FINANCIAL PERFORMANCE AND SUSTAINABILITY IN MALAYSIAN WAQF INSTITUTIONS

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Abstract

The article was design to measure the financial performance and sustainability in selected Malaysian institutions. Examining its performance and sustainability could be useful to assess waqf perpetual existence. Besides that, waqf institutions frequently compare actual performance with standards or expectations to enhance the organizations' achievements. Thus, by using ratio analysis, this study examines five years (2014-2018) annual reports of waqf private entity administered by Pusat Wakaf Majlis Agama Islam Wilayah Persekutuan Sdn. Bhd (PWMSB) and two waqf corporations which are Pusat Wakaf Selangor (PWS) and Wakaf An-Nur Corporation (WANCorp). The findings indicate that in all seven components only one waqf institution has been financially performed and sustained. The results provide valuable insights into the financial performance and sustainability of waqf institutions, and highlight the need for policy makers in Malaysia and other Muslim countries due attention to the systemic accountability to ensure the systematic revival of waqf institutions. It is hoped that the study's findings and recommendations will allow these institutions to report financially and to be accountable at a higher level.

Keywords: *Financial Performance, Financial Sustainability, Waqf.*

Research Highlights

It is crucial for waqf institutions to identify factors that can improve their performance and sustainability. In addition, as a public entity, it is important for waqf institutions to manage its waqf assets and funds based on transparency and accountability principles. Literatures show a tempestuous past of waqf (Osman, 2010; Bremer, 2004; Çizakça, 1998). Vast waqf lands and properties were and still are at the mercy of mismanagement, corruption, violence, misuse and absolute neglect (Hassan & Abdus Shahid, 2010; Bremer, 2004; Hoexter, 1998; Ariff, 1991). Furthermore, a number of recent cases concerning Islamic religious institutions in Malaysia have been published in local media, which pose a major problem, in particular the accountability of Islamic religious institutions, including the waqf institution (Kamaruddin, 2018). Previous studies Mahamood (2006), Abdul Rahman et al. (1999) and Zazli (1998) show the mismanagement, poor structure, abuse, neglect, corruption and other administrative lapses of waqf which, if not properly addressed, will hinder the revival of waqf.

Research Objectives

In general, all waqf institutions in Malaysia are governed by SIRC's. However, for efficiency and effectiveness of waqf institutions some of the SIRC's have split the waqf institution as independent body such as Pusat Wakaf Majlis Agama Islam Wilayah Persekutuan Sdn. Bhd (PWMSB) was identified as private entity owned by Majlis Agama Islam Wilayah

Persekutuan. Meanwhile, Perbadanan Wakaf Selangor (PWS) and Wakaf An-Nur Corporation (WANCorp) is identified as a company limited by guarantee. The separation of waqf institution from State Islamic Religious Councils (SIRCs) is to ensure their performance and accountability. Therefore, these facts and issues were motivated for this study to examine financial performance and sustainability of waqf institutions in Malaysia. These two important indicators are essential to be investigated in ensuring the going concern of the operation for these waqf institutions. Most pertinently, waqf perpetual existence relies on its financial strength, thus identifying waqf institutions financial health has become a crucial task. This study contributes to the existing literatures where financial performance and sustainability model applied in this study applied to the assessment of the financial stability for other waqf institutions can also be adopted.

Methodology

To operate this study was using descriptive quantitative method. It is mainly based on numerical data from the audited financial reports. For data collection process, 5 years audited financial reports (2014 to 2018) of one waqf private entity (PWMSB) and two waqf corporations (PWS and WANCorp) in Malaysia were analysed. In addition, other secondary data sources in the audited annual reports published in the official website of the SIRCs (MAIWP and MAIS) and waqf corporation (WANCorp) were also referred. Three indicators were used to determine financial performance, namely: (i) net income ratio (NIR); (ii) operating income ratio (OIR); and (iii) income growth (IG). Meanwhile, another four indicators were used to indicate financial sustainability, which are: (i) equity balances (EB); (ii) administrative costs ratio (ACR); (iii) revenue concentration index (RCI); and (iv) operating margin ratio (OMR) (Shafii et al., 2014; Sulaiman & Zakari, 2019). The use of audited financial information to determine both financial performance and sustainability is considered reliable due to the importance of the information published and those information have been verified before arriving at a conclusion by the auditor (Froelich et al., 2000).

Results

5 years of established (2014-2018) analysis on financial performance, the findings indicate that PWMSB (4,215.43) and WANCorp (5.63) have huge average NIR due to size of waqf assets held by them. Meanwhile, average OIR highlights that PWS (4.92) and WANCorp (3.65) have sufficient income generation for their activities. On the other hand, average IG shows that WANCorp (0.50) have the highest promise in IG, followed by PWMSB (0.33) and PWS (0.12), respectively. For financial sustainability, average EB presented that PWMSB (4,323.98) is expected to have the highest financial stable due to its huge accumulated assets, followed by WANCorp (16.74) and PWS (7.05). Meanwhile, average ACR indicates that PWS (88%) have highest administration costs which led to ineffective

financial management as compared to WANCorp (62%) and PWMSB (61%). While, average RCI highlights that PWS (0.12) relies heavily on single income where 88% from total revenues are from main income which would lead to unstable financial performance, followed by PWMSB (0.29) and WANCorp (0.58). Last but not least, average OMR show that both PWS (67.6%) and WANCorp (62%) have enough surplus, while PWMSB (-14,299.6) has large deficit.

Findings

The findings are based on the concluded that in terms of financial performance, WANCorp has shown the best financial performance based on its huge assets, sufficient income generation and high income growth, compared to PWS and PWMSB. Similar for financial sustainability, WANCorp also shows it has the most financial sustainability based on big amount in accumulated funds, moderate in administration cost, diversified revenues sources and enough surplus, as compared to PWS and PWMSB. Therefore, based on both financial performance and sustainability, WANCorp is financially healthy.

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