

UNIVERSITI TEKNOLOGI MARA

**ORGANIZATIONAL CAPABILITY
AND PERFORMANCE OF WAQF
INSTITUTIONS IN MALAYSIA**

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ABSTRACT

The *Waqf* institution is regarded as one of the most important institutions of Islamic civilization and has contributed significantly to the socioeconomic development of society for centuries. Notwithstanding its remarkable contribution to society, *waqf* institutions still face various challenges which include, underperformance and substantial improvements that need to be made. Based on the past literature, the possible causes are a lack of capable internal resources and performance measurement mechanisms. Resources management through organizational capabilities and a comprehensive performance measurement framework have been suggested for a better organizational performance of *waqf* institutions. Nevertheless, the recommendation was not supported empirically within the academic literature. It is in response to this that this study examined the influence of organizational capabilities, namely, entrepreneurship orientation dimensions that are risk-taking, pro-activeness and innovativeness, learning orientation, information technology capability (IT capability), and top management commitment on the performance of *waqf* institutions through the integration of the Resources Based View (RBV) theory and the Upper Echelon Theory (UPT). Due to the inconsistent results on the relationship between the variables in the literature, this study also assessed the mediating effect of IT capability on the relationship between innovativeness, learning orientation, and top management commitment and performance of *waqf* institutions. Besides a regression test, this study also determined the indicators to measure the performance of *waqf* institutions and subsequently evaluate the institution's performance based on the indicators. This study adopted a quantitative approach and used a cross-sectional survey design where a questionnaire survey was used to collect the data. The survey questionnaire was distributed to all State Islamic Religious Councils (SIRCs) as the administrators of *waqf* in Malaysia and the institutions established by the councils to manage *waqf*. The data was analyzed using SPSS to determine *waqf* performance measurement indicators and to examine the extent of the institutional performance. The Partial Least Square-Structural Equation Modelling (PLS-SEM) technique was used to test the hypotheses of the study. The findings identified seven dimensions and forty-two *waqf* performance measurement indicators. Based on the dimensions and indicators, it was found that generally, *waqf* institutions have a high level of performance. Institutional legitimacy, management effectiveness, social effectiveness, customer satisfaction, and social impact were the dimensions that showed a high level of performance. However, the financial and human resource performance of *waqf* institutions was at a moderate level. As for hypotheses testing, the findings are as follows: 1) Pro-activeness, innovativeness, IT capability, and top management commitment significantly influenced the performance of *waqf* institutions. On the other hand, risk-taking and learning orientation were insignificant to the performance of *waqf* institutions; 2) as a mediating variable, IT capability partially mediated the relationship between innovativeness and top management commitment to performance. Contrastingly, learning orientation demonstrated an insignificant influence when tested indirectly through IT capability as a mediating variable. This study contributes to the relevant empirical evidence which indicates that organizational capability and top management commitment do play a significant role in influencing the performance of *waqf* institutions. The results of the study may assist *waqf* institutions in acknowledging the areas of strength within their internal resources that they can leverage and mobilize for better performance.

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CHAPTER 1

INTRODUCTION

1.1 Introduction

The third-sector economy (voluntary sector) has gained enormous attention from various parties in recent years due to an increase in awareness of its role as an alternative mechanism for the socioeconomic development of society through social contribution (Cordery & Sinclair, 2013; Ebrahim, 2010). This sector has been growing rapidly in many developed and developing countries around the world and has played a crucial role in providing beneficial services to society. The recent health and economic crisis due to Covid-19 pandemic has shown that third-sector organizations complement the government spending to help people who were affected by the crisis, in many countries (Bin-Nashwan, Al-Daihani, Abdul-Jabbar, & Al-Ttaffi, 2022; Latief & Anwar, 2022; Zakariyah, Zakariyah, & Nor, 2021). The third sector covers a wide range of organization types such as charities, non-profit and non-governmental organizations, social enterprises, volunteer groups, cooperatives, and social movements (Brandsen, Van de Donk, & Putters, 2005) and the Islamic voluntary sector (Latief & Anwar, 2022).

From the Islamic perspective, there are various charitable instruments in the voluntary sector based on the concept of giving, such as *sadaqah*, *hibah*, *al-wasiyyah*, and *waqf* (Jalil, 2020). Each of the instruments has different features and *shariah* requirements, but all of them share the same purpose which is to serve for the benefit off the society. Firstly, *sadaqah* is a gift in any form of asset and can be distributed to anybody (Hassan, Amuda, & Parveen, 2017). Secondly, *hibah* is giving wealth to a certain party during the giver's lifetime (Muda, 2008), while *al-wasiyyah* is a gift in the form of wealth transferred to the recipient after the death of the giver (Puad, Rafdi, Sanusi, & Sarip, 2018). Lastly, *waqf* is a perpetual endowment in the form of property, money, or other items for charitable or religious purposes (Hassan & Shahid, 2010).

Waqf has been regarded as one of the crucial third-sector institutions in Islamic heritage over the years as it plays an important role in the socioeconomic development