

Research Idea

Determinants of Zakat Institutions Governance

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Introduction

Issue of lost of public confident towards zakat institutions is accelerating. This issue attracts a lot of attention especially from muslim society. Every year complaints against zakat institutions were reported in media especially pertaining to zakat distribution. Although the collection of zakat increases from year to year, this issue still cannot be released from becoming public anxiety. The latest incident involving a single mother who was offered a cheque by a priest after her application for zakat fund being rejected, make this issue become more sensational (Harian Metro, March 4, 2010). Besides, dominance researchers in zakat field also highlighted this issue in their research (Hairunnizam, Sanep & Radiah, 2008; Sanep, Hairunnizam & Adnan, 2006). This shows that the issue of lost of public confident is serious and still remains unsolved despite several efforts undertaken by zakat institutions.

Two main reasons were indentified for this issue to arise. First, the management of zakat institutions is said to be inefficient. This was due to complaints from the public especially the potential receiver of zakat regarding zakat distribution (Hairunnizam et. al, 2008; Harian Metro, March 12, 2010). Second, the image and reputation of zakat institutions have been tarnished due to bribery and deviation committed by zakat officer (Bernama, April 10, 2008).

One of the impacts arising from this issue is the increment of zakat payment via alternative channel. According to Sanep et. al, (2006), 10.5% of respondents in their studies interested to pay zakat directly to zakat receiver (asnaf). This percentage might increase if public confident towards zakat institutions diminishes.

As a muslim, it is compulsory to perform zakat obligation if we are capable to do so because zakat obligation is one of the pillars in Islam. Therefore, if the public do not trust zakat institutions, they will find another alternative to perform this obligation. The only alternative available to them is to pay zakat directly to asnaf. However, this is dangerous as bias might occur in identifying the asnaf. Even worse for state like Kedah, zakat payment via alternative channel is not valid as it is against the fatwa.

Another impact that could be predicted from this issue is that zakat institutions will no longer be respected. Thus, this will spoil the effort made by zakat institutions to portray good and respected image. The trailing effect from that would be the inability of zakat institutions to maximize their zakat collection. For example zakat collection for Kedah in 2008 is RM53,202,300.24 (Annual report of PPZ-MAIWP, 2008). The collection would be higher than that if image and reputation of zakat institutions are at supremacy level. So the issue needs to be addressed carefully and fast as it involves goodwill of zakat institutions. The failure in managing zakat institutions would indirectly give negative impact on Islam as well.

Background of the study

Zakat is the third pillar of Islam after shahadah and prayer. It was made compulsory to Muslim in the month of Syawal, second year of Hijrah (Ahmad Syafi'i, 2005). The command for compulsory zakat payment was stated in Al-Quran, such as in verse An-Nuur, no. 56 and verse Al Baqarah, no. 43. (Tafsir Ibnu Kathier, 2007).

During caliph Abu Bakar As Sidiq, the enforcement of zakat was stricted until order was given to fight those Muslim who refuse to pay zakat. “I was ordered to fight people until they say there is no God but Allah and Muhammad is His messenger, to perform prayer and to pay zakat. When they do that, their blood is safe from me unless with the right of Islam”. Hadith narrated by Bukhari in Mohammad Nidzam (2006).

Role of zakat in developing muslim society is very big. Zakat is used as one of the mechanisms to help the needy muslim society. Some portion from wealth of rich muslim is taken and distributed to another muslim who entitle for it. Here zakat promote love between two muslim who share the same religion. Indirectly, jealousy towards rich muslim could be reduced.

There are 8 groups of people eligible to receive zakat namely the needy, poor, amil, muallaf, al-gharimim, al-riqab, ibnu sabil and musafir. This is aligning with verse At-Taubah, no. 60. (Tafsir Ibnu Kathier, 2007).

Zakat institutions are given the responsibility to manage zakat fund and to ensure justice is done in distributing zakat to zakat receiver. Figure 1 show the overall picture of zakat institutions governance.

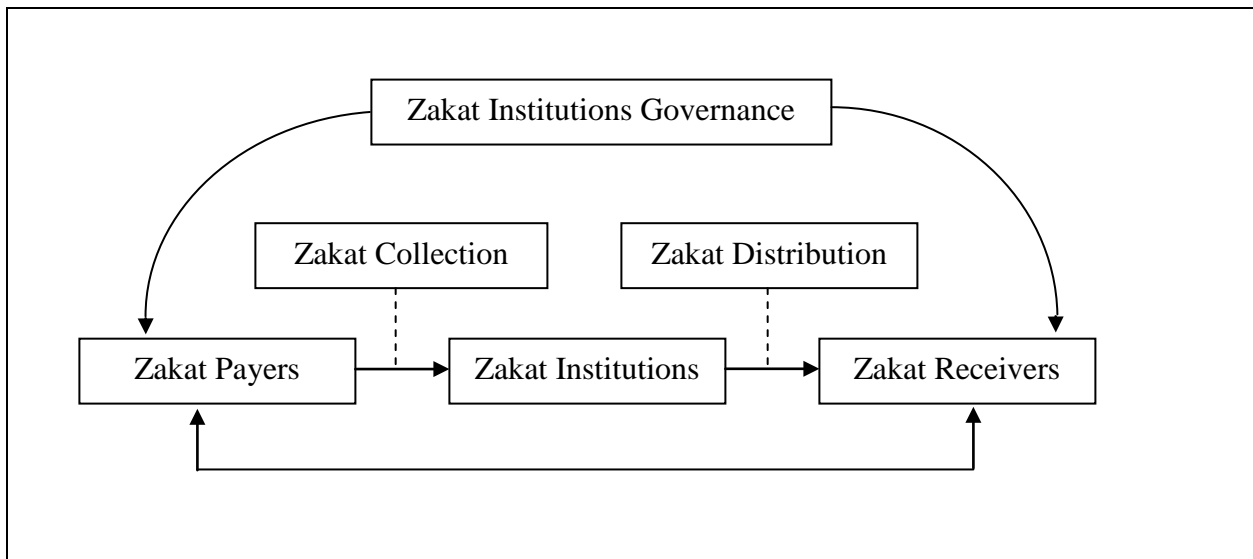


Figure 1. Zakat Institutions Governance.

In general, the relationship between those parties involves in zakat can be summarized as follows: zakat payer will pay zakat to zakat institutions, who then will distribute zakat fund to zakat receiver. However, there are incident where zakat payer will pay zakat directly to zakat receiver. This incident is normally known as zakat leakages.

The first phase is the relationship between zakat payer and zakat institutions, particularly involving zakat collection whereas the second phase is the relationship between zakat institutions and zakat receiver, where it involves zakat distribution. Both phases are the vital component of zakat institutions governance. Failure in any phases will definitely affect zakat institutions governance.

Focus on zakat collection (first phase) has attracted a lot of attention from researchers in zakat (Sanep, Hairunnizam & Adnan, 2006; Kamil & Ahmad Madzhan, 2001; Kamil & Ahmad Madzhan, 2002; Zainol, 2008). Similar observation was noticed for zakat distribution (second phase), where researcher like Hairunnizam, Sanep and Radiah, 2008; Mujaini, 2009; Muhammad Yamin, 2007; Patmawati, 2008; Nurfadilah, Hasan and Nurhidayah, 2008 gave big contribution to zakat institutions by giving valuable recommendation on how zakat institutions can improve their zakat distribution.

However there are some aspects relating to zakat institutions governance that still receive less attention from the researcher. Therefore this study will focus on the governance of zakat institutions to narrow down the existing gap.

Problem Statement

At present, there is no clear guideline about zakat institutions governance in Malaysia. So it is desire to see in future, clearer guideline about zakat institutions governance being put forward.

No clear guideline about zakat institutions governance may due to the following reasons: first, different governance being practiced from state to state. This is due to different Islamic leader who control the state. For example, King is the Islamic leader for Perlis. ‘Yang Dipertuan Besar’ is the Islamic leader for Negeri Sembilan. Sultan is the Islamic leader for Kedah, Perak, Selangor, Kelantan, Terengganu, Pahang and Johor. Whereas Royal Highness is the Islamic leader for state without King or Yang Dipertuan Besar or Sultan, like Pulau Pinang, Melaka Wilayah Persekutuan Kuala Lumpur, Sabah and Sarawak (Mustafa in Kamil, 2002). Second, inconsistency in decision making by zakat institutions. For example allocation rate of zakat fund for Kedah in 2009 is different from 2008 because it is often based on discretion of individuals who hold the authority.

Zakat institutions face big challenges as the result from lost of public confident. Something needs to be done to clean their tarnished image and reputation. The study about zakat institutions governance could provide inputs in making zakat institutions more competitive and organized as the inputs will help zakat institutions in measuring their performance and would indicate which aspect should be given more attention. Insyallah, zakat institutions governance will put the governance of zakat institutions at supremacy level and undisputable.

Good governance is essential as it would assist zakat institutions to restore public confident. Good governance will promote good performance and help to serve public better. Therefore, zakat institutions need to apply good governance to address the issue of lost of public confident. So the identification of determinants for zakat institution governance is very crucial to address this issue.

Until now, studies on zakat institutions governance have not been carried out exhaustively. For example study by Shawal and Hassan (2007) only look briefly at the practice of corporate governance by several zakat institutions in Malaysia. Whereas another study, look on performance indicators model for zakat institution (Abd. Halim, Rozman & Ahmad, 2007; Abd Halim, Shawal, Ahmad & Kamil, 2008). However, their study is not in-depth and the researchers also propose for more in-depth study to be carried out. Therefore this study is the first attempt to

identify the constitution of zakat institutions governance and also the first to come up with more detail determinants of zakat institutions governance that will be empirically proven.

Research Questions

This study will address the issue of lost of public confident by providing answers to the following questions:

1. What should constitute zakat institutions governance?
2. What are the determinants of zakat institutions governance?

Research Objectives

This study aims to understand the determinants of zakat institutions governance. In specific, this study intends to achieve the following objectives:

1. To identify the constitution of zakat institutions governance.
2. To identify the determinants of zakat institutions governance.

Significance of the Study

This study is vital as it respond to the call in encouraging the Muslim to discover the knowledge as stated by Prophet Muhamad S.A.W., 'seek knowledge from the cradle until death'. Furthermore the knowledge is related to one of the pillars of Islam which can enhance the faith to Allah S.W.T.

Beside, this study could contribute to the body of knowledge by enriching literature in zakat. Through my observation, the number of literature in zakat is very small compared to taxation, a field that is very close to zakat. Therefore, effort to enrich literature in zakat should be seen also as valuable contribution to Islam.

Apart from that, this study makes an attempt to develop a governance index for zakat institution. To my best knowledge, no such attempt has been made before. Study by Abd. Halim et al. (2007) on performance measurement of zakat institution in Malaysia, focus on zakat distribution to evaluate its effectiveness. However, their study is not in-depth and this leads to more in-depth study as being proposed by them. Another study by Shawal and Hasan (2007) look at the practice of corporate governance by zakat institution. The environment for company and zakat institution is totally difference because the earlier is tightly regulated whereas the later, is more loosely regulated. So some of the variables used in corporate governance may not fit well in the zakat institution. The variable must be tested in the zakat environment to determine its fitness.

Another significance of the study is that this study will reveal the determinants of zakat institutions governance. The revelation of the determinants will enable zakat institutions to focus on aspect that is crucial in zakat institutions governance. This will assist zakat institutions in enhancing their services to the customer, which is not only to zakat receiver, but also to other parties related to zakat. Indirectly, public confident towards zakat institutions could be refurbished once again.

In relation to that, existing guideline used by zakat institutions might be updated with new information obtained from this study. This is because some of the guideline used might not be relevance anymore due to changes of time. Therefore the output of this study will benefit zakat

institutions via better development of planning after realizing aspect that needs to be focus in zakat institutions governance.

This study also responds to a call by zakat institutions who welcome any assistance from academician and outsider to provide information and advice on how they could improve their governance and performance. With limited resources for research and development, the assistance from external parties would be very much appreciated by them.

Scope of the study

The scope of this study is stakeholders of zakat institutions which comprise of state government, zakat payers, zakat receivers, parents and society. All 14 states in Malaysia (Perlis, Kedah, Pulau Pinang, Perak, Selangor, Negeri Sembilan, Melaka, Kelantan, Terengganu, Pahang, Wilayah Persekutuan Kuala Lumpur, Johor, Sabah and Sarawak) will become the scope of the study. Unit of analysis will be the zakat payers who pay zakat to zakat institutions.

Assumptions of the study

This study is subject to the following assumptions:

1. Population is assumed to be represented by enough samples.
2. All respondents are assumed to know about the function of zakat institutions.
3. The function of zakat institutions is the same across the board (state).
4. Respondents are assumed to be independent and without the influence from any party when answering the questions.
5. All respondents are assumed understand the questions.

Limitations of the study

This study is subject to the following limitations:

1. The findings of this study only reflect Malaysian environment. Therefore it might not suitable to be generalized to other countries.
2. Zakat payers for this study are limited to those who pay zakat to zakat institutions only. Zakat payers who pay zakat directly to zakat receiver will be excluded from this study.

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