Efficiency and effectiveness of *waqf* institutions in Malaysia: Toward financial sustainability

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Abstract - Financial health is crucial to the continuous existence and operation of any organisation. It is even more essential in the case of waqf. Accordingly, determining the financial strength and vulnerability of waqf institutions is particularly significant and congruent to waqf's perpetual existence. Using content and ratio analysis, the 2008 annual reports of state waqf institutions were examined to determine their transparency and performance accountability. Four essential financial health ratios were computed: the equity balance ratio, the revenue concentration index, the administrative costs ratio and the operating margin ratio. The findings indicate that the institutions were, on average, satisfactorily efficient and effective in administering and managing waqf properties. Although it is the first humble attempt, this study provides an insight into the efficiency and effectiveness of the Malaysian institutional mutawallis in carrying out their tasks, a guide for policy makers on the formulation of policies for the revitalisation of waqf, and it contributes to the financial sustainability literature as a reference for researchers and students.

Keywords: waqf institutions, efficiency, effectiveness, financial health model, Malaysia

1. Introduction

Waqf, a perpetual voluntary charitable act (Sadeq 2002), is one amongst the various mechanisms in the Islamic economic system set aimed at promoting equitable and just distribution of wealth. This form of charity assures the donor 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 particularly pertinent, so much so that waqf has been labelled the most visible evidence of charity in Islam (Singer 2008). More importantly, waqf assets were instrumental in providing social and economic safety valves through their role in promoting 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 (Singer 2008).

Despite its overwhelming role in supporting social, cultural, economic and religious functions (Mohd Akhyar, Maliah and Nor Suad 2007; Abul and Abdus Shahid 2010), previous studies reveal that the history of waqf has been tempestuous (Cizaka 1998; Bremer 2004; Osman 2010). Vast waqf institutions and properties were – and still are – at the mercy of mis-management, corruption, abuse, misuse, and total neglect (Arrif 1991; Hoexter 1998; Bremer 2004; Abul and Abdus Shahid 2010). Given this, it is interesting to examine whether or not the same holds true for waqf institutions in Malaysia. More specifically, our study attempts to investigate performance by determining the efficiency and effectiveness of such institutions. The study contributes to the existing literature in several important respects. First, the efficiency and effectiveness performance framework developed here, as the first of its kind, may help determine the financial health of other waqf institutions, this being crucial to the continuous existence and operation of these organisations. More importantly, given that a waqf's perpetual existence lies in its financial strength, determining its performance is vital. Second, prior work examining the performance of religious organisations has rarely focused on the institution of waqf.

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Third, the growing scholarly interest in the management (or mis-management) of waqf is an issue that should be addressed through empirical work. Finally, the results of our study may provide a platform for future studies on waqf.

2. Literature review

Financial health is crucial to the continued existence and operation of any organisation. It is even more essential in the case of waqf because productive endowed assets are left idle due to insufficient revenue to sustain operational costs (Chowdhury, Ghazali and Ibrahim 2011). Prior studies on waqf focusing on the management aspects of such organisations concentrated on contemporary managerial, administrative and governance issues, highlighting poor structure, mis-management, corruption, abuse, neglect and other administrative lapses warranting recommendations for revival of waqf (Zainuddin 1998; Abdul Rahim, Mohammad and Ismail 1999; Siti Mashitoh 2006a). Specific to accounting, previous research on waqf examined record-keeping and documentation, the need for the development of waqf accounting standards, and accountability and transparency issues, as well as the performance of these institutions. The focus here is on accounting and accountability.

Abdul Rahim, Mohammad and Ismail (1999) explored the accounting and administrative practices in State Islamic Religious Councils (SIRCs). Among other things, their study found evidence of poor documentation and record keeping, absence of a sound accounting system, and seemingly chronic accountability lapses. As a result, the authors called for improvement in the management of waqf and the establishment of proper accounting procedures. For the betterment of waqf management, Marsoof (2004) also urged advancement in accounting standards and procedures; this recommendation was made following his discovery of poor management of waqf assets during research on waqf administration in Sri Lanka. Extending the preliminary study of Abdul Rahim, Mohammad and Ismail (1999), Rokyah (2005) investigated the status of financial reports and the relationship between financial procedures and waqf accounting. Through this study she determined the extent of waqf disclosure in SIRCs. In her findings, Rokyah noted the existence of overdue and out-of-date financial reports in most of the SIRCs and very few of them were found to have a satisfactory level of disclosure. In affirmation of the recommendation of Abdul Abdul Rahim, Mohammad and Ismail (1999), Rokyah advocated the need for proper reporting standards and guidelines.

Hisham (2006) conducted a case study of the Federal Territory SIRC to examine its waqf accounting practices in greater depth. The results of this exploratory and descriptive study revealed some degree of improvement in keeping records in this particular SIRC. Nonetheless, he lamented the lack of dedicated financial statements for waqf. Accounting for waqf was embedded in the accounts of the SIRC. To compound it all, Hisham's findings also reveal that there was no segregation of the various types of waqaf. Hisham suggested that waqf accounting practices should be based on the Statement of Recommended Practices (SORP 2005) for charities in the UK. Concerned with the same accounting and managerial issues of waqf, a replica of this study was undertaken a year later by Ihsan (2007), in order to scrutinise the accounting practices of two Indonesian waqf institutions. A lack of uniform accounting practices between these two institutions was discovered. As a consequence of this, there were accountability and transparency lapses in the management and accounting of waqf. This led Ihsan and Adnan (2009) to propose the kind of information that should be provided by the mutawallis to various stakeholders.

In response to the earlier calls for the proper accounting of waqf, Adnan (2005) took on the challenge to develop waqf accounting standards. He suggested two alternative accounting and reporting frameworks for waqf accounting on the basis that waqf can operate as a social organisation (non-profit) as well as a commercial organisation. Adnan asserts that it is appropriate to apply accounting for non-profit organisations to the former, whereas accounting for commercial organisations is more applicable to the latter. Similarly focusing on accounting standards, Ihsan, Ayedh and Ibrahim (2006) undertook a comparative study between waqf and charities in the UK. Their findings suggested that some aspects of Charity Commission proposals – such as internal financial controls, transparency and reporting, management of funds, and code of good governance – should be adopted for waqf institutions. Similarly, Mohd Akhyar, Maliah and Nor Suad (2007) discussed the development of a conceptual framework and accounting standards for waqf institutions based on a review of some related accounting standards for charity organisations, integrated with Islamic values. Given the uniqueness of waqf institutions, these authors proposed some particular accounting concepts (definition, recognition, measurement, presentation, and disclosure) that align with AAOIFI's statements of Financial Accounting, SORP 2005.

Most recently, Yaacob and Nahar (2011) undertook a study to empirically investigate the accounting, reporting and management practices of a Malaysian cash waqf management institution over a six year period, from 2000 to 2005. Using archival documentation review and analysis, they found that the particular waqf institution had discharged its accountability satisfactorily. Also, on the basis of the cash waqf's return on investment having increased by more than 100% from 2003 onwards, the researchers concluded that this is an indication of good management; they did, however, contend that there remained room for improvement.

Pirasteh (2011) investigated the economic and operational efficiency of governmentally- and privately-administered waqf in Iran. These features were measured on the basis of two ratios:

1. The ratio of disbursement to proceeds (termed "the objective achieved index").
2. The ratio of the balance remaining for a year to total earnings, (termed "the expected income achieved index").

The former ratio measures achievement in terms of the extent to which the institution is fulfilling its objectives, while the latter measures the degree to which the institution is able to maximise generation and collection of waqf income, while minimising uncollectable earnings.

The findings revealed that privately-managed waqf performed better than governmentally-managed waqf. However, both failed to meet donors' specified objectives. Sulaiman, Adnan and Nor Suad (2009) documented the development of the International Islamic University Malaysia's waqf Fund (IIUMWF) from its inception in 1999 until 2008, as well as its accounting practices. Issues concerning disclosure and performance of the IIUMWF were also examined. Specifically, the authors measured the efficiency of IIUMWF for the years 2003, 2004 and 2005 by focusing on three ratios:

1. Programme expenses to total expenses.
2. Investment income to average investment.
3. Total fundraising expenses to total funds raised.

Evidently, there has been a great deal of research interest taken in waqf. However, there has been no single empirical study examining the efficiency and effectiveness of waqf institutions in Malaysia. The study by Sulaiman, Adnan and Nor Suad (2009) focused only on one private waqf institution. More importantly, the study examined just the efficiency of waqf. Accordingly, this present study builds on the former in looking at both the efficiency and effectiveness of waqf institutions. Ultimately, efficiency and effectiveness are interrelated. There can be no efficiency without effectiveness since it is imperative for the organisation to excel in doing the right thing instead of doing well in the wrong direction (Mihaiu, Opreana and Critescu 2010). More importantly, according to Ireland (1999) and Abraham (2003), efficiency and effectiveness are concerned primarily with how the organisation can sustain its operations in delivering its mission. It therefore follows that financial efficiency and effectiveness depend upon an organisation's financial condition and vulnerabilities (Keating et al. 2005). Given that the foundation of efficiency and effectiveness lies in the financial sustainability or vulnerability of an organisation, we have used Tuckman and Chang's (1991) framework to determine the financial sustainability of waqf institutions in Malaysia. Additionally, while Sulaiman, Adnan and Nor Suad (2009) focused on a particular private waqf, our study will examine the performance of SIRC waqf institutions in Malaysia. Most importantly, measuring the performance of waqf institutions may be regarded in some ways as examining the extent to which these institutions discharge their accountability.

3. Accountability of Waqf institutions

Simply put, accountability is the provision of an account of the actions for which individuals or organisations are held responsible under the basic assumption that required expectations and values have been determined and expressed through rules, procedures and standards (Rabrenovic 2009). Waqf institutions, as institutional trustees, are accountable for the management of waqf properties based on pre-established expectations as expressed through the waqf deed by the waqif (donor or funder). The position of the waqf deed makes it a very important foundation to begin with for holding the institutions accountable.

Other compelling reasons make accountability a necessary ingredient for the governance of waqf institution. First, apart from the stipulations in the waqf deed, the institutions operate without any formal checks and balances by the founder (in most cases, the founder will be deceased). This fiduciary relationship, coupled with the beneficiaries' trust on waqf trustees, warrant that accountability be discharged satisfactorily to ensure the continuity of the waqf arrangement (Laughlin 1996). Secondly, given the fact that waqf properties are for public benefit (Ihsan and Shahul 2011), the public and other stakeholders deserve to be kept informed as to how resources are being managed to yield greater benefit. Accordingly, accountability becomes the foundation for measuring, assessing and reporting trustees' performance (Cutt and Murray 2000). Finally, waqf is a religious voluntary act motivated by one's desire for recurrent reward hereafter. Despite this motivation, waqf institutions rely to a great extent on public confidence and trust for the continuous flow of support to sustain waqf activities. This necessitates waqf discharging its accountability adequately (Sinclair, Hooper and Ayoub 2010), subsequently boosting the trust and confidence of donors and the public.

Researchers, donors, the public and other stakeholders are increasingly demanding in terms of being kept informed of what is actually happening to resources committed to charitable organisations, including waqf institutions (Iwaarden et al. 2008). For instance, funders and donors demand that charitable organisations be held accountable for integrity, efficiency and impact of the funded programmes, while beneficiaries put pressure on the organisations to live up to expectations about the championing of socially-determined development programmes, rather than imposing their own priorities (Basri and Abdul Khalid 2011). These demands present a challenge to the trustees to adopt and implement best practices in waqf. The trustees must therefore respond to this call by creating a reliable structure of accountability mechanisms that would enable waqf stakeholders to evaluate whether the entrusted tasks are being carried out in accordance with the pre-established waqf deed (Rabrenovic 2009). Osman (2010) argues that for waqf, holistic accountability is most pertinent. This form of accountability balances between upward (donors, funders, regulators, etc.) and downward (beneficiaries, community, etc.) accountability. It leads to the engagement and participation of beneficiaries and other constituents in running the waqf (Osman 2010). The bottom line is that waqf accountability should not be discriminatory; it should encompass all related stakeholders (Adnan, Maliah and Nor Suad 2007; Ihsan and Adnan 2009). More importantly, holistic accountability encompasses the concept of self-accountability. This self-accountability is the result of the manifestation of primary accountability to Allah. As humans we are primarily accountable to Allah for all entrusted resources and secondarily accountable to fellow humans by virtue of our contractual relationships (Sulaiman, Adnan and Nor Suad 2009).

Stewart (1984) classified areas of accountability into probity and legality, process, performance, programme and policy. The focus of this study is on performance accountability of the commercial activities of waqf institutions. As indicated elsewhere, waqf institutions are accountable for their financial performance as to the resources entrusted to them by donors (Ihsan and Adnan

2009). Thus, performance is the result of instantaneous pursuit of effectiveness, efficiency and the economic use of entrusted resources (Mihaiu, Opreana and Critescu 2010) for the maximisation of sustainable output to intended beneficiaries (objectives). Accordingly, the demonstration of accountability could be achieved through effectiveness and efficiency dimensions (see, for example, Better Business Bureau [BBB] 2001; Sulaiman, Adnan and Nor Suad 2009; Wahab and Abdul Rahman 2011). This is supported by Connolly and Hyndman (2003) who proposed that the performance of non-profit organisations should be judged in terms of efficiency and effectiveness.

While efficiency is the conversion of inputs into outputs, effectiveness is the relationship between output and objectives. Inputs are the organisation's resources that are used for the attainment of a desired output. Outputs are the result of transformed inputs. The objectives are the goals of the organisation necessary for the realisation of its mission. Efficiency takes into consideration the attainment of results in relation to the resources used (Mihaiu, Opreana and Critescu 2010). An organisation is said to be efficient if it obtains maximum output with a given level of resource. It could also be the use of minimum resources at a certain level of output. From both perspectives, the efficiency of a waqf institution is viewed as how well it employs endowment assets in the course of its day-to-day activities to generate more revenue to satisfy intended beneficiaries. On the other hand, the degree to which an organisation realises its goals determines its effectiveness (Lane 1995). Effectiveness ensures that measureable objectives are in place with a clear process to evaluate the success of implemented program(s) in fulfilling the goals of an organisation, and also identifies ways to address deficiencies. There are two paramount types of effectiveness: administrative and programme effectiveness (Poister 2003). Whereas administrative or managerial effectiveness is concerned with doing the right thing towards achieving predefined objectives, programme effectiveness deals with the degree to which spending on programmes are congruent with organisational goals. All in all, effectiveness is all about doing the right things while efficiency is doing things right.

In the context of waqf, donated waqf assets come with specific objectives specified by the donor. The achievement of such objectives due to programmes undertaken or as a result of its administrative activities is the effectiveness of the institutions. Both efficiency and effectiveness are very important to waqf management. They ensure that the trustees (mutawallis) are indeed judiciously using resources efficiently in discharging their responsibilities according to the waqf deed (doing the right thing).

4. Overview of Waqf management in Malaysia

In Malaysia, waqf is under the auspices of State Rulers (Sultan). The SIRCs assume managerial and trusteeship mandates through delegated authority from their respective Rulers. This is further legitimised through various enactments. To date, almost all the 14 States have enactments/ordinances dictating that the SIRCs are the sole trustee of waqf assets. To discharge their responsibility, each SIRC has established a dedicated waqf unit/division or an independent agency to carry out waqf-related activities within its jurisdiction. These institutions are hereafter referred to as SIRC Waqf Institutions (SWIs).

In addition, the waqf arm of the Department of Awqaf, Zakat and Haj (JAWHAR) provides financial and non-financial assistance (guidelines, funding and training) to the SWIs. The department was commissioned in October 2004 as one of the departments under the Prime Minister's Department. Its objectives are to enhance the quality of service delivery, reinforce waqf, zakat and haj for socio-economic development, and to ensure good governance as well as the effective planning, coordination and implementation of government policies and development programs for Awqaf, Zakat and Haj (Sohaimi and Syarqawi 2008). Because of its limitations as a government body to directly carry out waqf commercial activities, JAWHAR established the National Endowment Foundation (Yayasan Waqf Malaysia (YWM)) to focus exclusively on this commercial aspect of waqf (Sohaimi and Syarqawi 2008). Today, YWM functions not only as the main national endowment foundation but also the coordinator of the activities of the SWIs. However, it must be noted that JAWHAR and its YWM have no enforcement power over the SWIs. The relationship between the SIRCs and JAWHAR with regards to waqf management and control is represented in Figure 1.

As seen in Figure 1, the State Ruler's delegated authority is exercised by the SIRC to manage and administer waqf properties. This led to the establishment by SIRCs of waqf units within their administrative structures. On the other hand, the right hand side of the diagram depicts the role played by JAWHAR through YWM. JAWHAR's role is based on the government's economic development commitment expressed in the Malaysia Plan (MP). The plan details Malaysia's economic development plan over a five year period. The role and establishment of YWM were conceived in the Ninth Malaysian Plan (9th MP) as stated in paragraph 16.62 (p 348):

> "Wakaf, baitulmal and zakat resources will be appropriately mobilized towards enhancing the development of Bumiputera and other Muslims.

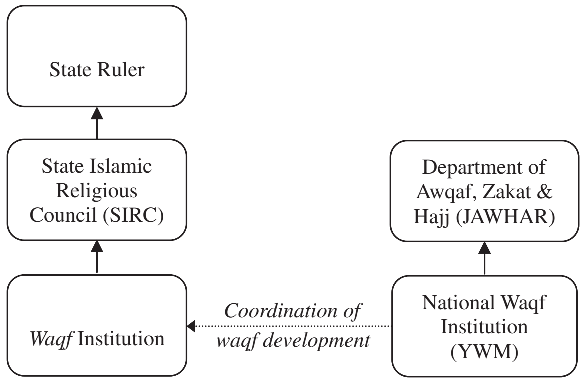

Figure 1. Waqf management structure.

> During the planning period, emphasis will be given to develop wakaf land within the commercial urban areas in the Johor Bahru, Klang Valley and Pulau Pinang. The development programme will involve integrated redevelopment of housing settlements with infrastructure and economic facilities, including business and industrial premises on wakaf land. The Jabatan Wakaf, Zakat and Haji [JAWHAR] will coordinate the establishment of a new entity [YWM] with the participation of State Religious Islamic Councils to implement programmes to develop wakaf and baitulmal land into viable economic investments and thus, contribute to the development of the BCIC [Bumiputera Commercial and Industrial Community]."

Through the development of waqf assets, the Bumiputera development agenda is one way of increasing the participation and ownership of bumis (plural Bumiputera) in the corporate sector. This is undertaken to minimise wealth disparity between the bumis and non-bumis. This is clearly indicated in the 9th MP as follows:

> "Wakaf land and properties under the state religious Islamic authorities will be developed to tap their productive potential as well as to spawn new entrepreneurs." [paragraph 1.44, p 36].

Development of commercial assets, such as hotel and business premises, on wakaf land will be expanded to increase Bumiputera ownership of non-financial assets. A strategic plan will be drawn up to ensure that the income generated from the development of wakaf land will enable state religious authorities to be more self-reliant in developing new wakaf land [pp 64–65].

It is obvious from the extracts above that the motive of supporting the SIRCs is to allow government to tap the vast asset potential of waqf in the country for its poverty alleviation programme. The government, however, reiterated its commitment to devising a strategy for the SIRCs to be self-dependent in developing new waqf land. Sohaimi and Syarqawi (2008) pointed out that waqfs land is leased to the government by the SIRCs for development activities. For these development activities, the government allocated RM250 million in its 9th MP (2006–2010). To continue the execution of ten development projects under the 9th MP, through JAWHAR, the government allocated RM72.76 million in its first rolling plan under the 10th MP (2011–2015) for the period 2011/2012. Until 31 December 2011, a total of seven projects were completed, whilst three projects were expected to be completed in 2012 based on its second rolling plan, with a total allocation of RM36.87 million. In its 2010 budget statement, the government allocated RM20 million for the development of awqaf lands within the premises of state mosques.

In summary, the management of waqf is carried out by the SIRCs, which have been empowered by their respective state enactments to be the sole trustees and custodians of all waqf properties. Due to the lack of financial and managerial expertise of SWIs, the government has taken the initiative to develop the large vast of waqf land to drive economic growth and development through poverty alleviation.

5. Data collection and findings

To enable the assessment of accountability of the trustees, clear and transparent reporting is required (Ihsan and Shahul 2011). It is only through good reporting of accounting information that the efficiency and effectiveness performance accountability elements can be evaluated by the user. In effect, evaluating the extent of financial performance accountability depends largely on the disclosure of financial information. Ideally, this information should be disclosed in the annual reports of the waqf institutions. However, as will be explained, the annual reports of the SIRCs contain minimal information of use in assessing the performance of such institutions. Nonetheless, we have proceeded with the little information we received.

Using information from the audited financial reports of the SWIs and adopting Tuckman and Chang's (1991) model on non-profit financial sustainability, we determined the financial vulnerability of SWIs in Malaysia. As stated, the efficiency and effectiveness of an organisation depends on the financial condition and vulnerabilities of the institution (Keating et al. 2005). Thus, the assumption made here is that the financial sustainability of an organisation does reflect on the efficiency and effectiveness of that organisation.

The audited financial report is regarded as an important source of financial data since it is the paramount document used to disseminate information about the financial standing and other issues relating to the organisation (Froelich, Knoepfle and Pollak 2000). Furthermore, the fact that it has been audited means that the report has been verified beyond the numbers provided by the organisation, and the auditor has examined additional documentation before arriving at conclusions (Froelich et al. 2000). Thus, the annual reports of the waqf institutions used in this study were considered reliable and credible sources of data. Additionally, interviews were conducted with selected individuals in order to gain a richer understanding about the commercial operations of the institutions, and to seek further clarification about the disclosure items for validation purposes (McNamara 1999).

The sample

The initial intention was to examine all 14 SWIs. However, this proved not to be possible. The annual report of the SWIs of Negri Sembilan and Sarawak could not be obtained. Although the most recent accounting period is 2011, we focused on annual reports of 2008 as we possessed the greatest number of annual reports for this year, and were able to obtain the audited reports for the 11 SWIs. In terms of disclosure of audited financial statements, only Pulau Penang and Terengganu have separate waqf income statements and balance sheets. The other States have only one or other of the statements separated, or else both are combined with other institutions, such as zakat and baitulmal. For example, the SWIs of Johor and Pahang have a separate waqf balance sheet, while Kelantan has a separate waqf income statement. In the case of combined statements, where possible we attempted to extract and reconstruct the waqf statements from the accompanying notes to the consolidated accounts. Taking all these

Table 1. Financial vulnerability and sustainability ratios.

Measure	Ratio
Equity balances	Ratio of equity to revenue
Revenue concentration	Square of the percentage share that each revenue source represents of the total revenue
Administrative costs	Ratio of administrative costs as a percentage of total costs
Operating margin	Net income (or loss) divided by total revenue

Source: Tuckman and Chang (1991)

difficulties into account, we ended up with seven SWIs, comprising those of Selangor, Johor, Kelantan, Melaka, Pahang, Pulau Pinang, and Terengganu. This smaller than intended sample size is clearly a limitation of our study.

Findings

The financial sustainability and vulnerability of the waqf institutions was investigated using the financial health model developed by Tuckman and Chang (1991), which involves the four ratios listed in Table 1.

According to the model, a SWI may be financially vulnerable when the results of all of its four ratios are low. The results of the above computed ratios are presented in Table 2.

Equity balances

Generally, an organisation is financially sustainable when the ratio of equity to revenue is high. The drawback here is that Tuckman and Chang (1991) did not suggest any standard benchmark for this ratio. Equity, as used in this study, included net assets or the accumulated waqf funds of the SWIs. The equities for the SWIs of Johor, Kelantan, Melaka and Penang were less than ten times their respective revenues, this indicating their vulnerability when compared to SWIs of Selangor (13.26), Terengganu (12.93) and Pahang (49.80). With its equity at more than 49 times its revenue, the SWI of Pahang appears to be the most financially sustainable. The gap between this SWI and the others is so wide that no other institution comes close to it. On another note, one of the basic pillars of waqf requires that the equity to remain intact. As such, its assets are restricted to a certain extent. Consequently, such assets cannot be used to cover deficits since this would lead to a reduction in waqf assets. It is only the accumulated surpluses that can be used as a temporary measure to sustain operations or to replace lost revenues. The income statements of the SWIs, with the exception of Pahang, indicate that surpluses were transferred to accumulated funds, or the waqf fund. As for SWI Pahang, surpluses were transferred to a "general assistance fund". Thus, one may deduce that surpluses were accumulated annually as buffers to cushion operational financial distress. Accordingly, the equity balance ratios may be regarded as falling within the sustainability region – an indication that these SWIs are financially sustainable (or at least not financially vulnerable).

Revenue concentration

The revenue concentration index is the square of the percentage share that each revenue source represents of the total revenue. An index close to zero for each source of revenue indicates that a waqf institution had equal revenues from diverse sources and this means that the organisation is significantly healthy. According to Tuckman and Chang (1991), a non-profit organisation is less vulnerable to revenue downturns if its revenue sources are diverse because an economic downturn may be more likely

Table 2. Results of financial vulnerability and sustainability ratios.

		SWIs						
Variables	***Code***	**Selangor**	**Johor**	**Kelantan**	**Melaka**	**Pahang**	**Penang**	**Terengganu**
Administrative expenses	A	376,296	NA	NA	433,369	NA	546,503	108,772
Total expenses	B	476,904	2,476,374	3,098	670,556	89,801	1,024,512	251,516
Total revenue	C	608,143	3,819,965	115,515	981,948	28,212	1,705,163	442,758
Surplus/(Deficit)	D	131,239	1,343,591	112,417	311,392	(61,589)	680,651	333,763
Equity (Funds)	E	8,060,959	16,995,938	764,543	5,297,017	1,405,003	5,958,941	5,725,949
Ratios								
Equity balance	E/C	13.26	4.45	6.62	5.39	49.80	3.49	12.93
Administrative costs	A/B	78.90%	NA	NA	64.63%	NA	53.34%	43.25%
Revenue concentration		0.35	NA	0.67	0.52	0.91	0.75	0.38
Operating margin	C/D	21.58%	35.17%	97.32%	31.71%	(218.31%)	39.92%	75.38%

NA = not available; all monetary values are expressed in Malaysian Ringgits.

Table 3. Revenue concentration index.

Sources	Selangor	Johor	Kelantan	Melaka	Pahang	Penang	Terengganu
Rental	0.09	NA		0.16	NA	NA	
Waqf land			0.01			0.73	0.31
Waqf house			0.01				
Waqf store			0.65				
Investment		NA	NA	NA	NA	NA	0.01
Shares						0.00	
Mudarabah	0.07				0.90		
Fixed deposits						0.02	
Current accounts	0.00	NA	NA	0.00	0.00	0.00	0.01
Fees		NA	NA	NA	NA	0.00	NA
Agriculture		NA	NA	NA	NA	0.00	NA
Sales		NA	NA	NA	NA	NA	0.00
Others	0.18	NA	NA	0.36	NA	0.00	0.05
Concentration	0.35	NA	0.67	0.52	0.91	0.75	0.38

NA = not available or not applicable.

to affect one revenue source and not all others. However, an index close to 1 for any revenue source indicates that an SWI is severely at risk, as this is an indication that it is dependent on one single source of revenue (see Table 3).

SWI Selangor appears to have an index close to zero for each of its revenue sources. Similarly, SWI Terengganu appears to be financially healthy as its sources of revenue are diverse, although it relies on rental from waqf land more than on other sources of revenue. Although SWI Penang had diverse sources, the distribution of these was uneven. Like SWI Terengganu, it is heavily dependent on rental from waqf land. Further, as the index for this particular source of income is rather high at 0.73, any economic downturn that affects rental properties will put SWI Penang in a vulnerable position financially. The same can be said for SWI Kelantan. With an index of 0.65 for the rental of waqf store, it would be in a precarious position financially if, for some reason, the store was not able to be leased. The least diversified institution was SWI Pahang which, significantly, derived its entire revenue from mudarabah investments. Its index of 0.91 is an indication that in 2008 it was highly vulnerable and severely at risk.

Overall, it can be observed that, although the SWIs had a diversity of revenue sources, the distribution of these was uneven. As indicated earlier, for a waqf institution to be financially sustainable, the index must have a balanced distribution of income from multiple sources. This would enable the institution to absorb financial shocks and so carry out their waqf activities (Yan, Denison and Butler 2009).

Administrative costs

The administrative cost ratio is the ratio of administrative costs as a percentage of total costs. This ratio determines the ability of an organisation to control expenditure and the probable impact of such control on service delivery. An SWI with high administrative costs is assumed to have a greater opportunity to reduce the administrative costs of its programmes without a reduction in the number of programmes undertaken. Accordingly, and in line with this argument, SWIs with low administrative cost ratios would be more vulnerable and can be categorised as SWIs that are “at-risk”. This is because a further reduction in administrative costs for such SWIs may affect the quality of services provided. Administrative costs here includes managerial and general costs, such as governance, management, record-keeping, office supplies and services, office repairs and maintenance, professional services and honorarium, office-related depreciation, doubtful debts, and other related administrative activities.

As can be seen from Table 4, SWI Selangor had the highest and SWI Terengganu the lowest ratio, which implies that the former had the highest capacity and diverse opportunities to contain expenditure without affecting its

Table 4. Administrative costs ratio.

Variables	Code	Selangor	Johor	Kelantan	Melaka	Pahang	Penang	Terengganu
Admin. costs	A	376,296	NA	NA	433,369	NA	546,503	108,772
Total expenses	B	476,904	2,476,374	3,098	670,556	89,801	1,024,512	251,516
Ratio	A/B	78.90%	NA	NA	64.63%	NA	53.34%	43.25%

NA = not available; all monetary values are expressed in Malaysian Ringgits.

Table 5. Operating margin ratio.

Variables	Code	Selangor	Johor	Kelantan	Melaka	Pahang	Penang	Terengganu
Surplus/(Deficit)	C	131,239	1,343,591	112,417	311,392	(61,589)	680,651	333,763
Total revenue	D	608,143	3,819,965	115,515	981,948	28,212	1,705,163	442,758
Ratio	C/D	21.58%	35.17%	97.32%	31.71%	(218.31%)	39.92%	75.38%

All monetary values are expressed in Malaysian Ringgits.

programme and service delivery, while the latter is in the "at-risk" category. The percentage for SWI Pahang was just a little above 50%, indicating that it still has a buffer against a reduction in service delivery. On the extreme end, the SWI of Terengganu had a ratio below 50%. This means that this SWI is left with very few opportunities to reduce expenditure since this may affect its services. However, in the case of SWI Terengganu, the lower administrative costs might be due to the institution's administrative costs being covered partly by its State treasury. However, it was not possible to discern such information from the relevant annual report. Further, given that Tuckman and Chang (1991) did not specify what constitutes a high or a low administrative cost, a possible benchmark that could be applied is that provided by Charity Facts. According to this, a ratio of less than 10% may mean that investment in the administrative structure is insufficient. However, Sorensen and Kyle (2007) suggested that the programme expenses to total expenses ratio should be at least 65% (Better Business Bureau's Wise Giving Alliance Standard 8). Taking both studies into account, one may conclude that SWIs should have a ratio of at least 50%. As shown in Table 4, the SWIs of Selangor, Melaka, Penang and Terengganu have ratios higher than 10%, the highest being 78.90% and the lowest being 43.25%. This means that most of the SWIs in the study have expended an adequate amount of resources on administrative costs, with the notable exception of SWI Terengganu.

The administrative ratio must be interpreted with care. Although a higher administrative costs ratio may allow the waqf institutions to cut costs without affecting programme delivery, the higher ratios may equally signal the fact that too many resources were being committed to administrative expenses, with consequently fewer funds available for programme services. In such a case, the high administrative cost ratio may not necessarily mean that the SWI is financially sustainable. Perhaps scrutiny of each administrative cost would provide the answer to this question. However, given the limited disclosure of information by SWIs, this will rarely be possible. It was observed that there was no income statement in the audited financial statements of SWI of Johor. Total revenues and expenses were obtained from the statement of changes in equity for the year 2008. Consequently, details of the relevant income and expenses were unavailable. The income statement for SWI Kelantan disclosed "group waqaf fund expenses" (RM3,098) as the only expenditure item without any details. Given that its main waqf activity (according to the statement) is rental, one may assume that this expense item refers to rental expense. Additionally, the audited income statement of SWI Pahang disclosed only "waqaf aid/assistance" as its total expenses without any further information. The assumption made here is that this expense represents the amount disbursed from its investment activities.

Generally, in Malaysia, it is possible for some SWI institutions to have minimal or no administrative expenses because these and other waqf expenses are covered either by the State treasury or the government. This was confirmed during a phone interview with the research and products division manager of Yayasan Waqaf Malaysia, and during a face-to-face interview with the waqf research and investment manager of SWI Selangor. The low administrative expenses are also due to the fact that most SWIs have only very recently dedicated qualified staff specifically to handle the affairs of waqf (Rokyah 2005).

Operating margins

This ratio is calculated using net income (or loss) divided by total revenue. The higher the ratio, the greater the opportunity for the SWI to draw on the surplus should there be a decline in revenues in subsequent periods. Accordingly, a SWI will be financially stable if it has a high operating margin. As shown in Table 5, SWI Kelantan had the highest at 97.32%. This was followed by Terengganu at 75.38%. The SWIs of Penang, Johor, Melaka and Selangor all had operating margins below 50%. However, given the positive ratios, the results indicate that these SWIs are financially sustainable.

The negative operating margin of Pahang puts this SWI severely at risk as there is no way that it can build equity. Consequently, this may signal a financial sustainability crisis.

6. Conclusion

The study examined the financial accountability of SWIs in Malaysia through determining the financial sustainability. More importantly, given that the efficiency and the effectiveness of an organisation are concerned primarily with how the organisation can sustain its operations in delivering its mission, our study may also be regarded as one which examines the efficiency and effectiveness of SWIs. The financial health model developed by Tuckman and Chang (1991) is used to determine the financial vulnerability of SWIs. In this regard, the four components of financial sustainability and vulnerability measures – equity balances, administrative costs, revenue concentration, and operating margin – were computed.

Overall, the results indicate that two of the institutions (SWIs of Selangor and Terengganu) were financially

Table 6. Summary of results for financial vulnerability and sustainability ratios.

Ratios	Selangor	Johor	Kelantan	Melaka	Pahang	Penang	Terengganu
Equity balance	13.26	4.45	6.62	5.39	49.80	3.49	12.93
Admin. Costs	78.90%	NA	NA	64.63%	NA	53.34%	43.25%
Revenue concentration	0.35	NA	0.67	0.52	0.91	0.75	0.38
Operating margin	21.58%	35.17%	97.32%	31.71%	–218.31%	39.92%	75.38%

NA = not available.

sustainable in all the four components in that they have an adequate level of equity balances and reasonably high administrative costs, the desired revenue concentration (close to zero), and positive operating margins (see Table 6 below).

The SWI of Penang was financially sustainable in three components: equity balance, administrative cost and operating margin. The SWIs of Johor, Kelantan, and of Melaka were financially sustainable in equity balance and operating margin, but financially vulnerable in relation to revenue concentration. The SWI of Pahang was financially vulnerable due to its substantial deficit (negative operating margin) and revenue concentration (closer to one); it was, however, financially sustainable in terms of equity balance and administrative cost. On the basis of the results obtained in the study using the financial sustainability framework of Tuckman and Chang (1991), one may conclude that only Selangor and Terengganu appear to be efficient and effective. The financial health of the remaining SWIs in the study is less than satisfactory.

However, the results of the study should be interpreted in light of several limitations. The first is that the data used are not the most recent. Therefore, the findings may not hold true currently. Second, our study focused only on Malaysia and the results may not be transferable to waqfs in other countries, or to privately managed waqf institutions. Accordingly, future research should address these points. However, the results of the study raised pertinent issues that policy makers should address to ensure the systematic revival of waqaf institutions in Malaysia. Consistent with previous studies, we established that there was inadequate disclosure and poor accounting practices for waqf transactions, equity, liabilities and assets. Most SWIs did not have up-to-date audited financial statements. It was concerning that even though the accounts were audited, unqualified and certified by chartered accountants, nevertheless there was improper classification and treatment of classes of accounts. Furthermore, these were accounts that had been certified by the Office of the Auditor General.

On the basis of the findings of this study, four recommendations are made. The first pertains to revenue diversification. It is important that waqf institutions do not rely solely on one particular source of income. This could be avoided by looking for other viable investment opportunities. Handling divestments would require capacity building or employing qualified investment specialists to competently manage investment risks. Further close attention on revamping idle waqf resources could enhance the sustainability of waqfs. In Malaysia, the 9th Malaysia Plan (pp 64 and 65) specifically provides for this. It states:

> “a strategic plan will be drawn up to ensure that the income generated from the development of wakaf land will enable state religious authorities to be more self-reliant in developing new wakaf land”.

Self-reliance means that each SWI should ensure that it depends on multiple sources of revenue equally in order to sustain developmental and operational activities. Second, there is a need for improved accounting practices among the waqf institutions to ensure adequate disclosure of waqf assets, liabilities, equity, revenue and expenditure. According to Ihsan and Shahul (2011), accounting is a basic requirement for true accountability to be discharged through standardized, clear and transparent reporting. In line with this, there is an urgent need for the standardization of waqf accounting to minimise diversity across the SWIs. In Malaysia, a guideline formulated by JAWHAR is indeed commendable. However, close examination of the accounts showed that no SWI has actually adopted the framework; given that JAWHAR has no real power over SWIs, this may be unsurprising.

Despite these limitations, it is hoped that the results from this study may help other Muslim countries manage waqf. More importantly, the findings here have provided an insight as to how well institutional mutawallis are carrying out their tasks – an indispensable ingredient for revitalization of waqf. Finally, we would like to emphasize the point that performance accountability is particularly significant since a donor to a waqf must be kept informed of the purpose for which the funds have been used, and whether the funds have been distributed to the appropriate beneficiaries (Sulaiman, Adnan and Nor Suad 2009). However, having placed their trust in the SIRCs, donors of waqf assets 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 nothing to say about how well the institutions are managing the assets in order to reap maximum benefit. By 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, assessing the performance of waqf institutions will indicate the extent to which such institutions have discharged their accountability.

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