

Changes in Management Accounting Practices of Zakat institution: Is it Successful?

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Zakat Institution is an organization that exists in Muslim societies to care for the Muslim's social welfare. The core activities of zakat institutions are collecting compulsory donations from eligible Muslims and distributing them to the rightful beneficiaries. This organization provides various kinds of assistance such as food, shelter, health and education to rightful beneficiaries. With huge resources to safeguard, zakat institutions need to enhance their management systems to avoid negligence and misuse of resources. Realizing the importance of enhancing their management systems some of the zakat institutions in Malaysia initiated several changes in their management practices.

This study investigates the nature and extent of changes in management accounting practices; the budgeting practices and finding out why some changes work and some not. Qualitative single case study research method is used to understand the phenomena of changes in a zakat institution situated in Malaysia, the Lembaga Zakat Selangor (LZS). In enhancing their zakat management system, LZS has also made several changes to their budgeting practices. The use of Burns and Scapens' Framework (2000) explains the nature and extent of changes in LZS budgeting practices made by LZS. The theory too, assists in explaining why some changes in LZS budgeting practices were ceremonial and lead to regressive change rather than progressive change.

Keywords: Zakat, management accounting practice, zakat institution, management accounting change

1.0 INTRODUCTION

Zakat institution exists in Muslim societies to care for Muslim's social welfare. The activities mainly dealing with collecting compulsory donations from eligible Muslims and distributing them to rightful beneficiaries called as the *asnaf*. They also provide various kinds of assistance such as food, shelter, health and education to rightful beneficiaries. Since this organization deal with huge resources they need to enhance their management accounting (MA) practices to avoid negligence and misuse of resources.

Issues related to MA practices in non-profit organizations have been widely debated for more than a decade. Several elements of MA practices that have been highlighted by previous studies (Abdul Halim, Musa, Mujaini, Hasan & Shawal, 2005; Abdul Rahim &

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Goddard, 1998; Azizah, Musa, Ayob, Norzehan & Mohd Saiyidi Mokhtar, 2005; Jamaliah, 2004) namely lack of MA knowledge amongst zakat practitioners.

Realizing the importance of enhancing their management systems some of the zakat institutions in Malaysia initiated several changes. In line with the current demand and changes initiated, this study investigates the nature and extent of changes in MA practices. Finding of this study would provide better understanding of the nature and extend of change and how those changes impacted them and why some changes works and some not.

2.0 LITERATURE REVIEW

Past studies (Abdul Halim et al., 2005; Ali, 1990; Azizah et al., 2005; Hasan, 2005; Eri, 2004; Halidan, 2006; Ismail, 2006; Ismail, 2000; Jamaliah, 2004; Kamil, 2005; Nur Barizah et al., 2006; Nurfadilah et al., 2006; Zainal Abidin, 2006; Ahmad Shahir and Adibah, 2010) on zakat institutions have found that they have not effectively and efficiently managed the zakat funds in their custody. Kamil (2005) found that most zakat payers were doubtful about the ability of zakat institutions to manage the zakat funds. In agreement with Kamil's findings, Hasan (2005) and Ahmad Shahir and Adibah (2010) found that most actual and potential zakat payers questioned the credibility of zakat institution's management of zakat funds. Interestingly both of them found that lack of trust towards zakat institutions' management made most potential and some existing zakat payers revoke making payments through zakat institution (formal channel). Instead they would rather pay zakat directly to the needy (informally) or not pay at all. According to Ahmad Shahir (2007) only about ten to fifteen percent of eligible Muslims in Selangor pay zakat through zakat institution. In addition, Ahmad Shahir and Adibah (2010) reported that out of targeted amount RM479 million to be collected, only 57% managed to be collected by zakat institution in State of Selangor.

Researchers (Azizah et al., 2005; Jamaliah, 2004; Nur Barizah et al., 2006; Nurfadilah et al., 2006; Ahmad Shahir and Adibah, 2010) found that some zakat institutions have taken initiatives to improve their management practices by introducing MA practices including strategic planning and performance measurement, but the results revealed many shortcomings. The use of performance measurement systems for example was found in some zakat institutions, but the extent of its implementation was questionable. Jamaliah (2004) found that the use of performance measures in zakat institutions was merely the organizations' response to government requirements. She found that zakat administrators were unclear on the purpose of implementing them. Azizah et al (2005) highlighted something similar, where zakat institution in their study used MA (budgeting) without understanding its purpose.

The renaissance of zakat practice in contemporary Muslim societies through the establishment of zakat institutions has led to more organized management of zakat funds. Zakat institutions need to have sound management mechanisms to ensure zakat management functions properly. Being a religious organization, zakat institutions need to include practices that can assist them in safeguarding zakat funds and upholding the philosophy of zakat. MA refers to processes and techniques that focus on effective and efficient use of organizational resources (Langfield-Smith et al., 2006, p. 6), manage resources and to create value (Langfield-Smith et al., 2006, p. 7). On these grounds, MA

practices would contribute significantly towards improving the management of resources in zakat institutions.

MA plays an important role in managing the key success factors of an organization (Langfield-Smith et al., 2006). In line with Islam and an emphasis Caliph Umar put on wealth management, adequacy of MA practices in zakat institutions is essential to safeguard resources. According to Maliah (2005) accountability and transparency are the essence of MA from an Islamic perspective. Jaribah (2006) supported Maliah's notion and highlighted that Caliph Umar governed with full accountability and transparency. He always reminded himself and his workers that they are safeguarding Allah SWT's wealth. That was why Caliph Umar took his responsibilities seriously through proper planning, controlling, costing, directing and decision making systems. Caliph Umar acknowledged and reminded his workers that they are vicegerence of Allah SWT and that all Muslims are accountable on every action they undertake.

For better management, some organizations change their management practices and some change simply because they want recognition for changing. If an organization claims that they have made changes, they must show evidence that they have actually changed (Soin et al., 2002). Some may believe that change can make their practices more efficient, but Burns and Scapens (2000) asserted that changes made by organizations may not necessarily achieve this. Change may be due to several reasons such as external forces or legitimacy (DiMaggio and Powell 1983; Jaskyte & Kisieliene, 2006) or to be effective, efficient and systematic (Arvidson, 2008; Jaskyte & Kisieliene, 2006). Zakat institution too, changes their MA practices for better administration (See Ahmad Shahir, 2007 and Ahmad shahir and Adibah, 2010). Since organization made changes for many reasons and so do zakat institution, the question now is have the changes been successful? To answer this question the following section explicates the methodology used to get the answer.

3.0 METHODOLOGY

This study follows an approach described by Yin (2003): a single case study. According to Scapens (2006), the best way of understanding practices in any organization is not merely to explicate the various practices that have been adopted but to try to make sense of the adopted practices. As the main focus of this study is to understand changes in MA practices in one zakat institution a qualitative single case study is the most appropriate.

The case study site is Lembaga Zakat Selangor (LZS), a zakat institution situated in Malaysia. LZS has been in operation for more than ten years and performed both the collection and distribution function. LZS has been the highest collector and distributor of zakat with RM 283.7 and RM 275.9 million respectively. The following figure shows the structure of LZS where they are directly under the purview of Selangor State Islamic Religious Council.

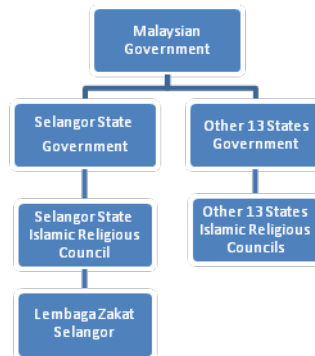


Figure 1.0: Position of LZS in Selangor State Government

In enhancing their zakat management system, LZS has also made several changes to their MA practices (see Ahmad Shahir and Adibah 2010). Some of the changes in MA practices made by LZS are found to be successful and some are not. The focus of change in MA practices for this study is change in LZS budgeting practices.

This study used four sources of evidence in data collection techniques i.e interviews, non-participatory observations, documentary analysis and archival analysis. According to Yin (2003), all sources of evidence have both strengths and weaknesses, so it is essential to have more than one source of evidence. Using more than one source of evidence (triangulation) ensures a higher quality case study and provides complementary evidence.

For the data analysis, this study uses Burns and Scapens' Framework (2000) to analyze the nature and extent of change in MA practices in LZS. There are three categories of change in Burns and Scapens Framework (2000); formal and informal, evolutionary and revolutionary and regressive and progressive change. The purpose of using this dichotomies of change for this study is to find out whether the routines emerging due to changes in budgeting practices are mostly ceremonial or vice versa. Largely ceremonial change usually preserves the powers of particular vested interests and potentially hinders the development of new organizational activities, including the introduction of new system, processes and technology, application of new production techniques and undertaking research and development. These assist in explaining the nature and extent of success towards the changes made.

4.0 ANALYSIS AND FINDINGS

The data collected shows LZS has made several changes in its planning practices. LZS planning practices can be categorized into three types budgeting, operational and strategic. The traditional budgeting practice has existed since the birth of LZS. They practiced an incremental budgeting. In early stage of operations incremental budgeting was the only mechanism that assisted LZS in their yearly planning activities. The purpose was merely to inform them what to do and how much to spend. The budgeting practice was not fully used to manage their expenditures. The annual budget was prepared only to request their *amil* share of zakat funds from Selangor State Religious

Council⁴. The budgeting practices in LZS then was not extensively used for decision making.

LZS started operation in 1995 only to collect zakat and no distribution activities were performed. In 1998, additional responsibility was given to LZS to administer zakat distributions. This formal change had impacted LZS through the establishment of new functions and restructuring of distribution departments and these created more job responsibilities. With limited resources to recruit new staff, the formal change was quite a handful for LZS because distribution activities involve large responsibilities.

The mandate to perform both collection and distribution function of zakat instigated LZS to also plan for distribution activities. Another separate annual budget for distribution activities is prepared as they now had to manage funds for their own survival as an amil and for other rightful beneficiaries too. These changes in budgeting practices resulted in fundamental disruption to daily routines in LZS. The finance department is now given an additional task to request for zakat funds from SSIRC for distribution activities⁵. The formal change resulted in LZS taking the preparation of budgets more seriously as the annual budget is no longer simple. LZS assimilated the demand of formal change by preparing two annual budgets: one for LZS management, which uses an imposed budgeting system, and another budget for distribution activities, which uses participatory budgeting system. Due to these changes all departments in LZS are required to perform their own budget analysis and prepare budget reports.

A ceremonial-instrumental (regressive and progressive) dichotomy was found to be present when other than finance department needs to perform their own budget analysis and reports. According to the Head of Finance, responsibility for preparing and monitoring annual budget for distribution activities is previously performed fully by finance department. Due to lack of knowledge, the newly established departments had the perception that anything involving budgets or monetary transactions is the responsibility of the Finance Department and not theirs. What he said was:

All the while we have been practicing budgeting only. We never create any cost-centres and we never create appropriate responsibility for those respective departments. So everything is just taken for granted.

In addition:

So they (referring to Asnaf Development Department and Community Development Department) hand over everything to finance. So when it reach year end the finance department had to do the report for them with regards to over or under budget.

The Head of Finance Department gave further evidenced as follows:

We don't have cost centres. We create appropriate responsibilities for those respective departments. Everything is taken for granted where finance department had to do the reporting for the departments over and under spending. It was only this year that we gave

⁴ All the zakat funds collected will be credited to the accounts of Selangor State Islamic Religious Council (SSIRC) on monthly basis. If LZS needs their amil portion of zakat fund, LZS needs to request from SSIRC by preparing budgets on quarterly basis. Similar situations for distribution where LZS needs to prepare separate budget on quarterly basis for them to be able to distribute the fund.

⁵ Distribution of funds is the responsibility of Distribution Department which is divided into Asnaf Development Department and Community Development Department. These departments give input to the Finance Department to prepare budget when requesting funds from SSIRC.

the assistant administrator in each department the responsibility to monitor their department's expenses. We will be doing the observation. We started imposing it this year.Previously the finance department has to table the monthly report for all departments.

Furthermore:

So this year we give the responsibilities to the departments to monitor. The power to approve any purchases has been given to the heads of departments, so they will do the observation. So every single payment they must make sure it had been verified (Head of Finance)

Taking the routine of monitoring expenditure for granted (Burns & Scapens, 2000) that it is the full responsibility of finance department, staff from other departments found it difficult to monitor their own expenditure. Staff from other departments put considerable trust towards Finance Department to perform the monitoring function. LZS staff considered the finance department as experts. This finding is similar to Busco, Riccaboni and Scapens (2006), where finance managers were considered expert in their field and able to give help. As illustrated by Scapens (2006), trust in expertise is important to ensure change takes place.

The LZS budgeting practices shows lack of sophistication, similar to the study of Soin et al (2002). According to Soin et al (2002) this happens when organizations are not very much exposed to the use of MA for information. Azizah et al (2005) too found that most staff in Malacca Zakat Centre did not understand reason for budget preparation and how they are able to use budget in assisting their zakat distribution. Their knowledge and understanding of budgeting was very shallow. They knew how to prepare budgets based only on how their predecessors or supervisors had done it before. The “passing on of knowledge” to their successors remained their routine. Siti Nabiha and Scapens (2005) acknowledged that a ceremonially implemented system has no real influence on the processes of management or on the thinking of managers. To a certain extent, incremental change occurred which resulted in only minor transformation to existing routines and organizations.

The new responsibility too resulted in another unit being established under the Finance Department: the Branch Accounts Division. Additional accounting staff was placed at the branches with high collection and distribution activities. These appointments assisted the Finance Department in monitoring the inflows and outflows of zakat funds. Observations at one of the LZS counters revealed how accounting staff assist in monitoring the inflows of zakat funds. The observation was as follows:

During the clearing process, counter staff, one officer in charge and an accounts officer are present. The amount in the system and in hand must tally. This is done by matching the total number collected for the day (automatically calculated by the system – which is in the workplace system) with the amount in hand (both cash and cheques). The collection for the day is then labelled and kept in the safe.

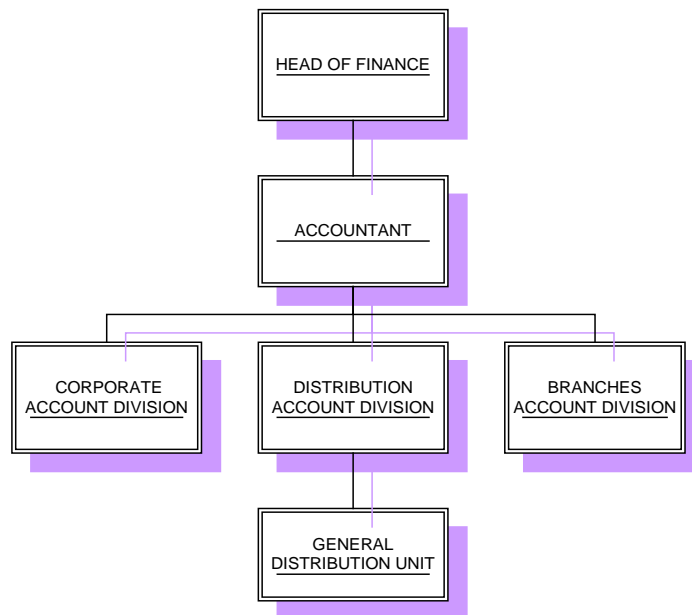


Figure 1.0: Organizational Structure of Finance Department of LZS

Source : <http://www.e-zakat.com.my/baru/organisasi/jpw.asp>

The budgeting system in LZS acts as an important mechanism to monitor corporate affairs and distribution activities. So the use of the budgeting system is considered a healthy and helpful practice. LZS management team believes that they have a budgeting system that can act as an expenditure controlling device both for the LZS corporate affairs and distribution activities. A common practice in LZS is that budget reports for collection and distribution are not prepared by unit heads of collection and distribution. They only provide the data for the reports. However the non-finance staffs of LZS need to change their mindset towards the importance of monitoring their own department expenditures. Only then the budgeting practices as expenditure controlling device would contribute to LZS efforts to enhance their zakat management.

Despite the intention to make improvements, LZS may face resistance in making full use of budgeting practices as an expenditure controlling device if there is a continuous lack of understanding among staff about the function of budgeting practices. Soin et al (2002) observed something similar in their findings where ABC implementation by the company in their case study site was found to be ceremonial. The ceremonial was observed because of a symbolic embrace of the latest MA technology resulting from a misunderstanding of the ABM model, due to lack of knowledge. This is because any change taking place with staff half-heartedly accepting it or being ignorance when implementing the new practices, may lead to unsuccessful change. This association can be depicted in the table below.

MA Practices	Staff's reaction	Outcome of changes	Organizational change
Budgeting practices as expenditure controlling device	Difficult to accept the responsibility to perform budget analysis and prepare budget reports by non finance staff.	Ceremonial due to lack of understanding and commitments in implementation	Regressive

Table 1.0: The Nature of Changes in LZS MA Practices

In addition, communication breakdown created tensions between the higher and middle management teams. It also resulted in under utilization of MA practices for assisting LZS to enhance its performance. This slowed down the change process in LZS and led to ceremonial change. The following table depicts this interaction between changes in MA practices and staff.

Budgeting practices in LZS	Staff's Knowledge	Change Outcome
<ul style="list-style-type: none"> • Lack of sophistication • Selective and superficial 	<ul style="list-style-type: none"> • Lack of knowledge • Lack of experience • Lack of commitment • Lack of training 	Ceremonial practice leads to Regressive change

Table 1.1: Interaction between changes in Budgeting Practices and staff

5.0 CONCLUSION

The Burns and Scapens' Framework (2000) has assisted in explaining the nature and extent of changes in budgeting practices occurring in LZS. Using budgeting practices as an expenditure controlling device does not seem to be very promising and could be unsuccessful if no further actions are taken to rectify the problems. The challenges faced in change of MA practices; budgeting practices require stronger commitment from the staff. Some changes make it appear as if real change has taken place but in actual fact they are ceremonial. Ceremonial behaviour should not be allowed to persist in LZS, as it may lead to regressive change. If changes are made just to impress or indicate that things are changing then they may not last. For the change to be instrumental, LZS must take initiatives to convert the ceremonial behaviour into instrumental behaviour. To conclude, human factors play an important role in the successful outcome of organizational change. LZS staff play crucial role in adapting to any kind of change. They are the key players for change to take place and for change to be successful. Chances of changes in MA practices to be instrumental in LZS is lower if their staff are not willing to change their mindset pertaining to the change brought into their management system. In the context of this study LZS has not been fully successful in implementing change in budgeting practices as an expenditure controlling device.

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