

UNIVERSITI TEKNOLOGI MARA

**OPERATIONAL RISK
MANAGEMENT IN THE
DEVELOPMENT AND MAINTENANCE
OF KEDAH STATE ZAKAT BOARD**

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ABSTRACT

Operational Risk Management in the Development and Maintenance Division at Lembaga Zakat Negeri Kedah (LZNK) introduced the concept of operational risk management to address challenges in construction, repair, and maintenance activities for asnaf housing and other facilities. While the practice has been implemented over the years, previous studies primarily focused on the theoretical and Shariah development of operational frameworks. However, the practical issues and challenges faced by the Development and Maintenance Division at LZNK have received minimal attention from researchers. This study seeks to address this gap. Thus, this study sets three research objectives which are i) To explore the concept of operational risk management in the Development and Maintenance Division. ii) To identify the types of operational risks faced by the Development and Maintenance Division and the challenges in managing these risks. iii) To analyze the effectiveness of the risk management system in dealing with operational risk management in the Development and Maintenance Division at Kedah State Zakat Board. This study uses a qualitative method which using semi structured interview. The sample of this study consists of individuals with extensive experience in operational risk management within the division. Four respondents contributed to the success of this study, including the Head of Division, Head of Vehicle and Logistics Management Unit, Head of Construction and Repair Unit for Asnaf Housing, and Head of Asset, Building, and Electrical Maintenance Unit. The information and data obtained were analyzed using thematic methods. The study reveals that operational risk management practices at LZNK have evolved significantly. Procedures that were once manual are now supported by established systems, improving efficiency and accuracy. However, the division continues to face challenges such as a high number of assistance applications, insufficient staff to efficiently handle assessments, insufficient vehicles to meet last-minute demands, and disruptions caused by unplanned documentation requests. These makes the division faces negative impacts such as delays in project implementation, reduced quality of work, and disruption to overall operational effectiveness. Based on the findings, the study emphasizes the importance of structured risk management practices to enhance operational performance. It highlights the need for continuous improvements in training, system upgrades, and stakeholder engagement to address existing challenges. The recommendations provided can serve as guidelines for LZNK and similar institutions in drafting and planning strategic improvements, ensuring that operational risks are managed effectively and asnaf needs are met without compromise.

Keywords: *Operational Risk, Risk Managenent, Asnaf housing, Development and Maintenance Division, Lembaga Zakat Negeri Kedah (LZNK)*

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CHAPTER 1

INTRODUCTION

1.0 INTRODUCTION

Risk management is a comprehensive system that involves creating a conducive environment, measuring risks efficiently, mitigating those risks and maintaining strong internal controls. In this context, risk refers to the potential of an event or situation that threatens the organization's goals. It arises when there are various uncertain outcomes, basically representing unexpected changes or deviations from expected results (Tulasmı, 2019). For zakat institutions such as the Kedah State Zakat Board (LZNK), operational risk management is important, especially in the Development and Maintenance Division that oversees important projects such as housing asnaf (zakat recipients) and welfare-related infrastructure. These projects are key to fulfilling LZNK's mission to improve the quality of life of the less fortunate, ensure social justice, and adhere to the principles of Islamic wealth distribution.

However, the nature of LZNK's development and maintenance work exposes it to various operational risks. This is based on data from the risk assessment register, in the Development and Maintenance Division (2022), where there is an issue in the infrastructure maintenance process, which is that there is a backlog of applications for home improvement assistance for asnaf, because the approval of the application is made simultaneously without a set time frame. This has delayed the evaluation process due to insufficient staff to handle the evaluation efficiently. This issue highlights weaknesses in internal controls, which lead to inefficiencies and delays in delivering aid to asnaf. According to Ahmed Daooud (2023), if the risks that occur are not managed properly, this situation can cause significant financial losses, reputational damage and failure to carry out the organization's mission to serve society.

Matters involving risk are very important, but research conducted on operational risk management specifically for zakat-financed projects is limited. Research by Abdullah and Rahim (2021) emphasizes the need for a tailored risk management framework that