

Financial Management Practices in Religious Organizations: An Empirical Evidence of Mosque in Malaysia

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Abstract

Within Muslim community, mosque is place for congregation, a centre of excellence for knowledge, economic pursuit and community services, giving religious instruction and political discussions. Mosque plays a crucial role in various aspects of Muslim life. It has great potential to ensure that the welfare of nearby society is well-taken care. In order to achieve the said objective, mosques should have a strong financial performance. This study adopts a cross sectional data analysis to examine factor contributes to mosque financial performance. Subsequently, this study examines the effects of mosque financial performance on its quality of programme. Result of regression analysis revealed that good internal control and active involvement of mosque committees in fund raising activities enhance mosque financial performance. This study also discovered that strong financial performance facilitates the mosque to conduct more quality and quantity program. The finding should provide awareness to mosque committee member on the need to create an effective internal control strategy to improve financial performance. Next, mosque needs to recognize the importance of fundraising activity. Finally, all mosques need to invite committee members who have some financial institution background to discuss the management strategy for improving its financial performance and in turns it quantity and quality of programs outcome.

Keywords: mosque, financial management practices, internal control and fund raising activities

1. Introduction

Financial performance of a non-profit organization determines the quality and quantity of services provision (Siciliano, 1997; Sulaiman et al., 2008; Nordiawan & Hertianti, 2010). As such, it is important for a non-profit organization to maintain strong financial condition to achieve its strategic mission. One of the roles of board members of non-profit organization is to monitor their organizations' revenue and expenditure. Siciliano (1997) discovered that non-profit organization with board members, staffs and directors who have limited backgrounds in financial management have difficulty in understanding and improving their organization's financial performance.

In Malaysia, there are many non-profit organization established every year but it does not last long due inadequate resources to carry out daily activities. The survival of non-profit organization depends highly on donation from government, businesses, corporations, foundations, institutions, individuals, fees and lending (Tom Corbett, 2006; Dame Suzi Leather, Sam Younger, 2011). Many non-profit organizations are facing greater uncertainty, particularly in the financial field, as government budgets are being cut back and as non-profit organizations are being asked to shoulder more responsibilities (Deakin, 1995). For many non-profit organizations, one of the biggest challenges is not raising enough fund (Carol, 2001). However, according to Felix Salmon (2011) some non-profit organizations have a strong ability to generate adequate financial assistance to facilitate the non-profit organization to meet its strategic mission.

Mosque is considered as one of non-profit organization which raises funds in a form of trust and not for profit. Within Muslim community, mosque is place for congregation, a centre of excellence for knowledge, economic pursuit and community services, giving religious instruction, political discussions, and knowledge sharing

(Zaimche, 2002). With more than 10,000 mosques nationwide, the broad network exists whereby mosques are used for matters relating to well-being of the nearby community. These mosques have to generate their own fund in order to run the daily operations and activities for the benefit of the local society. Generally, the fund comes from federal, state and private sector as well as general public. As such it is important for mosque committee members to ensure fund received is used appropriately (Nordawan & Hertianti, 2010). As these funds considered as a trust, the mosques are expected to perform a transparent and accountable financial management and reporting in line with Islamic teachings.

Studies that focused on mosque have been extensive. However, the scope of these studies limited to the issues and challenges on financial management of mosque (Abdul Wahab, 2008), management accounting practice and risk management practices (Abdul Rasid & Abdul Rahman, 2009), internal control systems (Sulaiman et al., 2008), conservation activities of old traditional mosque (Johar et al., 2010), micro-credit programme (Yusoff et al., 2005), types of health services provided by religious organizations (Sen, 1994) and financial management and accounting of mosques (Diptyana, 2009). From those literatures, it can be concluded that there is lack of research to investigate the factors contribute to the performance of mosque. Hence, this study aims to examine factors contribute to the financial performance of mosque in Malaysia. Subsequently, this study examines the impact of mosque financial performance on the quality of program outcomes.

The remainder of this paper is structured as follows. The next section provides a review of relevant literature, hypotheses underpinning this study and research framework. Section 3 outlines the research design. The results are presented in section 4. A discussion of the results and their implications are provided in the last section.

2. Literature Review

Resource Dependence Theory has approached that organization survival is crucially depends on the ability to acquire and maintain resources (Pfeffer & Salancik, 1978). This theory has been used as a theoretical framework to explain factors that determine the performance of non-profit organization such as executive leadership (Heimovics et al., 1993), market orientation (Macedo et al., 2006) and board involvement (Hoge et al., 2005). These studies generally agreed that the survival of non-profit organization largely dependence on external resources. As such, the ability of non-profit organization to convince donors to provide adequate financial assistance facilitates the non-profit organization to meet its strategic mission.

There is a group of studies which focused on the donor's motivation (Brown, 2001; Bussell & Forbes, 2001; Bennett, 2002; Hibbert et al., 2005; Lyons et al., 2006). These studies explored factors that influence donor's response towards decision to donate. Among the factors motivate donors to contribute include fulfilling religious obligation, government policies, business philanthropy, taxation benefit and trust. Donors have a strong tendency to donate when they perceived the charities can be trusted (Hibbert et al., 2005; Sargeant et al., 2005).

Despite there is a growth concerns on the performance of non-profit organization, limited knowledge is known about the role of accounting practices to strategically address the current challenges faced by non-profit organization. Some authors argued that it is important for managers of non-profit organization to engage in strategic management to ensure its survival (Bradach, 2009; Bradshaw et al., 1992; Green & Griesinger, 1996; Herman et al., 1997). Past studies examined the effects of financial management practices (Victoria, 2004; Agus et al., 2009; Baharin et al., 2011); Internal control (Sulaiman et al., 2008; Wooten et al., 2003); fund raising activities (Grace, 2003; Kamaria & Lewis, 2009; Sen, 1994) on the performance of non-profit organization. However, these studies do not focused on Islamic faith organization such as mosque. This warrants more systematic investigation on the effects of strategic management practices of financial management practices, internal control effectiveness and fund raising activities on the performance of mosques in Malaysia.

3. Hypotheses Development

3.1 Financial Management Practices and Financial Performance

Previous studies provided a strong support on the positive effects of financial management practices and firm financial performance (Douglas & Judge, 2001; Easton & Jarrell, 1998; Hendricks & Singhal, 1996). Quality management practices can improve business performance by improving operational performance thus reducing costs (Sousa & Voss, 2002). Bakar and Ismail (2011) found that majority of the agencies have a 'good' financial management system, with Federal agencies performing better than their counterparts at the state level. Lack of proper disclosure has reduced their worthiness and need to be addressed to enhance the value of the overall audit rating system. Baharin et al. (2011) discovered that there is positive impact of employees' involvement and management practices on organization financial performance. Victoria, (2004) also has found a significant positive relationship between management practices and financial performance, measured in terms of revenues.

Hence, the following hypothesis is proposed:

H1: *There is a positive relationship between financial management practices and financial performance*

3.2 Internal Control System and Financial Performance

Sarbanes-Oxley Act of 2002 (SOX 2002) require companies to maintain, assess, and disclose internal control over financial reporting. The practices of internal controls system could predict potential future problems and risks. Tseng (2007) examined whether better internal controls can enhance firm performance. They found that the SOX' s efforts to promote better internal controls has created firm value and improve financial performance. Norvee (2006) examined three medium-sized Estonian manufacturing companies. The author suggested that in a long run, effective internal control will contribute to the achievement of the financial performance. To minimize business failure and protecting shareholders' investment organization should focuses on internal control system (International Federation of Accountant Committee). The increasing number of business failures largely due to lack of internal control in management (Jokipii, 2010). This finding is supported by Sulaiman et al. (2008). Study by Sulaiman et al., (2008) has proved that internal control system enhanced the financial performance. Prior studies by Amudo and Inanga (2009); Wooten et al. (2003); Muraleetharan (2009) provided consistent finding on the positive relationship between internal control and firms financial performance. Therefore, the following hypothesis is developed:

H2: *There is a positive relationship between internal control system and financial performance*

3.3 Fund Raising Activities and Financial Performance

Prior studies have proposed that non-profit managers should implement funding diversification by developing fundraising plan with multiple strategies. Sen (1994) discovered that Muslims in Cairo diversify the fund from zakat contributed by the Muslims. Zakat committee is responsible to manage and distribute the funds received to the poor community and those who needs financial aid from public to survive. This kind of donation of zakat which paid based on the individual income received will sustain the fund received and enhance the financial performance of the organization in helping the poor and unfortunate in the society.

According to Baharin (2011), non-profit organization requires knowledge and professional expertise, responsibility, conservatism and responsible administration to enhance its financial strength. The number of non-profit organizations that use and rely on professional advice is increasing along with the rising scope of their funds. According to Resource Dependence Theory (Schwartz & Austin, 2009) board members, managers and committees have to equip themselves with the skills of fund raising activities to ensure continuous flow of fund. Schwartz and Austin (2009) in the study examine how the changes in the federal government between 1960s and 1970s contributed to the rise of complex purchase-of-service contracts between non-profits and state, local and federal governments. During the federal cutbacks in the 1980s and the political changes in the 1990s, nonprofits are forced to diversify their fund to survive in a volatile, competitive and changing political and financial environment. Thus, this study develops the following hypothesis whether fund raising activities will influence the financial performance.

H3: *There is a positive relationship between fund raising activities with financial performance*

3.4 Financial Performance and Program Outcome

Fund received by the non-profit organization should be used to carry out activities for the benefit of society. Basinga (2008 & 2009), discovered that resources of poor countries, particularly in sub-Saharan Africa are low because these countries face with many challenges due to financial and human capital constraints, lack of motivation among health providers and lack of physical resources. The results provide support that financial performance incentives can improve both the use and quality of maternal health services. To increase the financial performance, the committees have to find ways and make full efforts to improve the fund aid by diversifying the programs to raise fund and this total fund received will determined the program outcomes of the mosques studied. Prior studies on the positive impact of financial performance on the quality and quantity of services includes (Siciliano, 1996; Sulaiman et al., 2008; Nordiawan & Hertianti, 2010). Hence, the following hypothesis is proposed:

H4: *There is a positive relationship between financial performance and quality of program*

4. Research Framework

Figure 1 illustrates the framework that underpins this study. This framework is based on Resource Dependency Theory of variables affecting an organization's performance. The framework indicates that the financial performance of mosque are determined by financial management practices, internal control and fund raising

activities. The framework also posits that financial performance may impact the quality of program outcomes. Studies in the strategic management literatures have shown that non-profit organization performance depend highly on the amount of fund received from government, businesses, corporations, foundations, institutions, individuals, fees and lending

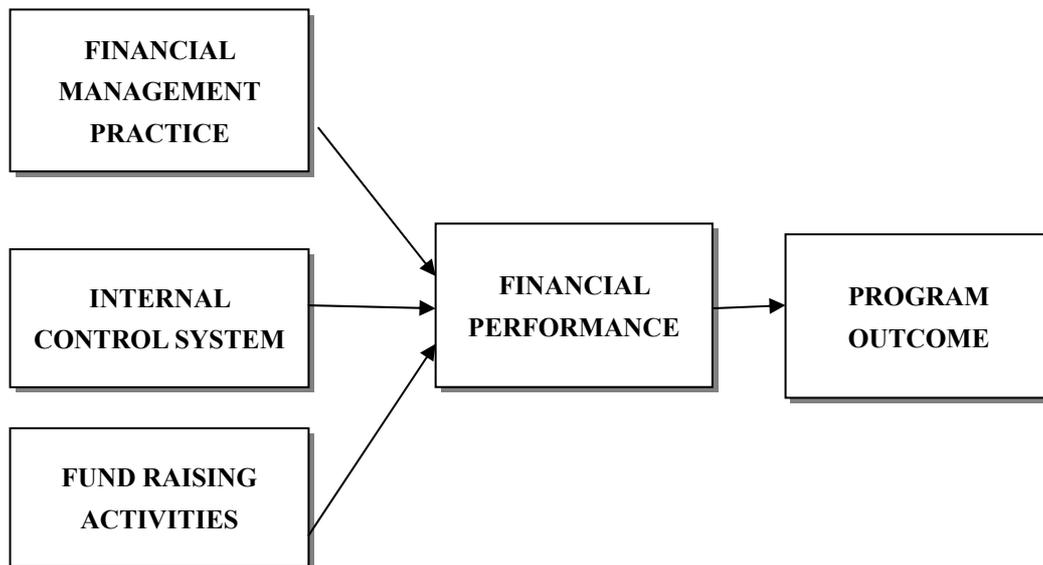


Figure 1. Conceptual framework

5. Methodology and Research Design

5.1 Sample

Structured questionnaires were distributed to selected mosque. The questionnaires were personally delivered by hand to 250 mosque treasurer all over Malaysia. The questionnaire is adapted from previous studies with some modification to suit the objective of this study. The questionnaire is divided into 5 sections. Section A comprises of questions related to financial management practices. Section B comprises of questions related to internal control system in their respective mosque. Section C and D request respondents to provide their opinion on the fund raising activities and the amount of fund collected. Section E asked respondents opinion on the quality of program outcomes. Respondents are requested to give their feedbacks on a seven points Likert scales from "strongly disagree" to "strongly agree". The items used in survey are shown in Table 1. Section F requests the respondents to provide information on their demographic profile. Demographic information on each respondent is requested including: age bracket, gender, designation, qualification and experience.

5.2 Measurement of Variables

Part 1 of the questionnaire measures the level of financial management practices by the mosque. Financial management practice is measured using seven items adapted from AbdWahab (2008). Respondents were requested to give their feedbacks on a seven points Likert scales from "strongly disagree" to "strongly agree". Respondents were asked whether financial report was being audited; Seminars, courses and training on financial management are held to the mosque committees members; the management has adopted corporate values in the financial management of mosque, Mosque is equipped with an on-line system that allows donors to use the internet to transfer fund, Financial reports were distributed to committee members, In our mosque we use of proper accounting system (or excel software system).

Part 2 of the questionnaire required respondents to express their opinion on the level of internal control. The measurement for this variable is adopted from Abdul Wahab (2008) and Sulaiman et al (2008). The items were: cash received is recorded, Mosques record all monies received and disbursed, all cash received will bank in at least the next working day,, the mosque provide an official receipt for each contribution or funds obtained.

Part 3 of the questionnaire aims to assess the fund raising activities of the mosque. Six items were asked based on Abdul Wahab (2008). The items were : committees have close relationship with outside organization and public for contribution and donation; local society always involved and contribute ideas in fund raising activities; the Mosque Committee always concerned on fund-raising efforts of the mosque rather than relies on weekly

collection; most donations was received for the local society that believed in the mosque committees' credibility and quality management; mosque used some of the fund collected to invest in unit trusts for example, cooperatives and others; there is a returns or dividend received on investment made by mosque.

Part 4 of the questionnaire comprises set of questions to measure financial performance of the mosque.3 items were asked. The items were; average monthly collection, *average* collection on every Friday, *average* collection during special months (fasting month).

Part 5 of the questionnaires asked respondents' opinion on the activities organized by the mosque. Mosque conduct motivation program during school holiday, Mosque invites renowned speaker, Mosque conduct daily/weekly/monthly lectures, seminars, Mosque involved in activities such as sport, family day, Mosque developed strategic plans and cooperates with other mosques for activities, Mosque organizing events to reward excellent achievers within their community.

6. Results and Discussion

Of the 250 questionnaires distributed, 203 were returned representing a response rate of 81%. The balance was rejected due to incomplete answer to most part of the questionnaires. Prior to testing the hypotheses, tests of reliability and normality were performed. SPSS package version 19 was used to perform the reliability test for each construct. Table 1 summarizes the result of Skewness, Kurtosis, Reliability and Pearson Correlation Coefficients. The coefficient alpha of each construct was compared to the cut-off value of .70 suggested by Nunnaly (1978). Skewness and kurtosis test were carried out to confirm the normality of data distribution. The z-value for skewness and kurtosis for all the variables range from 2.660 to -1.212 indicating that normality could be assumed at the .01 probability level. The results of the correlation test provides a preliminary finding on a significant positive relationship between financial management practices and financial performance ($r = 0.187$, $p = 0.008$); internal control effectiveness and financial performance ($r = 0.381$, $p = 0.000$); fund raising activities and fund collected ($r = 0.229$, $p = 0.000$) and financial performance and quality of program conducted ($r = 0.334$, $p = 0.000$).

Table 1. Summary of the finding of skewness, kurtosis, reliability and pearson correlation coefficients

	Skewness	Kurtosis	Reliability	FMP	ICS	FRA	FP	PO
Financial Mgt Practices (FMP)	-.221	-.590	0.741	1				
Internal Control System (ICS)	-.977	.998	0.701	.401**	1			
Fund Raising Activities (FRA)	-.273	.145	0.748	.388**	.299**	1		
Financial Performance (FP)	.085	-1.212	0.912	.187**	.381**	.299**	1	
Programme Outcome (PO)	.873	2.660	0.746	.531**	.226**	.402**	.334**	1

Table 2 shows the result of multiple regressions to examine whether financial management practices (FMP), internal control system (ICS) and fund raising activities (FRA) are significantly associated with the financial performance in the mosques. Based on the results, the regression was statistically significant at 10% (14.914, $p = 0.000$). The multiple R ($R = 0.428$) showed a high substantial correlation between independent variables and the dependent variables. The R^2 value indicated that about 18.4 percent of the variance in the financial performance in mosques was explained by the three independent variables that are FMP, ICS and FRA. The adjusted R^2 was 0.171 which meant that the regression model explained 17.1 percent of the various variables in the financial performance in mosque. Adjusted R^2 indicated how well the independence variables influence dependent variable (Baharin, 2011). The Durbin Watson statistics was 1.768, in position two, indicating that the correlation of the residual did not appear to be a problem. According to Pallant (2007), the cut-off points for determining the presence of multicollinearity was the VIF values above 10, representing that there was a possibility of multicollinearity. Therefore in this study, the range of the VIF values was between 1.212 and 1.316. As a result, the multicollinearity assumption was not violated.

The first objective of this study is to examine whether there is a positive relationship between financial management practices and mosque financial performance. Table 3 exhibited that there is no relationship between financial management practices and financial performance ($B = -.028$, $t = -.375$, $p = .078$). Hence H_1 is rejected. This finding consistent with the study by Maes et al. (2005) and Agus et al. (2009) that discovered no direct relationship between financial management practices and organizational performance. However, this study contradict with the study by Victoria, (2004) that had found a positively relationship between management practices and financial performance.

The second objective of this study is to examine whether there is a positive relationship between internal control

system and financial performance. Result exhibited in table 3 shows that there is a positively significant relationship between internal control system and financial performance ($B = 0.329$, $t = 4.635$, $p < .05$). Thus, internal control system has a positive relationship with the financial performance in mosque and supported hypothesis H2. This result is consistent with Muraleetharan (2009) and Sulaiman et al. (2008) and suggested that internal control is positively correlated with financial performance.

The third objective of this study is to examine whether there is a positive relationship between fund raising activities and financial performance. Table 3 exhibited that there is significant positive relationship between fund raising activities and financial performance ($B = .212$, $t = 3.003$, $p = 0.003$). Hence, this study supported hypothesis Hypothesis H3 that proposed fund raising activities have a positive relationship with financial performance. The finding of this study consistent to the finding found by Siciliano (1996); Sulaiman et al., (2008); Nordiawan & Hertianti, (2010) and Sen (1994). The finding also in line with the argument put forward by (Schwartz & Austin, 2009) who proposed that board members, managers and committees have to equip and actively involved themselves with the skills for fund raising activities to facilitate continuous flow of fund to non-profit organization.

Table 2. Regression results financial performance in Mosque

Variables	Coefficients	Std Error	t-stat	p-value	VIF
(Constant)		.642	-2.426	0.016**	
Mean_FMP	-.028	.161	-.375	0.708	1.316
Mean_ICS	.329	.186	4.635	0.000**	1.227
Mean_FRA	.212	.096	3.003	0.003**	1.212
R = 0.428					
R ² (AdjustedR ²) = 0.184 (0.171)					
F-statistic (p-value) = 14.914					

Note: ** Significant at 5% level.

The fourth hypothesis (H4) of the study is to examine whether there is positive relationship between financial performance and programme outcomes. This section examined the effect between financial performance and the program outcomes. Table 3 shows the regression result is statistically significant ($B = 3.34$, $p = 0.000$). The R² value indicated that about 11.2 percent of the variance in the programs outcome in mosque was explained by the one independent variable that is financial performance. The adjusted R² (0.107) explained that financial performance contributes 10.7 percent of the variables the affect the programs outcome in mosque. The Durbin Watson statistics (2.003) indicates that the correlation of the residual did not appear to be a problem. This study provides strong evidence of positive relationship between financial performance and quality of program carried out by the mosque. Hence, H4 should be supported. This implies that mosque with strong financial position have a strong tendency to conduct more quality programs such as motivation program during school holiday, invite renowned speakers and organize special gathering to celebrate special events.

Table 3. Regression results programs outcome in Mosque

Variables	Coefficients	Std Error	t-stat	p-value	VIF
(Constant)		.208	12.991	.000	
Mean_FP	.334	.070	5.026	.000**	1.000
R = 0.334					
R ² (AdjustedR ²) = 0.112 (0.107)					
F-statistic (p-value) = 25.264					

Notes: ** Significant at 5% level; ** Correlation is significant at the 0.01 level (2-tailed).

7. Discussion and Implications

As one of the Islamic non-profit organizations, mosques are required to conduct quality programs according to Islamic principles with limited fund from state and federal government. This high expectation becomes higher when it comes to large mosques which are trusted by huge number Muslim of communities. As such it is important for the committee members to be actively involved in fund generation activities to increase the sources of fund. The study shows mosques' committees need to build up close relationship with the outside organization in getting contribution or fund. An average weekly collection of less than RM500 and monthly average collection of less than RM 2000 is inadequate to provide quality program for the surrounding society. Thus, contribution

from other parties are highly needed to ensure the mission and goals of the mosque are being achieved.

In addition the mosque committees need to create an effective internal control strategy to improve financial performance. Good internal control enhance transparency of the mosque which enhance donors' confident to contribute more fund to the mosque. Jokipii (2010), proved that lack of internal control has increased the numbers of business failure. Similarly, lack of control management in mosque in reporting the transactions such as receiving income, authorization, recording of financial transactions, and periodic reconciliation will affect the report of financial performance. Proper internal control system will give better result in financial performance and shows that measuring effectiveness of internal control will improve the programs carried out by the mosque. Good internal control system such as disbursement of funds, recording and reporting receipt of income will affect the financial management practice in mosque enhance donors' confident to channel their money to the mosque. This in turns will improve its financial performance.

Subsequently, mosques need to recognize the importance of fundraising activity. Active involvement of mosques' committee members in fund raising activities facilitates continuous flow of fund to their mosque. They also need to equip themselves with the skills and knowledge of fund raising mechanism. Finally, all mosques need to invite committee members who have some financial institution background to discuss the management strategy for improving its financial performance and in turns ist quantity and quality of programs outcome.

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