

# Financial Performance Measurement for Nazhir: A Proposed Model Based On Sharia Accounting Standard

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To propose a financial measurement model in order to assess the performance of waqf managers (*Nazhir*) based on Sharia Accounting Standard, the model evaluates whether a *Nazhir* has managed the waqf assets following the laws and regulations, the objectives of the institution, the wishes of the donors (*wakif*) as well as the benefits of the beneficiaries (*Mauquf Alaih*). The paper uses a qualitative method with a financial ratios approach which is compiled into a comprehensive financial statement analysis model. These financial ratios are developed based on Indonesian Accounting Standard No 112 concerning Accounting of Waqf that has just been ratified. The research builds a model that analyses a component of waqf financial statements from the Indonesia Accounting Standard that was organised into three groups (performance, impact, and result). Each group has its ratios with a few segments for several groups. The performance ratios are derived from funding, managing, and donating segments. The results of this study provide an objective and informative financial performance measurement model that can be used by stakeholders for the decision-making process in managing waqf assets. This paper was one of the first attempts to build a performance measurement model that goes following the sharia principles. Moreover, this model can be adopted by Indonesia Waqf Board (BWI), as the waqf authority, to improve the reporting standard for waqf institutions.

**Key words:** *Performance Measurement, Financial Ratios, Waqf, Waqf Institution, Nazhir.*

## Introduction

Waqf is one of the Sharia Financial Instruments to help the process of poverty alleviation, especially in Islamic developing countries (Sadeq, 2002). Permanent and irrevocable characteristics of waqf differ from other types of financial instruments (Abdullah, Ismail, 2017). Waqf is a potential source of funding. According to Waqf Information System (SIWAK), there are 353,305 waqf locations with a total area of 49,016.91 hectares in Indonesia (Ministry of Religion, 2018). 45% of total waqf land was used for mosques, 28.5% for musholla, and 26.5% for others. While the potential for cash waqf in Indonesia reaches 180 trillion and around 400 billion has been realised as of the end of 2018 (Indonesian Waqf Board, 2019). Cash waqf can be used for providing affordable funding for social purposes through Qardul Hasan (Aziz, 2016), Sukuk and other productive activities (Zain & Sori, 2017).

With the great potential of waqf management, it is inversely proportional to the reality that occurs in the field. 62% of waqf land has been certified and while the other 38% are not certified or have the Pledge of Waqf Pledge (AIW) that is following Law No. 41 of 2004 concerning Waqf and PP No. 25 of 2018. The impact is the emergence of litigation risks to the prosecution of both from the heirs and other third parties.

Several problems hinder the development of productive waqf in Indonesia that include (1) Nazhir (waqf manager) that is not considered as the main profession, (Huda et al., 2014), (2) Low understanding of Nazhir about the management of productive waqf, and (3) Inadequate Nazhir competence. This has resulted in the mismanagement of waqf and economic losses. For example, Nazhir who received the waqf land in the form of oil palm plantations in Kalimantan Nazhir does not understand the management of oil palm plantations. As a result, the project stalled and did not produce. Another example is 2.4 hectares of land in downtown Jakarta that is used only for parking lots and provides a low rate of return (Katadata, 2019).

Along with the need to improve Nazhir's performance, it needs to be supported by performance measurement based on the Nazhir Financial Report. The measurement of the performance of waqf institutions is unique since social and productivity aspects have collaborated into comprehensive performance measurement. Effective performance measurement will have an impact on the realisation of Nazhir good governance and ethical management (Noordin, Haron & Kassim, 2017) although it is difficult to study due to the lack of comprehensive empirical tests (Ritchie & Kolodinsky, 2003). Measurements for social institutions aim to ensure that the performance of managers of social entities remains a good track record.

Measurement of the performance of waqf institutions has become a trending research topic. Nazhir must recognise the importance of financial reporting of waqf funds and reports economic indicators to stakeholders regarding the performance of waqf institutions (Noordin, 2017). The measurement of waqf institutions, in general, is seen from the perspective of Maqasid Syariah to see the efficiency and social effectiveness of Waqf institutions.

Arsyad (2018) proposed a model of performance measurement for Waqf Institutions based on the Maqasid Syariah in managing waqf assets. This research emphasises the dimensions of input, output, outcome, and network in the elements of Islamic Maqasid, namely protecting religion (*ad deen*), life (*an nafs*), education (*al aql*), children and grandchildren (*an nashl*), and wealth (*al maal*) following priorities according to *daruriyyat, hajiyyat and tahsiniyyat*.

The importance of Nazhir financial performance measurement model is due to the nonexistence of a standardised model for evaluating Nazhir financial performance. This study aims to build the measurement model of Nazhir performance in waqf institutions based on PSAK 112 (waqf accounting). The model will evaluate Nazhir performances and helps in the decision-making process for the management of waqf institutions. The results of this measurement can also be used as an objective and informative source of information for all stakeholders. Further, the Indonesian Waqf Board (BWI), can use this measurement model as a tool to see the performance of waqf institutions in managing their waqf assets.

## Literature Review

### *Waqf*

The term waqf is intended to provide the profit or benefit of the property that is conveyed to the rightful person (*mauquf alaih*) and used on a syariah basis (Indonesian waqf Agency, 2007). Property that is defined as either moving or non-moving is a waqf Asset (SAK Syariah no. 112, 2018). Some of the other terms mentioned in the Syariah Financial Accounting Standards and Law no. 41 The year 2004 is, a). The Pledge of Allegation is a statement of the will of the wakif spoken orally and/or written to the Nazhir to denounce his abbey's property b). *Mauquf alaih* is the party appointed to benefit from the allocation of waqf property in accordance with the statement of wakif requirements set forth in the Wakaf Pledge Act (AIW), c). Nazhir is the party receiving the waqf property from wakif to be managed and developed in accordance with its provisions.

### ***Performance Measurement***

Performance measurement for social institutions (including waqf institutions) departs from the pressure that comes from the national authority to measure the institution's performance and its value (Peattite & Morley, 2008) and broadens the use of information to increase the effectiveness of decision making (Le Roux & Wright, 2014). Reference to performance measurement can be seen from a qualitative perspective (Arsyad, 2018), as well as quantitative (Millar & Kelly, 2013). Performance measurement is generally related to indicators of input/output, unit cost and efficiency, outcomes and effectiveness, client satisfaction and satisfaction of recipient donations, external audits, industry, and benchmarks.

### ***Indonesian Accounting Standard***

Islamic Financial Accounting Standards are prepared with two methodologies, namely the ideological approach and the pragmatic group (IAI, 2018). Through an ideological approach, Syariah Accounting Standard (SAK) is built on the principles of Islamic teachings and then compares with established conventional accounting concepts whereas the pragmatic group compiled Sharia SAK from conventional accounting rules and then adjusted it to Sharia principles. Statement of Financial Accounting Standards (PSAK) governing waqf accounting is PSAK 112, which has its unique reporting style. The separation is due to the waqf assets that must be specified and may not be grouped into one part of fixed assets. The reporting of waqf assets is called the Waqf Asset Details Report (SAK 112, 2018). Further, waqf management activities are reported in the activity report and the statement of financial position.

### **Research Method**

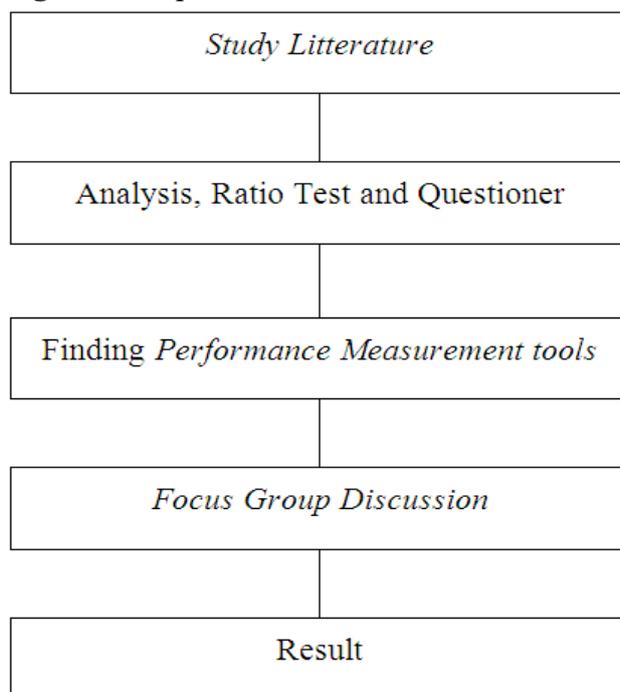
This research arises from the need to create a model regarding the performance measurement of waqf institutions in order to evaluate the transparency and accountability of waqf institutions. The form of this research is the Interpretive Phenomenology study. Interpretive theory itself is a development of the hermeneutic theory which has the nature to interpret and understand a symptom of spoken and written language (Smith, 2009). Therefore, this study uses several methods in its approach. The first method is a review of the study literature which focuses on examining waqf and performance measurement; this method examines previous studies with adjustments related to waqf and waqf institutions as well as with SAK Sharia references.

The second method is a Critical Review conducted by performance measurement experts, scholars who master waqf, Sharia SAK experts and waqf regulators in Indonesia. This

method is necessary and conducted after reviewing many works of literature related to the topic. This method will find special measurement tools to calculate Nazhir performance in waqf institutions while receiving input on the performance measurements of waqf institutions.

The performance measurement tool at this waqf institution will then be tested through a Focus Group Discussion (FGD) by experts and waqf regulators in Indonesia. This test aims to assess whether the measurement of performance of waqf institutions has been able to be an ideal measurement tool in measuring Nazhir performance. The subjects of the Performance Measurement tools test came from the Indonesian Waqf Board (BWI) as a waqf regulator in Indonesia, religious scholars as religious leaders in the community, and waqf experts who often conduct research in the field of waqf. Inputs received later will be considered by researchers by taking into account Sharia Financial Accounting Standards (SAK Syariah). The steps in conducting this research will be illustrated in Figure 1.

**Figure 1.** Steps of Research



The result of *Focus Group Discussion* will be tested using a real count from the financial reports of Nazhir, applying an approved measurement tool that will generate performance measurement for Nazhir. The conclusion will be derived based on the understanding of the readers.



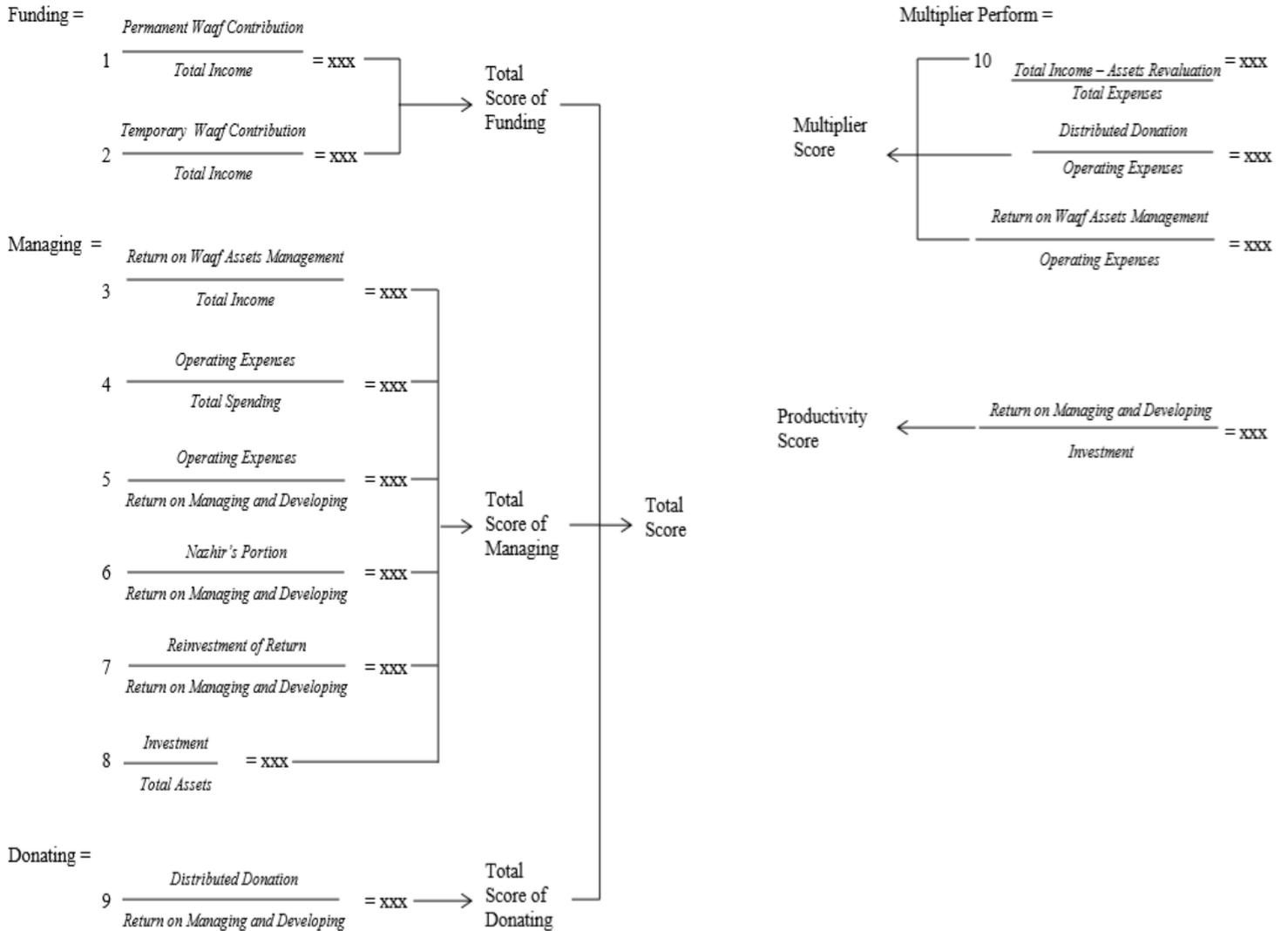
## **Discussion**

In the waqf performance measurement model, we divide it into five sections to analyse each component of the financial statements. These components are in the form of Proportion of waqf assets managements (Funding, Managing, Donating), performance in the management of waqf assets (Performance), and performance of waqf assets return.

The result of this model reflects several aspects that can be matched with the performance standards. The proportion of waqf assets reflect Nazhir's effort to manage waqf assets. Performance of waqf management assets means the impact of Nazhir's effort and performance of waqf assets return reflect a Return on waqf assets.

## ***Funding***

This ratio measures Nazhir's ability to collect waqf contribution, both permanent and temporary endowments. The higher score this ratio has, the more effective and efficient the marketing or fundraising department will be. The effectiveness is measured by the suitability of the targets and the achievements of the marketing/fundraising team. This ratio can be analysed further by comparing vertically (respectively) and horizontally (with among Nazhir).



This section contains 2 ratios:

<i>Permanent Waqf Contribution</i>
<i>Total Income</i>
<i>Temporary Waqf Contribution</i>
<i>Total Income</i>

This ratio measures the proportion of waqf funds collected in one period with the total Nazhir income in the current year. This ratio ignores the impact of the measurement of waqf assets because they occur outside Nazhir control.

### ***Managing***

This ratio measures the effectiveness and efficiency of the management of waqf assets. This measurement aims to measure the performance of waqf management in managing waqf assets. The financial ratios include:

<i>Return of Waqf Asset Management</i>
<i>Total Income</i>

By comparing the return of waqf assets management and total income, we will find out the proportion of the returns of management over the amount of income recorded by Nazhir during the current period. Whereas to measure Nazhir efficiency, the following ratio is used:

<i>Operating Expenses</i>
<i>Total Expenses</i>

This ratio shows the proportion of operating expenses incurred by Nazhir from the total amount of expenditure during the current period. The higher ratio indicates that in its operations, Nazhir is not efficient. Whereas to measure what percentage of operating expenses taken from the results of the management of waqf assets are as follows:

<i>Total Operating Expenses</i>
<i>Return on Managing and Developing</i>

<i>Nazhir's Portion</i>
<i>Return on Managing and Developing</i>

This ratio shows the percentage of operational fund allocation is taken from the return of managing and developing activity. According to Law No. 41 of 2014, Nazhir portion max 10% from the results of the management and development of waqf assets.

In analysing the proportion of recapitalisation or reinvestment of waqf assets managed by Nazhir, the appropriate ratio is:

<i>Reinvestment of Return</i>
<i>Waqf Asset Management and Development Results</i>

In this ratio, the process of reinvestment of the return can be analysed. Reinvestment in this context is to improve the structure and/or change in the number of waqf assets by increasing the waqf assets. The recapitalisation process cannot be separated from the percentage of waqf assets. The proportion of assets that are optimised for management can be seen from the ratio:

<i>Investment</i>
<i>Total Asset</i>

This ratio analyses the proportion of waqf assets managed by Nazhir. This ratio measure optimisation of Waqf Asset.

### ***Donating***

This financial ratio measures how much proportion of the managed fund is channelled to the beneficiaries. The greater this ratio means, the greater the benefits are given to the *mauquf alaih* on the outcome of productive waqf management.

<i>Distributed Donation</i>
<i>Return on Managing and Developing</i>

### ***Multiplier Perform***

The multiplier performance ratio measures the effectiveness and efficiency of output based on the assets being managed. The higher ratio shows the greater impact of productive waqf management.

<i>Total Income – Assets Revaluation</i>
<i>Total Expenses</i>

This ratio analyses the total burden that can produce a certain amount of income (after deducting the impact of revaluation). Why must the revaluation of waqf assets not include? Because the impact of revaluation of waqf assets is not part of Nazhir performance, but rather from the market price of the rising assets. So it is not a fair right when the impact of revaluation is included in the performance indicators of waqf. The higher the results of this ratio reflect Nazhir's more effective performance. The effectiveness of the distribution performance conducted Nazhir over a period can be measured using the ratio:

<i>Distributed Donation</i>
<i>Operating Expenses</i>

This ratio analyses the performance of Nazhirs who issue a load of a certain amount but can distribute it to a large enough quantity. This is also related to how the beneficiary of the waqf institution is in the welfare of the local people, especially those in need. The effectiveness of the management of waqf assets with sacrifices that have been made can be measured using the ratio:

<i>Return on Waqf Assets Management</i>
<i>Operating Expenses</i>

By comparing Return on Waqf Assets Management with the total operating expenses incurred by Nazhir, it can be seen that Nazhir can provide a certain amount of benefits by issuing a certain amount of workload.

### ***Productivity***

Another part of the ratio to the analysis of the performance of waqf institutions is to compare the total Return on Managing and Developing with investments issued or carried out during the current period. This has implications for the trustworthiness of Nazhir in managing waqf assets. This ratio is separate from the previous grouping because it has a large impact and uses in practice; the ratio is:

<i>Return on Managing and Developing</i>
<i>Investment</i>

This ratio determines the results of the management of waqf funds from investments made by Nazhir. The higher ratio shows that Nazhir can manage its assets effectively.

### ***The Result Interpretation***

The results of the performance measurements of the Proportion (donating, managing, donating), Multiplier performance, and productivity performance components will be compared to Nazhir standard performance measurement. The proportion score must be compared to Nazhir standard procedures and see where is your entity. The standard of measurement model are as follows:

Scale	Performance
0.00 – 0.99	Low
1.00 – 1.99	Good
2.00 – 3.00	Verv Good

The Performance Multiplier, there are no specific limits to measure the impact of Nazhir's good or bad performance results. The higher the multiplier, the more effective the management of waqf assets by Nazhir. The purposes standard for this section is:

Score	Performance
0-10	Low
10-20	Good
> 20	Very Good

Unlike the performance multiplier, the performance of the results of the management of waqf assets has a standardised performance measure of Nazhir. These sizes are:

Score	Performance
0.00% - 4.50%	Low
4.51% - 10.00%	Good
>10.00%	Very Good

The measurement standard refers to the average rate of return of waqf assets in a risk-free or minimal risk condition. This means that if the fund waqf assets allocate that money in sharia deposits without re-managing its managed assets, it will get a profit-sharing equivalent to 4.5%. The same is true for government sukuk which have a risk 0% with an average rate of return 8% per year. This means that when Nazhir only puts its funds in sukuk without doing anything, the profit-sharing is around 8% per year.

These performance measurements are expected to have a positive impact on the decision-making process of the stakeholders. These ratios are only a supporting tool that will give an overview of Nazhir's performance during the current period.

This result actually related to previous research. This ratio refers to waqf accounting standard in Indonesia (PSAK 112, 2018) then compile financial ratio from Kaplan, R. S. (2001) framework with conformation Non-profit financial ratio of Ritchie, W. J., & Kolodinsky, R. W. (2003). This purposed ratio enhances accountability and provides important information to stakeholder; it relates to Ahmad, A. U. F., & Hasan, R. (2017), LeRoux, K., & Wright, N. S. (2010) and Siswantoro, D., Rosdiana, H., & Fathurahman, H. (2018) who said that performance measurement model to non-profit organisation enhances accountability especially waqf institution.

## Conclusion

Nazhir performance measurement becomes important to be assessed since many waqf assets are not used for productive activities, and there are no standardised performance measurement benchmarks. Nazhir performance measurement models are prepared using quantitative methods through financial ratios to assess the financial performance of Nazhir. The proposed financial ratio consists of 3 groups (Proportion, Multiplier, and Productivity) in order to give an idea about the Nazhir's financial performance. The impact of the assessment becomes a reference for stakeholders in the decision-making process. The limitation of this research is specifically on the quantitative aspects of the waqf institutions financial statements that refer to Sharia Accounting Standards. Suggestions for future researches is to to develop a further comprehensive measurement



of the performance of waqf institutions using qualitative and quantitative approaches that are in accordance with the Islamic teachings.

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