



THE INFLUENCE OF GOVERNANCE TO *ZAKAT*
DISBURSEMENT EFFICIENCY: EMPIRICAL
EVIDENCE FROM BRUNEI DARUSSALAM

BY

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degree of Master of Science in Accounting

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ABSTRACT

The study measures and analyses *zakat* disbursement efficiency for the *zakat* institution in Brunei Darussalam and identifies the governance factor(s) that influence efficiency. This research samples four districts of Brunei Darussalam: Brunei Muara, Belait, Tutong, and Temburong. This is a quantitative research study that uses two approaches of efficiency analysis, namely (i) *zakat* disbursement efficiency measurement (ratio analysis) and (ii) identification of governance factor(s) that influence the *zakat* disbursement efficiency of the *zakat* institutions (regression analysis). In the first approach, there are three efficiency measures namely Disbursement Efficiency (DE), Cost Efficiency (CE) and Time Efficiency (TE). The first findings discover that on average, Tutong is the most efficient district as it has the highest in disbursement and cost efficiency but lowest in time efficiency. Meanwhile, Temburong is the least efficient district as it has the lowest in cost and second lowest in time efficiency. The second finding found that for the past 13 years all districts have showed fluctuations in efficiency in cost, disbursement and time. In terms of disbursement efficiency, the most improved district within the thirteen years of study is Tutong with 69.4% and the least improved district is Brunei Muara with 47.2%. As per cost efficiency, the most improved district is Temburong with 204%. Nevertheless, other districts have discovered no improvement. In time efficiency, Temburong is the most improved district with 11.04%. However, other districts have showed no improvement from the year 2000. In the second approach, there are governance factors namely (i) board size; (ii) professionals on board and (iii) frequency of board meetings. to identify the influence of governance factors onto *zakat* disbursement efficiency measures. The factors are namely (i) Board Size; (ii) Professionals on Board and (iii) Frequency of Board Meetings. The third findings found that there is a positive influence between Board size and disbursement efficiency and negative influence with cost and time efficiency; professionals on the board has a positive influence to disbursement, cost and time efficiency and lastly, the frequency of board meetings positively influences disbursement efficiency and time efficiency. Frequency of board meetings showed a negative influence with cost efficiency. However, the result between frequency of board meetings and cost and time efficiency are rejected because of insignificant result. This research examines how the *zakat* institution in Brunei has improved in terms of disbursement activities over the past 13 years. Besides that, this research is significant as it could be useful in future discussions on the potential ways to improve *zakat* governance and efficiency in Brunei Darussalam. The outcomes from the discussions will be useful as a guide to policymakers in improving the *zakat* institution's governance system.

خلاصة البحث

تناول هذه الدراسة تحليل وقياس كفاءة إنفاق أموال الزكاة في مؤسسات الزكاة برونوي دار السلام، كما وتحاول التعرف على المعايير الإدارية التي تؤثر في هذه الكفاءة. تركز الدراسة على أربع مقاطعات في برونوي دار السلام، وهي: برونوي موارا، وبولايت، وتوتنغ، تمبورنغ. تعتمد هذه الدراسة الكمية على منهجين لتحليل كفاءة الإنفاق، وهما: (1) معايير كفاءة إنفاق الزكاة (تحليل بالنسب)، (2) تحديد معايير الإدارة و التسيير التي تؤثر على إنفاق الزكاة في مؤسسات الزكاة (تحليل الإنحدار) في المنهج الأول هناك ثلاث معايير كفاءة وهي: كفاءة الإنفاق، كفاءة التكلفة، وكفاءة الوقت. وقفت الدراسة على نتائج منها أن مؤسسة الزكاة في توتنغ تعتبر أكثر المؤسسات كفاءة ودقة فيما يخص إنفاق الزكاة، وكفاءة التكلفة، لكنها ليست دقيقة في مراعاة كفاءة ودقة الوقت، في الوقت نفسه مؤسسة الزكاة في برونوي موارا تعتبر أقل المؤسسات الأربع كفاءة في كفاءة التكلفة، وكفاءة الإنفاق لكنها دقيقة ومنظبطة في كفاءة الوقت. النتيجة الثانية التي وقفت عليها الدراسة هي أنه وخلال 13 سنة الماضية كل المقاطعات شهدت تقلبات في كفاءة التكلفة وكفاءة الإنفاق وكفاءة الوقت. في المنهج الثاني استخدمنا ثلاث عوامل للحكم وهي: حجم الإدارة، عدد الخبراء وأعضاء الإدارة، وتسلسل اجتماعات الهيئة الإدارية. وصلت الدراسة من خلال تحليل هذه المعايير الثلاث إلى أن عدد حجم الإدارة يرتبط إيجابياً وبشكل مضطرب بكفاءة الإنفاق، لكنه يؤثر سلباً على كفاءة التكلفة وكفاءة الوقت، كما أن عدد الخبراء وأعضاء الهيئة الإدارية يؤثر إيجابياً على كفاءة الإنفاق وكفاءة التكلفة وكفاءة الوقت. وبخصوص معيار تسلسل اجتماعات الهيئة الإدارية فهو يؤثر بشكل ايجابي على كفاءة الصرف، والكفاءة التكلفة لكنه يؤثر سلباً على كفاءة الوقت. وقد حللت الدراسة كيفية تطور مؤسسات الزكاة في برونوي في آليات الإنفاق خلال 13 سنة الماضية، مما يضيفي عليها أهمية نظراً لما تطرحه من ملاحظات وتحليلات من شأنها أن تطور أداء هذه المؤسسات في المستقبل في برونوي دار السلام، كما يمكن للمسؤولين الاستفادة من جملة النتائج المتوصل لها من هذه الدراسة

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 Science in Accounting.

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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.

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LIST OF ABBREVIATION

BIBD	Bank Islam Brunei Darussalam
BND	Brunei Dollar
CE	Cost Efficiency
CZS	Computerized <i>Zakat</i> System
DE	Disbursement Efficiency
EZRP	Empowerment <i>Zakat</i> Recipients Programmed
GDP	Gross Domestic Product
IBB	International Bank of Brunei
MUIB	Majlis Ugama Islam Brunei
TE	Time Efficiency
TAIB	Tabung Amanah Islam Brunei
UKAZ	Unit Kutipan dan Agihan <i>Zakat</i>
ZDE	<i>Zakat</i> Disbursement Efficiency

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Zakat plays a major role in Muslim societies to protect and promote economic and social justice (Abdul Wahab and Abdul Rahman, 2011). Achieving this objective could contribute to alleviation of poverty and to solve social issues in the society (Patmawati, 2008). Due to this matter, *zakat* organisations were established to cater for collecting and disbursing *zakat* funds.

In Brunei, *Zakat* is managed by the government under the Brunei Islamic Religious Council. As one of the units in Brunei Islamic Religious Council, Unit of *Zakat* Collection and Disbursement is responsible in managing and administering *zakat* operations.

Zakat management is responsible for the efficient management of the *zakat* organisation (Mutiara et al., 2013). Initially, management of *zakat* was merely associates with collection and disbursement activities (Ahmad, 2009). However, Aziz and Othman (2013) stated that the study on *zakat* distribution is more important than describing *zakat* collection because *zakat* distribution includes the wealth of the deprived without which wealth would concentrate among the greedy Muslims. As a result, inefficiency in disbursing *zakat* funds may contribute to a negative impact to the *Asnaf* which will lead to dissatisfaction of *zakat* recipients.

Performance measurements are needed for an organisation to ensure that they are operating at optimum levels to achieve their objectives. This statement is supported by Abdul Halim et al. (2014) that performance measurement is an essential element to examine an organisation's ability to meet its goals and objectives. This

includes the four major elements of input, output, efficiency, and outcome (Schancter, 1999). According to Abdul Rahman (2007), measuring efficiency is not widely used in measuring performance due to its difficulty to compute and its use of absolute figures and ratios. Despite that, efficiency is useful in monitoring and improving the performance of an organisation, whereby a *zakat* organisation will be able to track the efficiency by measuring how inputs are transformed into outputs.

Abdul Halim et al. (2015) asserted that one of the purposes for evaluating performance is to measure the efficiency of *zakat* organisations in executing their responsibilities and duties to *zakat* stakeholders and ultimately to Allah SWT. Thus, this study measures input and output and studies the efficiency level with which inputs are transformed into outputs.

This study measures the efficiency of *zakat* disbursement by applying three *zakat* disbursement efficiency indicators that are disbursement, cost, and time taken to process an application. Mustaffha (2007) has used these ZDE efficiency indicators in studying *zakat* disbursement efficiency in Malaysia.

The fundamental principle of governance in *zakat* institutions is to strengthen *zakat* collection and disbursement by increasing the efficiency and effectiveness of its management and services and the end benefits of *zakat* must lead to improvements in the Ummah's socioeconomic status, especially the poor. As mentioned by Harun (2010), governance is an entity to foster efficiency in an organisation since they are responsible for the direction, control and administration activities.

In addition, Abdul Wahab and Abdul Rahman (2011) developed a framework to analyse efficiency and governance in *zakat* institutions. They are of the opinion that governance could contribute to an efficient organisation. This underscores the importance of evaluating efficiency and governance for greater productivity.

With this preliminary, we endeavour to establish that governance is an important source of efficiency for enhanced *zakat* disbursement. The proposed Islamic accountability framework aims to provide a broad and integrated understanding over the accountability in *zakat* fund management that can help the relevant parties to manage the *zakat* fund more effectively and efficiently.

1.2 MOTIVATION OF THE STUDY

The need to measure the efficiency of *zakat* disbursement became a prominent public concern when the Sultan of Brunei commented that the *zakat* disbursement is inefficiently and ineffectively managed by the *zakat* institution in Brunei (Mahmud, 2009). This comment was instigated upon the Sultan realising that the *zakat* fund had an outstanding sum greater than \$230 million despite there being many deserving people (Mahmud, 2009). Clearly, this reflects the lack of accountability of the management (Ahmad, 2006; Wahid et al., 2008; Wahid et al., 2009).

Moreover, the criticism towards the administration and management of *zakat* in Brunei by Musa (2009) shows that there is a lack of accountability in the *zakat* organisation, which may affect its efficiency level. Such an unfortunate current state of affair motivates the researcher to measure the efficiency level of *zakat* disbursement managed by the *zakat* institution in Brunei using statistical and empirical evidence. According to Abdul Wahab (2013), to investigate the efficiency of *zakat* institutions, we must consider the equal importance of the governance factor in driving efficiency. She defined governance as the process of decision-making and the process by which decisions are implemented. As a public institution, the *zakat* Institution needs to be accountable.

Although research on *zakat* is increasing, research on governance in *zakat*

institutions is limited. To date, there are only a few studies which focus on governance in *zakat* institutions (Abdul Haim et al., 2007; Abdul Wahab and Abdul Rahman, 2011; Shawal and Hasan, 2007) much of which are not empirically tested and overlook *zakat* disbursement perspectives. Thus, this study emphasises the governance dimensions in *zakat* disbursement.

Studies regarding *zakat* institutions in Brunei Darussalam are also limited. There has yet to be research on governance and *zakat* disbursement efficiency areas in *zakat* organisations. Thus, this research undertakes an empirical study of the *zakat* institution in Brunei with a focus on efficiency in managing *zakat* funds and the governance factors in support of efficiency. Through this study, we hope that *zakat* management in Brunei will be improved in order to enhance efficiency so that it may better meet its important social and economic objectives.

1.3 PROBLEM STATEMENT

More than \$230 million in outstanding balance from *zakat* collection in Brunei was reported for the fiscal year that ended as of December 31, 2009 (Mahmud, 2009). This sparked public concern regarding the capabilities of UKAZ (Unit Kutipan dan Agihan *Zakat* ‘*Zakat* Collection and Distribution Unit’) in managing *zakat*. This outcome highlighted how the Brunei *zakat* institution failed to effectively perform its religious obligations to efficiently distribute the collected alms. This problem inspired the researcher to conduct a research on measuring the level of efficiency of *zakat* disbursement activities in Brunei Darussalam.

Despite various contributing factors for delay in *zakat* processing, Musa (2009) found the problem of inefficiency is largely due to the absence of specialisation in task delegation to the staff, a poor monitoring system and

coordination, and lack of top management commitment. Musa (2009) emphasised that poor processing system and poor governance from top management are major causes for delays in processing the applications. Musa further highlighted that the number of complaints from the public and the applicants themselves alongside the application records kept by UKAZ proved that the *zakat* institution is 'inefficient'. Musa (2009) also stated that the processing time is too long and many needy and deserving people continue to be ignored. This further emphasises the urgent need for reforms in terms of governance mechanisms to enhance efficiency.

Abdul Wahab (2011) argued that the role of government in public organisation is important to ensure efficiency can be met. Abdul Rahman (2003) also supported that the government need to possess good governance to instill good financial management practices and reform *zakat* practices. Based on Abdul Wahab (2011), one of the characteristics of good governance is accountability. This means that accountability is a key requirement of good governance. In which they need to introduce the practice of good governance is not just in the public sector but also in the private sector and must be accountable to the public and to their institutional stakeholders for their decisions and actions.

From those statements from Mahmud (2009) and Musa (2009), the researcher found that there exist problems in *zakat* inefficiency are disbursement, time and the governance of top management.

1.4 RESEARCH OBJECTIVES

The study both measures and analyses the efficiency of *zakat* disbursement of the *zakat* institution in Brunei Darussalam and identifies the governance factor(s) that influence efficiency. The main objectives of this study are:

1. To examine the level of *zakat* disbursement efficiency of *zakat* institution in Brunei from 2000 to 2012.
2. To analyse the trend of efficiency of *zakat* disbursement managed by the institution in Brunei from 2000 to 2012.
3. To identify the governance factors (board size, professionals on board and frequency of board meetings) that influence efficiency (disbursement, cost and time).

1.5 RESEARCH QUESTIONS

In order to achieve these objectives, the following questions guide the research:

1. What is the level of *zakat* disbursement efficiency of the *zakat* institution in Brunei from 2000 to 2012?
2. Has the *zakat* institution in Brunei become more efficient from 2000 to 2012?
3. How do governance factors (board size, professionals on board and frequency of board meetings) in the *zakat* distribution system influence *zakat* disbursement efficiency (disbursement, cost and time efficiency)?

1.6 SIGNIFICANCE OF THE STUDY

Investigating efficiency may help management to mitigate the problems in *zakat* management that may hinder achieving their objectives. Strategic planning can be developed after identifying the strengths and solving their weaknesses. Miller (1992) and Sirgy (2003) stated that performance measurements are important measurements for organisations to continuously improve.

The placement of governance helps to improve efficiency. It assists in the

realisation of an institution's goals and objectives. Thus, it is important to recognise that governance is the key variable in driving efficiency. Research on governance and efficiency is important in order to understand the extent to which they can improve *zakat* disbursement. Moreover, this research is significant as it could be useful in future discussions on the potential ways to improve *zakat* governance in Brunei Darussalam. The outcomes from the discussions will be useful to policymakers toward improving the institution's governance system and enhance efficiency.

1.7 ORGANIZATION OF THE THESIS

This study consists of seven chapters. This introductory chapter introduces the research background, explains its objectives and motivation, and outlines the structure of the research. Chapter Two is an overview of the *zakat* management system in Brunei with a focus on disbursement processes and practices, the organisational chart, computerized *zakat* system and empowerment *zakat* recipient program. Chapter Three presents a detailed literature review of the *zakat* management system with a focus on performance measurement, efficiency, accountability and governance. Chapter Four is devoted to a discussion on the relationship between efficiency and accountability, which constitute a research framework for the study. Chapter Five discusses the research and data collection methods adopted in this study. It also explains our choice of research sample selection, study period, and the statistical techniques applied in our analysis. Chapter Six analyses *zakat* disbursement efficiency (ZDE), and governance factors influencing the efficiency of *zakat* disbursement. This chapter also discusses the findings and relates them to the accountability framework. The research concludes with Chapter Seven, which summarises the research findings in reference to the three research objectives. This identifies the limitations, comments on its potential contribution of the study, whilst also offering suggestions for future research.

CHAPTER TWO

EVOLUTION OF ZAKAT ADMINISTRATION TOWARDS EFFICIENCY AND GREATER GOVERNANCE

2.1 INTRODUCTION

This chapter reviews the literature related to the management of *zakat* institution in Brunei. This chapter is organised as follows: Section 2.1 describes the *zakat* system in Brunei Darussalam. Section 2.2 illustrates the organisational structure of Brunei's Islamic Religious Council. This is followed with section 2.3 which explains the six categories of *zakat* recipients in Brunei Darussalam based on the Fatwa issued by Mufti Kerajaan Brunei dated 1st September 1970. Section 2.4 explains the computerised system of *zakat* practiced in Brunei Darussalam. Section 2.5 illustrates the empowerment *zakat* program is introduced by Unit of *Zakat* Collection and Disbursement to provide training for the poor and needy. Lastly, section 2.6 concludes and summaries this chapter.

2.2 BACKGROUND OF THE ZAKAT INSTITUTION IN BRUNEI DARUSSALAM

According to the Brunei Islamic Religious Council and Kadi Act Section 77, Chapter 114 to 121, *Zakat* institution in Brunei is given the authority by the state to collect and disburse *zakat* to the eligible *zakat* recipients in accordance with shariah principles.

According to Tamit (1990), the management of the *zakat* institution in Brunei Darussalam was enforced on 1st of January 1969. With the enforcement, UKAZ has the rights to collect and distribute *zakat* funds throughout the country.

Before 1st November 1999, the name of Baitul Mal was changed to Unit of *Zakat* Collection and Distribution (Brunei Islamic Religious Council, 2010).

Previously, Baitul Mal was only responsible with collecting and distributing *zakat*. However, after changing their name to Unit of *Zakat* Collection and Distribution the scope of tasks expanded to collection and distribution of *zakat* funds in addition to the responsibility to register *muallafs* and shoulder the activities of Baitul Mal and Waqaf (Brunei Islamic Religious Council, 2010).

There are two types of *zakat* collected in Brunei Darussalam. Those are *zakat* fitrah and *zakat* on wealth. *Zakat* Fitrah is known as *zakat* on the person. It is firstly practiced in the second year of the Islamic Calendar (Hijrah). It is basically paid according to the market value of 2.268 kilograms of rice.

Zakat on wealth is *zakat* that is subjected to a person's income (salary), business, savings, stocks, gold and silver (includes currencies and bank notes), and agriculture and poultry (MUIB, 2010). *Zakat* on paddy was introduced in 2008 (Abdullah, 2010). However, obligation to pay depends on meeting all the basic requirements such as the *nisab* (measurement) and *haul* (complete one periodic year) before their wealth is subjected to *zakat*. It is collected in two ways. Either the contributor of *zakat* approaches and directly pays to the *zakat* institution i.e. the *zakat* collection and distribution unit, or they could pay through the appointed *amil*.

All the activities of collection, distribution, assessment of *zakat* recipients, and monitoring are performed by the officers of the Brunei Islamic Religious Council, a government agency under the Ministry of Islamic Religious Affairs. In general, there are several functions of the *amil* in Brunei: (1) to collect and distribute the *zakat* funds according to their respective areas, (2) to list the names of those eligible to receive *zakat* money, and (3) to provide briefings and lectures about *zakat* practices.

Principally, the selected *amil*s are those people from mosque officers, government officers in Ministry of Islamic Affairs, heads of the village and religious

teachers. Apart from paying *zakat* to selected amils, *zakat* payers can pay *zakat* through Islamic Institution in Brunei such Brunei Islamic Trusted Fund (TAIB) and Brunei Darussalam Islamic Bank (BIBD) (Abdullah, 2010).

2.2.1 Organisation Structure of the Unit of Collection and Disbursement.

Based on Figure 2.1, the *zakat* institution in Brunei is under the authority of the state i.e. Brunei Islamic Religious. It is managed and administered by unit of collection and disbursement. It has four districts offices responsible for collecting and disbursing *zakat*. Every office consists of four main sections: Administration, Collection of *Zakat*, Application and Disbursement of *Zakat*, and Research and Data collection, as illustrated in Figure 2.1.

2.2.1.1 Administrative Section

According to Figure 2.1, the administrative section is responsible in daily routine work such as receiving *zakat* applications, issuing follow up letters to the applicants, and distributing the *zakat* application form. This section is also responsible for filing personnel information. They are also in charge of handling evaluation form to every staff in the department. Apart from that, the administrative section is responsible in supplying stationary and equipment for employees, and checking and maintaining the building of the *zakat* organisation.

2.2.1.2 Collection of Zakat

According to Figure 2.1, the collection of *zakat* section is in charge of receiving *zakat* fitr and *zakat* on wealth, which will be recorded in the registration book. The *zakat* funds received will be banked daily and reported to the treasury. They will keep