some *zakat* payers away from paying their *zakat* to *zakat* institutions (Ghazali and Ibrahim, 1990) as they became sceptical about the efficiency and effectiveness of *zakat* management (Abd. Wahab and Abdul Rahim, 2011). Whereas the anticipated effectiveness of *zakat* is yet to be achieved in the majority of Muslim nations due to inefficient collection and distribution, the case

of *waqf*, is no different, and may be worse (Abul Hassan and Abdus Shahid, 2010) in many Muslim countries, including Malaysia (Mohd Zulkifli, Shahedur Rahaman and Iftekhhar, 2012). Thus, it appears that *waqfs* probably have the lion share of ill-management.

*Waqf*, a perpetual voluntary charitable act (Sadeq, 2002), is one of the mechanisms in the Islamic economic system set, among others, to promote equitable and just distribution of wealth. This form of charity assures the donor of a continuous reward in the afterlife for as long as the useful years of the underlying asset remain. The contributions of *waqf* in the political and socio-economic growth and development of Muslim countries and communities over the years were gargantuan so much so that it has been labelled as the most visible evidence of charity in Islam (Singer, 2008). *Waqf* assets were instrumentally used to provide a social and economic safety net through their role in religion, education, shelter, health, food security and rural-urban transformation. In the tenth-century, *waqf* replaced *zakat* as the vehicle for financing social economic development in Islamic societies (Marshall, 1974 as cited in Singer, 2008). Despite its overwhelming role in supporting social, cultural, economic and religious functions (Muhammad Akhyar, Maliah and Putri Nor Suad, 2007; Abul Hassan and Abdus Shahid, 2010), previous studies reveal that the history of *waqf* has been tempestuous (Cizacka, 1998; Bremer, 2004; Osman, 2010). Vast *waqf* institutions and properties were and are still at the mercy of mismanagement, corruption, abuse, misuse and total neglect (Arrif, 1991; Hoexter, 1998; Bremer, 2004; Abul Hassan and Abdus Shahid, 2010).

In the Malaysian *waqf* environment, allegations of maladministration abound. The demise of *waqf* assets in Malaysia is alleged to be the result of ill-management by corrupt and/or incompetent trustees (Mohd Zulkifli et al., 2012). Whereas these

alleged mismanagement issues have been well acknowledged in prior studies, evidence of the extent of their performance or poor performance is extremely scarce. Perhaps, the most significant question to ponder is whether or to what extent the allegations of mismanagement or poor performance against *waqf* institutions holds true in the absence of coherent studies (Hoexter, 1998). To the researcher's knowledge, only two studies (Maliah, Muhammad Akhyar and Mohd Nor, 2009; Pirasteh, 2011) have focused on the performance of *waqf* institutions in the Muslim world. Apart from these two studies, it could equally be said that there is no other study on the performance of *waqf* institutions in the world. This paper therefore attempts to fill this gap.

Investigating the performance of the *waqf* institutions will not only reveal the extent of their performance or improprieties, but it will also determine, if indeed, the allegations hold true for the *waqf* institutions. Furthermore, it will serve as a means of achieving performance accountability. This is very significant since a donor to a *waqf* or its beneficiaries need to be kept informed as to the purpose for which the funds have been used for and how well the funds have been employed to yield optimum benefit.

## **1.2 MOTIVATION OF THE STUDY**

Allegations of mismanagement have long been levelled against *waqf* trustees and managers. However, there is no coherent studies to substantiate such accusations (Hoexter, 1998). Thus, there is the need for the issues of management (or mismanagement) to be addressed through more empirical work. Secondly, few recent studies (Maliah et al., 2009; Harun et al., 2012) in Malaysia are somehow proving that the allegations of mismanagement could be unfounded. Therefore, further

investigation is urgently needed. This will not only reveal the extent of their performance or improprieties, but will also serve as a means of achieving performance accountability. More importantly, given that a *waqf's* perpetual existence lies in its financial strength, determining its performance is crucial.

Thirdly, donors of *waqf* assets, having placed their trust on the SIRC, do not generally establish mechanisms to ensure the successful management of their assets. Similarly, users of *waqf* assets and/or recipients of the resultant economic benefit arising from the employment of *waqf* assets either have little or no say as to how well the institutions are managing the assets to reap maximum benefit. In default, donors (dead or alive) and the recipients (otherwise the public) become absentees and detached from the trusted *waqf* institutions. This situation leads to lapses in accountability. In this regard, gauging how well the *waqf* institutions are doing will somehow fill the accountability vacuum to ensure that continuous benefit and reward accrue to the living beneficiary and the deceased donor, respectively.

Finally, it is urgent to measure the performance of *waqf* institutions in the wake of numerous voices calling for the revitalisation of *waqf* (Arrif, 1991; Kahf, 1998; Mat Rani and Abdul Aziz, 2010) for the development of Muslim countries (Rabitah, Isa and Ali, 2012). Gauging their performance will, *insha Allah*, rekindle its socio-economic impact at a time when the survival of the Muslim *ummah* is threatened by the waves of poverty, starvation, malnutrition and deprivation.

### **1.3 STATEMENT OF THE PROBLEM**

Despite the existence of *waqf* for many centuries and the overwhelming allegations of mismanagement, there is no extensive study on the performance measurement of *waqf* institutions in the Muslim world. Previous studies have mainly focused on the areas



of *waqf* revival (Cajee 2007, 2008; Pirasteh and Abdolmaleki, 2007; Rashid, 2007; Hasan, 2007), history (Cizakca, 1998; Hoexter, 1998; Shatzmiller, 2001; Rashid, 2002; Mustaq, 2005; Toraman, 2007), legal (Dafterdar, n.d; Qasmi, 2002; Siti Mashitoh, 2006b; Mahmud and Haneef, 2010), socio-economic role (Kahf, 2003, 2007, 2011; Khan, 2010) management and administration (Zainuddin, 1998; Abdul Rahim et al., 1999; Siti Mashitoh, 2006a), accounting and disclosure practices (Abdul Rahim and Goddard, 1998; Rokyah, 2005; Hisham, 2006; Kahf, 2007; Ihsan and Shahul, 2007; Mohd Akhyar et al., 2007; Ihsan and Adnan, 2009; Noraini, Radiah, Jamaliah and Erlane, 2009; Osman, 2010) and financing instrument (Abdel Mohsin, 2009; Jalil and Mohd Ramli, 2011; Pirasteh and Abdolmaleki, 2011; Zarqa, 2011), among others. It is obvious that performance measurement in the field of *waqf* has been overlooked.

The only rare study worthy of relevance was done by Pirasteh (2011) in Iran. His paper focused on the economic efficiency and operational effectiveness of *waqf* in both private and government institutions. In Malaysia, the most recent literature that came close to the main focus of this study is that of Mohd Zulkifli et al. (2012). Although titled "*Problems of waqf administration and proposals for improvement: A study in Malaysia*", the main purpose of their research was to assess the performance of the current *waqf* administration in Malaysia. However, the paper only synthesised from past studies a stock of problems of *waqf* administration in Malaysia and provided suggestions for improvement.

The closest is the study conducted by Maliah et al. in 2009. They delved into the performance of a *waqf* institution in Malaysia. Maliah et al. in their study highlighted efficiency, economy and effectiveness as the three key performance yardsticks of charitable organisations. Nonetheless, their research is only a case study

and only measured the efficiency criterion on a limited scope. This leaves the need to extend the scope of the efficiency criterion and also measure the other two criteria. Finally, since their case study approach could not be generalised, there is yet again the need to widen the scope of sample coverage. These gaps necessitate the current study.

#### **1.4 OBJECTIVES OF THE STUDY**

As charity organisations founded on solid Islamic religious values to meet specific religious, social, political and economic objectives, it is a matter of necessity to ensure that *waqf* institutions are achieving their objectives efficiently and effectively. Unlike the era of self-administration of *waqf* institutions where it was easy to know the performance of management towards the realisation of the very purpose of the *waqf*, today, knowledge about the efficiency and effectiveness of their operations is scanty since the management of *waqf* properties is not under the control of the donors or contributors. Accordingly, the objectives of the study are:

1. To investigate the extent of disclosure of information by *waqf* institutions to enable stakeholders to assess their efficiency and effectiveness.
2. To measure the extent with which *waqf* institutions are fulfilling the efficiency and effectiveness performance criteria.

#### **1.5 RESEARCH QUESTIONS**

In line with its objectives, the following basic research questions were designed to guide the study:

1. To what extent do *waqf* institutions disclose adequate information to enable stakeholders to assess their efficiency and effectiveness?

2. To what extent are *waqf* institutions fulfilling the efficiency and effectiveness performance criteria?

Seeking answers to the above questions were aimed at a critical and broad evaluation of the performance of *waqf* institutions. In this regard, the study will, *insha Allah*, provide an insight and foresight into the efficiency and effectiveness of *waqf* institutions in Malaysia.

## **1.6 RESEARCH DESIGN**

As stated in the previous section, the study aims to investigate the adequacy of *waqf* institutions' disclosure of performance information and to measure their performance. In doing so, the study employed content and ratio analysis approaches. The content or document analysis was used to address the first research objective by analysing contents of the audited financial reports of the *waqf* institutions to identify, classify and examine the kinds of performance information disclosed. On the other hand, ratio analysis was used as a statistical technique to measure the extent of efficiency and effectiveness performance of the institutions since these performance measurement components are ratio-oriented.

On sampling, the researcher considered only state institutions instead of the whole private and public *waqf* institutions in Malaysia. This is because there are 14 states and each state has a *waqf* institution under the sole trusteeship of their respective State Islamic Religious Council (SIRC). They share common objectives and similar management practices. By considering the 14 states, a better picture of the performance of public *waqf* institutions can be ascertained. Finally, the result could be generalised to the wider population, a limitation of the case study approach adopted by Maliah et al. (2009).

Sources of data for this study heavily relied on the financial reports of the institutions. The study utilised latest available financial data across the *waqf* institutions. This includes annual audited reports of the same year from all the institutions. Due to time, cost and other constraints, interviews as originally planned were only conducted on a minimum scale.

## **1.7 SIGNIFICANCE OF THE STUDY**

The study will broaden the knowledge base and serve as a key reference point for academicians and students. This is because the study will add to the literature on the performance measurement of *waqf* institutions. The findings are expected to provide a deep insight into the performance measurement practices of Malaysian *waqf* institutions. Thus, it will provide a better understanding of the various performance measurement systems implemented by the institutions.

Since there is no any academic research of this nature to give an insight as to how to measure performance and actually assess the performance of such charitable institutions in Malaysia, policy makers and practitioners could also rely on the literature to come out with good policies for better management of the institution. The significance of this study in policy making cannot be over emphasised. Transition of *waqf* from individual to institutional trustees, as a response to alleged mismanagement in Malaysia did not rid *waqf* of issues of mismanagement. In yet another response, the government established Department of *Waqf* as a central oversight body, among others, over state *waqf* trustees. As if this is not enough, the government again inaugurated the Yayasan Waqaf Malaysia (YWM) to coordinate the activities of the state *waqf* institutions. YWM is acting as an independent intermediary between the

states and the government. Sadly, these reforms were made without paying particular attention to evaluating the performance of these institutions.

*Waqf* institutions are mainly focusing on disclosing social activities and erected buildings at the expense of information about their efficiency and effectiveness in managing *waqf* assets. This limits accountability to all stakeholders. Given these situations, the outcome of this research will make the performance of the institutions visible to the public and government and will, for the first time, inform potential donors or contributors to the *waqf* fund as to how their funds are utilised. This will not only aid the government in its attempt to revive the most visible form of charity in Islam through reforms but will also inform donors concerning the extent such *waqf* institutions have met their efficiency, effectiveness and economic objectives.

## **1.8 STRUCTURE OF THE STUDY**

The study comprises six chapters. The present chapter outlines the background and the motivation for the study. It also briefly captures the problems leading to this study, the research design, the significance of the study and ends with the present section. A literature review is presented in chapter two. The literature review covers a discussion of the literature concerning the definition of *waqf* and the historical background and management of *waqf* as well as performance measurement concepts. It ends with prior studies on *waqf* and accountability.

After reviewing the literature, chapter three elucidates on the theoretical framework underpinning this research. It highlights the accountability theory and the development of research propositions. The study progresses with chapter four, which explains the research methodology. It discusses the sample selection, data collection, research instrumentation, performance measurement process and data analysis.

Chapter five consists of findings and discussion, while chapter six provides the conclusion and limitations of the study.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 INTRODUCTION**

The preceding chapter highlighted the concern of alleged mismanagement of *waqf* by the trusted institutions and underscored the need to find out whether those accusations hold firm, hence the significance of this study. This chapter presents the basis for conducting the research on the performance of *waqf* institutions. *Waqf* scholars in the field of accounting and economics have only recently studied the assessment of the performance of *waqf* institutions. Given the background of this research, the current study looks at the performance measurement from the accounting perspective, which identified efficiency and effectiveness as the most appropriate performance yardsticks for *waqf* institutions. The fact that there are very limited studies in this area, tied with the nature of *waqf* institutions, the review of the literature is drawn from relevant studies in the realm of public, private and charity sectors covering the efficiency and effectiveness performance.

The review is divided into five sections. For the purpose of providing a proper understanding of *waqf*, the definition of *waqf* is given in section two. Section three offers the historical background and management of *waqf*. It highlights the historical and management practices of *waqf* by private and institutional trustees of *waqf*. Performance measurement concept and dimension is discussed in section four. Section five covers prior studies on *waqf* and accountability. Section six summarises the chapter.

## 2.2 DEFINITION OF WAQF

*Waqf* is an Arabic term that is rooted in the verb *waqafa*. Its plural form is *awqaf* (*waqfs*, however, is used for the purpose of this study). Linguistically, it is said to connote ‘stop, prevent, confinement or prohibition’ (Raissouni, 2001; Rashid, 2002; Abdel Mohsin, 2009). Thus, *waqf* in its action form means to stop or forbid or confine something. Synonymous with *waqf* is *habs* (Singer, 2008), which is the preferred terminology used in Northern Africa, whereas *waqf* is commonly used in Lebanon, Israel, Jordan, Iraq, and the United Arab Emirates (Abdel Mohsin, 2009). Abdel Mohsin added that Turkey uses the term *vakif* (*evkaf*, the plural form).

Various studies have defined *waqf* in different ways and from diverse perspectives, legal and economic. However, the most appropriate definition worthy of consideration herein is given by Kahf (1998) since his explanation is comprehensive, covering both the legal and economic perspectives (Muhammad Akhyar et al., 2007). Legally, he (Kahf, 1998: 4) described *waqf* as:

Holding a *Maal* (asset) and preventing its consumption for the purpose of repeatedly extracting its usufruct for the benefit of an objective representing righteousness/philanthropy. Hence, *waqf* is a continuously usufruct giving-asset as long as its principal is preserved. Preservation of principal may result from its own nature as in land or from arrangements and conditions prescribed by the *waqf* founder.

On the other hand, Kahf, (1998: 6) defined *waqf* from the economic perspective as “*diverting of funds (and other resources) from consumption and investing them in productive assets that provide either usufruct or revenues for future consumption by individuals or groups of individuals*”.

He summed up the two definitions as he explicated *waqf* as earmarking a certain asset and preserving it for a predetermined benefit of certain philanthropy and restricting any use or disposition of it within that specific objective (Kahf, 2011). It