



**A CASE STUDY ON ZAKAT MANAGEMENT AT  
PUSAT ISLAM UTM, SKUDAI**

**By**

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Project Paper Submitted in Partial Fulfilment of the Requirement for the Degree of  
Master of Business Administration  
Graduate School of Management  
International Islamic University Malaysia  
2011

## ABSTRACT

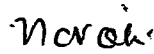
This study primarily focuses on the *Zakat* management as practiced in Pusat Islam Universiti Teknologi Malaysia (PIUTM), Skudai. The study specifically looks at the collection and distribution process of *Zakat on income*. It also examines the reporting mechanism concerning the performance of zakat collection and distribution of the organisation. In addition, the study also discusses the issues and challenges faced by the organization. A single case study method was used in which data were collected through semi-structured interviews, document reviews, informal conversations and observations. The data reveal that PIUTM collects the zakat on income from UTM's employees and distributes some portion of *asnaf fisabilillah* to the UTM community only. There are only three types of distribution – free food coupon scheme, self-support scheme and assistance for undergraduate association programme. The research also shows that the PIUTM has never set any indicators to measure the performance of the management of *Zakat on income*. This research offers insights into the role of PIUTM as a centre for zakat collection and distribution within a small locality. Based on the findings, it is suggested that PIUTM may want to consider upgrading the reporting style and follow the structure of annual reports. The research also suggests that indicators should be introduced so that the organization will achieve its objectives.

## APPROVAL PAGE

We certify that we have supervised and read this Project Paper and that in our opinion it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a Project Paper for the degree of Master of Business Administration.

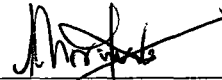


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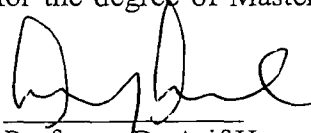
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This Project Paper was submitted to the Graduate School of Management, IIUM and is accepted as partial fulfilment of the requirements for the degree of Master of Business Administration.



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## DECLARATION AND COPYRIGHT PAGE

**Name:** Nur Qamarina Binti Sharom  
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I hereby declare that this research is the result of my own investigations, except where otherwise stated. Other sources are acknowledged by footnotes giving explicit references and a bibliography is appended.

Signature.......... Date..... 15 AUGUST 2011 .....

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## **DEDICATION**

To my parents, Ayahanda Sharom Atan and Bonda Zainab Abd Rahman

To my beloved husband, Sheikh Mohd Khadri Sheikh Zahari

## ACKNOWLEDGEMENT

In the name of Allah, the Most Merciful, the Most Beneficent.

This project paper would not have been possible without the guidance and the help of several individuals who in one way or another contributed and extended their valuable assistance in the preparation and completion of this study.

First and foremost, I offer my sincerest gratitude to my supervisor, Dr Norhayati Mohd Alwi whose sincerity and encouragement I will never forget. She has been my inspiration as I hurdle the obstacles in the completion of this research work. Her advice, insightful criticisms and patient encouragement aided the writing of this project paper in innumerable ways.

I would also like to acknowledge the advice and guidance of my co-supervisor, Dr Noraini Mohd Ariffin. Her consultation and valuable comments have helped me a lot to improve and without her, this project paper would not have been completed or written.

I appreciate all the contributions of my lecturers and the entire team in the Graduate School of Management for all their knowledge, guidance and support to make my postgraduate study experience productive and stimulating. In my daily work, I have been blessed with a friendly and helpful group of fellow friends. Special thanks to Nafisah Hassan, Nurul Aminah Mat Zain, Sumaiyah Abd Aziz and Noor Azeelia Abdul Manan for their generous assistance during this study.

I gratefully acknowledge the funding sources that help me achieve the accomplishment of my research study. I was funded by the Ministry of Higher Education and special thanks to my employer Universiti Sains Islam Malaysia.

My sincere thanks also go to Pusat Islam Universiti Teknologi Malaysia, Skudai and to all the interviewees for their willingness to share some of their thoughts and experiences, which have made my data collection easier than I would ever have thought. The experience that I have obtained during the process is such a memorable one.

Furthermore, where would I be without my family? I would like to thank my family for their unconditional love and encouragement. For my parents who raised me and supported me in all my pursuits. Aca, Ain, Man, Syafiq and Adik, thanks for being supportive and caring siblings.

Words fail me to express my appreciation to my husband Sheikh whose dedication, love and faithful support throughout the completion of my study is so appreciated.

Finally, I would like to thank everybody who was important to the successful realization of thesis, as well as expressing my apology that I could not mention personally one by one. Thank you.

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## **LIST OF ABBREVIATIONS**

JAKIM	Jabatan Kemajuan Islam Malaysia
JPA	Jabatan Perkhidmatan Awam
MAINJ	Majlis Agama Islam Negeri Johor
PTPTN	Perbadanan Tabung Pengajian Tinggi Nasional
PIUTM	Pusat Islam Universiti Teknologi Malaysia
UTM	Universiti Teknologi Malaysia

# CHAPTER 1

## INTRODUCTION

### 1.1 Background of the Study

Islam is a *syumul* religion revealed by Allah SWT to mankind, to serve as guidance in leading life in this world. The teachings of Islam encapsulate all aspects needed by mankind such as politics, social, economics, education and many more. The economics field can be considered as one of the platforms that contribute to the development of the *rizq* of mankind; as a result, Islam has placed a heavy emphasis on the principles that are related to the collection and benefits that can be derived from it.

*Zakat* is one of the five pillars of Islam. It has a direct impact not only on the relationship between man and Allah SWT as the Creator, but also within the relationship between man and society. This is clearly observed through the payment of *Zakat* by an individual, which can be used as a parameter for the obedience of man to Allah SWT. In addition, from a societal perspective, it is one of the methods of redistributing wealth from the rich to the poor.

The *Quran* demands that individuals take material responsibility towards poverty and the sufferings within the Muslim community. Muslims should acquire wealth with the intention of spending it on their needs and the needs of others. Allah says in *Surah Al-Saba'*: verse 39, which can be translated as:

“And whatsoever you spend of anything (in the cause of Allah), He will replace it. He is the Best of those who grants sustenance.”

It is believed that *Zakat* is one of the aspects in the development of the economy that has been given due consideration, besides *sadaqah* (charity), *waqf* and *qardhul hasan*.

As Zafar (2008) mentioned:

*Zakat* is one of the most important aspects of the Islamic Economic System. One positive economic effect of *Zakat* is an increase in the money supply and a consequent increase in the demand for goods and services. *Zakat* also provides debt relief and enhances price stability. If accumulated in times of prosperity, *Zakat* funds can aid society through times of depression. Though *Zakat* has widely fallen out of use in modern times (except as a ritual) it can have great economic impact if properly re established. (2008, pp. 1)

In addition, Faruk (2007) stated that:

*Zakat*'s ultimate goal is to elevate the poor in order to turn them, in time, into *Zakat* payers. Considering its places of disbursements, *Zakat* plays a pivotal role in helping the participants to attain ethical, social goals as it is and spent in the way of God and on those who struggling in the throes of debts and those unable to provide for themselves and families. (2007, pp. 2)

Understanding the importance of *Zakat*, which involves the sharing of wealth, will have a positive impact on the individual as well as on the society and economy. It is

important to have *Zakat* administration to ensure and convince the public that the fund collected will be distributed in accordance with *shari'ah*, and that the *Zakat* institutions will be administered professionally and efficiently. Failure to achieve these objectives will reduce public confidence, which will inevitably reduce the number of *Zakat* payers, who eventually may choose other alternatives to fulfil their *Zakat* obligations.

Recent empirical studies have reported incidences of negative perceptions arising from the *Zakat* payers concerning the management of *Zakat* funds, especially in terms of distribution (Khaf, 1995; Mohamed Dahan, 1998; Sanep et al., 2006; Syukri, 2006; Hairunnizam et al., 2008; Anuar Muhammad, 2008; and Abdul Halim et al., 2008). This issue needs to be addressed properly so that it will not have a negative impact on further development of the *Zakat* institution.

Government institutions, as well as statutory or private bodies, often have a sufficient number of employees that are able to pay *Zakat* from their income. An integrated management of *Zakat* from the income in these organizations, with the approval from the relevant authorities, will result in some of the benefits reverting to those who are in these organizations. Therefore, good management of *Zakat* is able to make the different groups of the community working in an organization realize their responsibility to pay *Zakat*, and, in addition, will also assist those who are in need, be it those among the employees or society at large.



## **1.2 Objectives of the Study**

The study primarily focuses on the management of *Zakat on income* as practiced in Pusat Islam Universiti Teknologi Malaysia (PIUTM), Skudai.

The objectives are as follows:

1. To understand the collection and distribution process of *Zakat on income* in Pusat Islam UTM, Skudai.
2. To examine the performance of the collection and distribution of *Zakat on income* in Pusat Islam UTM, Skudai.
3. To comprehend the issues and challenges that arise in managing the *Zakat on income*
4. To provide some recommendations and suggestions on how to manage the fund of *Zakat on income* wisely.

## **1.3 Research Questions**

Based on the objectives of the study, the following research questions have been formulated:

### *Main Research Question*

How does Pusat Islam UTM, Skudai manage the *Zakat on income*?

### *Specific Research Questions*

1. How does the process of *Zakat* collection take place?
2. How does the process of *Zakat* distribution take place?

3. How does the organization report its performance of collection and distribution of *Zakat on income*?
4. What are the issues and challenges of *Zakat on income* management in the organization?

#### **1.4 Motivation for the Study**

The collection of *Zakat on income* among the *Zakat* payers in higher education institutions has demonstrated positive growth. Consequently, Universiti Teknologi Malaysia (UTM) has been granted approval by the Majlis Agama Islam Negeri Johor (MAINJ) to manage the collection of *Zakat on income* through payroll deductions and distribution to the recipients categorized in *asnaf fisabilillah* but only among UTM members and conducted by PIUTM. This differs from the external review on UiTM Shah Alam in that they distribute to the needy and the poor as well. The case study was conducted by S. Salahudin and Nazrudin (2005).

PIUTM is considered as an organization that has the trust of MAINJ and UTM to manage the fund properly. Managing zakat funds through a zakat institution is very significant and is crucial and strategic for the welfare of the *ummah*.

Thus, the difference in management motivates the researcher to choose PIUTM as the subject matter and examine the management of *Zakat on income*. Furthermore, no specific study has been made on how PIUTM manages the *Zakat on income*.

## **1.5 Organization of the Study**

This study is divided and organized into five chapters including this chapter. Chapter one provides a general idea about the study including the background and objectives of the study, as well as the research questions, and shares the motivation of the study. This is followed by a discussion on the literature review relating to *Zakat* management in Malaysia and the previous research relating to *Zakat* in chapter two. Chapter three discusses the research methodology adopted for this study, provides the research objectives and research questions, and shares the background of the company and explanation of the methods of data collection. Furthermore, it discusses the analysis and discussion of the findings in chapter four. Finally, chapter five covers the conclusion of the study.

## CHAPTER 2

### *ZAKAT ON INCOME PRACTICES IN MALAYSIA*

#### **2.1 Introduction**

The ultimate goal of this section is to review the critical points of current knowledge about *Zakat*, bringing the ideas together and contributing to future research in the area of *Zakat*. This chapter will be divided into two sections. The first section will elaborate on the definition and basic concepts of *Zakat* from various sources and scholars. The second section provides the development and issues on *Zakat*.

#### **2.2 General Understanding of *Zakat***

In Islamic literature, the first reference, as the primary source, is the *Holy Quran* and next, is the *Sunnah*. The root word of *Zakat* means cleanliness, growth, praise and blessing. All the meanings of the word are used in the *Quran* and *Hadith*. There are more than 40 verses of the Holy *Quran* addressing *Zakat*, and over 170 *Hadith*, as well as various comments from scholars of the *Quran* and *Hadith* interpreters (Mahmood Zuhdi, 2003).

For instance, *Surah Al Shams* verse 9 states that, “He has indeed prospered who purifies it (the self)” and “Prosperous indeed are those who purify themselves” as explained in *Surah Al A’ala* verse 14. *Zakat* means prosperity in another *Surah Al Maryam* verse 13, which is translated as, “A compassion from our presence and prosperity”.

*Zakat* is the third pillar of Islam and an act of worship to Allah. The word *Zakat* means to profit, to purify, to increase, to be worthy, nice, mercy, truth, blessing and growth (Jabatan Kemajuan Islam Malaysia [JAKIM], 2007). Our possessions are purified by setting aside a proportion for those in need, and like the pruning of plants, this cutting back will balance and encourage new growth.

Technically, *Zakat* is defined as determining a share of one's wealth to be distributed among the rightful beneficiaries that are entitled to the wealth, as prescribed by Allah in the *Holy Quran* (Al-Qardhawi, 1999). In *fiqh*, *Zakat* refers to the payment of a certain portion of a certain type of wealth for the benefit of certain groups that have been specified by Allah (Mahmood Zuhdi, 2003). *Zakat* is considered an act of monetary worship to Allah (Mohd Daud, 1998).

*Zakat* is obligatory when a certain amount of money, called the *nisab* is reached or exceeded. *Zakat* is not obligatory if the amount owned is less than this *nisab*. The *nisab* (or minimum amount) of gold and golden currency is 20 *mithqals*. When reached the owner needs to pay 2.5 percent (or 1/40) of money as *Zakat*. (A lunar year is approximately 355 days). The owner may deduct any amount of money he or she has borrowed from others, and then check if the balance reaches the necessary *nisab*, then pay *Zakat* accordingly. Having this condition will ensure social justice<sup>1</sup> and reduce the differences among social classes. It also guarantees sufficient equalization.

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<sup>1</sup> Social justice refers to the concepts of human rights and equality or even income redistribution.

The obligatory nature of *Zakat* is firmly established in the *Quran*, the *Sunnah* (or *Hadith*), the consensus of the companions and the Muslim scholars. *Surah Al-Taubah* 9: verses 34-35, as translated below, states:

“... and those who hoard gold and silver and spend them not in the way of Allah announce unto them a most grievous penalty. On the Day, when they (gold and silver) will be heated in the fire of Hell and used to brand their foreheads, their flanks and their backs. This is what you have hoarded<sup>2</sup> for yourselves, taste you then what you have hoarded”.

Further elaborated by our beloved *Prophet (SAW)*:

“For every owner of a hoarded wealth on which he does not pay *Zakat*, this wealth will be heated in the fire of Hell and made into sheets with which his flanks and forehead will be branded until *Allah* passes judgment among His servants on a day that measures fifty thousand years (of our reckoning), then his path will be shown, either to Heaven or to Hell”.

(Narrated by Imams Bukhari, Muslim and Ahmad)

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<sup>2</sup> Hoarded refers to every wealth on which *Zakat* was due but was not paid.

There are two types of *Zakat* in Islam, namely *Zakat fitrah*<sup>3</sup> and *Zakat* on wealth<sup>4</sup>. Alfitri (2006) defined *Zakat fitrah* as the flat fee imposed on each person to be paid in the month of *Ramadhan* or early *Syawal* and Al Qardhawi (1999) agreed that paying *Zakat* is to purify the wealth of *Zakat* payers and to bring the pleasure and gladness to the poor and needy on the Muslim festival day.

The Quran has specified eight categories of people eligible to receive *Zakat* in *Surah Al-Taubah* 9: verse 60, as translated below:

“Alms are for the poor, the needy, the employees who administer the funds (*amil*), those whose hearts have been recently reconciled to the Truth, those in bondage, those in debt, in the cause of Allah, and the wayfarer, (thus it is) ordained by Allah, and Allah is most knowledgeable, most wise”.

Faruk (2007) also discussed the benefits of *Zakat*, especially to *Zakat* payers, recipients and society. Mohammed (2006) analysed the role of *Zakat* in the national income and incorporated *Zakat* in a simple macroeconomic model.

*Zakat* plays a big role in poverty alleviation. From a review of the research on the role of *Zakat* it can be concluded that *Zakat* can mitigate and reduce poverty in

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<sup>3</sup> *Zakat fitrah* is often referred to as “*Zakah al-Fitr*” in Arabic literature.

<sup>4</sup> *Zakat* on wealth is often referred to as “*Zakah al-Mal*” in Arabic literature.

Muslim communities and countries as well (Ali Akkas, 2006; Dimas & Raditya, 2010; Kazi Sohag, 2008; Monawar, n.d.; Sheikh Muhammad, 2010).

Zafar (2009) agreed that *Zakat* has a positive effect through an increase in the money supply, and a consequent increase in the demand for goods and services. In addition, it also provides debt relief, enhances price stability and can contribute towards a greater economic impact if well managed. Furthermore, Chowdry and Sofyan (2008) suggested the need for Islamic banks to utilize the *Zakat* fund for productive transformation in the real economy.

Additionally, Abdul Rahim (2005), Abu al-Hassan (2002), and Muhammad (1980) agreed that *Zakat* aims to bridge the gap between the rich and poor. As quoted from Nazifah (2007):

For instance, the rich contributes a portion of their wealth for the poor. In other words, the rich shares the burden and suffering of the poor and the poor enjoys the happiness and the wealth of the rich. Ultimately, this concept of redistribution of wealth will minimize the income gap in the Islamic society. (2007, pp. 7)

Furthermore, Ghafar and Azura (2006) elaborated that implementation of the *Zakat* fund should be applied according to *shari'ah* principles, so that it can serve social justice, while being a vital key to the economic welfare in an Islamic economic