

Agency Problem of Zakat Management: Case of Azka in Jember District, Indonesia

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Abstract

The purpose of this study was to understand the agency relationship in the distribution of zakat. This study used a qualitative approach by using the method of field research. Informants in this study are the internal and external stakeholders in the distribution of zakat institutions namely donors, recipients and managers. The results of this study indicate that the agency relationship applied is a multiple agency with emphasis on good service governance based on the principles of service namely Accountability, Transparency, Justice and Participation.

Keywords: Multiple Agency, Management of Zakat

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1. Introduction

Zakat management is an important issue in a country because zakat is one of the main sources of finance in Islam. Zakat is also one of the elements to improve the welfare of Muslims and can reduce poverty (Al-Qaradhawi, 1993: 253). Zakat is the best transfer mechanism in society (Pramanik, 1993: 83). Savas, to categorize orders to pay zakat in terms of private good and public good (Savas, 1987: 37). However, from this, it needs a good governance. Change is a natural thing and the government to achieve good governance should respond to it (Sedarmayanti, 2012: 4). Good governance in the management of zakat in an organized manner is the duty of public administration (Ostrom, 1989: 46). Dwiyanto (2014: 44), describes some of the characteristics and values inherent in the practice of good governance. For example, good governance should provide space for non-governmental or private institutions to participate optimally in government activities. This allows for a synergy between actors and government agencies with non-governmental or private such as Lembaga Amil Zakat (LAZ). In general, the charity organization divides into five, namely: Central Zakat Council Provincial Zakat Council, zakat district, Tehsil Zakat, and Local Zakat Committee. (Hidayati et al, 2010: 353).

Indonesia is one of the largest Islamic country in the world. According to population growth data issued by the World Bank in 2012, the total population of Indonesia amounted to 244 775 796 inhabitants and 88% are Muslim, or about 182.57 million inhabitants (Jakarta, Republika, 2009: 12). Public awareness to tithe in East Java, especially in Jember still low. (Yulinartati et al, 2012). AZKA institutions are public organizations that operate for the public benefit organization established by the community with reinforced a decree No. 103 of 2004, and perform the function of the State. Functions include the collection, distribution, utilization and reporting of charity in accordance with Chapter III of article 2 of Law No. 23 of zakat management in 2011. In addition, the location of AZKA is strategic, which is in front of the central city of Jember in arm with the Baitul Amien education center and is adjacent to Jami who became the center of the Nahdliyin. The fundamental question of this study is, why the Institute AZKA become an interesting object of study in this research?

2. Theoretical Review

2.1 Good Governance Paradigm

The renewal concept of governance related to the paradigm shift of development and activities of international institutions, such as the proposed UNDP (1995) as follows. "Sustainable governance as foundation for human development" the thinking about governance as a system advanced with the introduction of key concepts such as accountability and equity. Reviews these normative values Gave dimensions to the discussion surrounding governance and led to debates on the qualifications of good governance. "(Sukardi, 2013: 33). In substance, the definition divides it into two, namely assume governance is static, and considers governance as a dynamic process (Sukardi, 2013: 34).

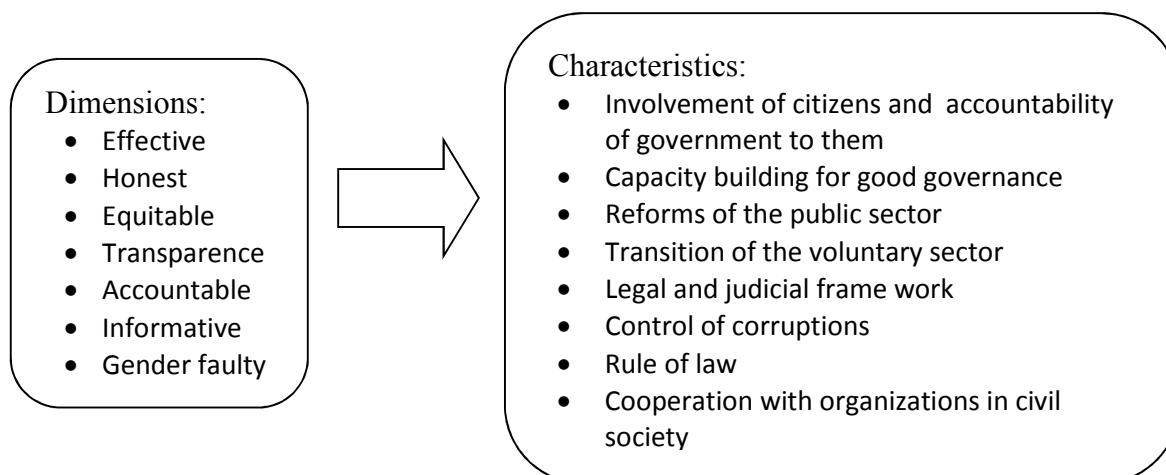


Chart 1. The dimensions and characteristics of governance in accordance with international financial institutions (ADB, World Bank, UNDP, and OECD)

Source: Isabelle Johnson (1997)

There are seven dimensions in understanding governance according to the ADB, World Bank, UNDP and OECD. Mother dimensions include effective, honest, equitable, transparent, accountable, and informative and discrepancies in the implementation of gender, governance characteristics of their civic engagement and government accountability, and increased capacity for good orders. Hence, the need for public sector reformed the transition from the private sector, supremacy of law, justice, and justice against corruption. It requires cooperation with civil society second thought, in general comes from the formulation of the academics who think that governance is a management process of government in managing resources (resources), including human resources (human capital), social resources or social capital (social capital), and natural resources (natural capital). The management of public issues involving all stakeholders in the concept of civil society (public-private and civil society). In conclusion, the concept of governance is seen as a system, a structure, a set of rules traditions, procedures, functions and relationships (interaction and interrelation) between actors or actors present in the three domains of power (government, private sector and civil society) (Sukardi, 2013: 38).

The concept of economy, efficiency and effectiveness for the next added to the New Governance by a number of authors. This new concept emphasizes the orientation on the value of institutional and other administration began to dominate the reform since 2000. Meanwhile, the traditional model of public administration dominated by monocentric system. Thus, the new public management is characterized by an autonomous structure, while the new governance is characterized by self-government that is real and managerial pluralism. Such a system is called a polycentric system (Gougis, 2012: 55)

The old pattern of the operation of the government is now no longer compatible with a society that has changed. Therefore, this claim is reasonable and should be responded to by the government to conduct directional change and the realization of good government organization (Sedarmayanti, 2012: 4).

So also with the mindset that revealed the governance as understanding has grown, beyond the management of the institution to include interactions between stakeholders, socio-economic environment, and their politics. (Schneider, 1999). Governance is seen as a complex system of interactions between structures, traditions, functions (responsibilities), and process characterized by three main values of accountability, transparency and participation (Sukardi, 2009: 35). Fukuyama (1999) stated that a good governance is more emphasis on social capital because it is seen as an informal norm that promotes cooperation between two or more individuals.

2.2 Agency Theory

Agency theory is a theory that is rooted in the synergy of economic theory, sociology and organizational theory. Principal is the party who bears the risk of the end of activities. Meanwhile, the agent is authorized parties or be assigned to do the job of principal. Preparation of a contract, either implicitly or explicitly. It is one of the principal to the agent. The hope that the agency will do the job as desired principal (in this case, the authority was delegated). Lupia and Mc.Cubbins (2000), stating delegation occurs when a person or group of people (principal) choose another person or group (the agent) to act in accordance with the interests of the principal.

The agency theory evolved in 1967 and a lot of criticism, but in this study the agency theory is still used in researching the institutional management of zakat with the agency relationship. Some critics of this theory among others, Blau (1970, 1972), Stigler and Friedland (1983), Robbins (1987), Perrow (1986), Donaldson (1985, 1990), Arrow (1985), Eisenhardt (1989), Anderson and Tollison (1982), Kosnik and Batenhansen (1988), Barney (1990),

Jones (1987), Hill (1990), Chanon (1978), Berle and Means (1932), Coase (1991).

In this study the main principles of agency theory states their working relationship between the givers of authority (principal) in this study was contributor with the recipient authority (agency), the Institute of Zakat distribution the form of a cooperation contract. The implications of the application of this theory can lead to opportunistic behavior or the behavior of efficiency for the agent. Agency theory has been practiced in public organizations, including in the public sector in Indonesia.

Agency Model, that simple assumes two options in the contract include (1) behavior-based, i.e. principal monitoring agent behavior and (2) outcome-based, namely the existence of incentives to motivate agents to achieve the interests of the principal. Experts generally adhered to the proposition that agents behave opportunistically toward principals. Opportunism means that when established a partnership between the principal and the agent will occur losses against the principals for the agent most likely want to put the interests of the individual (agent self-interest) (Zaenuri, 2010: 34).

Nicholson (1990) illustrates that if the principal use an agent to make decisions, the principal must pay attention to the motivation of the agent. It is not impossible that the agent made a different decision with the wishes of the principal so that the principal should receive contra lower than it should be accepted.

3. Framework of Thinking

According to the public choice perspective (Mc. Lean and Savas), selection is achieved because the rationality-bounded rationality. Therefore, it appears that individual measures and actions is collective.

AZKA institution is the object of this study. The reason for the existence of AZKA form of collective action and a manifestation of public choice theory. AZKA as a public organization, run the trust contributor, the trust of society and the state mandate. Associated with it, AZKA run four functions, namely the collection, distribution, usability, and reporting. However, all four of these functions run in suboptimal so that the effectiveness of the organization has not been reached. There are several causes, among others:

The First, the internal relations with foundations AZKA Al Bayt Amin not well ordered. In the language of Jensen and Meckling (1976) agency theory is a contract between the management (agent) which in this case is AZKA with the owner in this case Foundation Baitul Al Amin (the principal). Agency theory is part of the institutional theory in particular transaction costs. This contractual relationship in order to run smoothly, there is an internal transaction costs. It is called an agency fee, which costs arising from the agency relationship.

Second. The relationship between the agents who give alms to AZKA, which gives the recipient, AZKA with suppliers not well organized. The definition of an agency relationship with external parties, namely the relationship with an unrelated party in an organization.

4. Research Methods

This study used qualitative techniques, which in this case trying to construct a social reality in nature and understand its meaning. The common thing to do in a qualitative study, the researchers involved in the interaction with the reality examined. Thus, the resulting theory gaining a strong foothold in reality is contextual and historical. Qualitative research design to choose the focus of research containing a description of the dimensions of what was to become the center of attention, and that would be discussed in depth and thorough. The focus of this research is formulated to limit the problems of research on management of zakat, which is done by channeling zakat institution. Moreover, in the study of the science of public administration, public administration is the locus of the public interest (public interest) and public affairs (public affairs), while the focus of public administration is the theory of organizations, institutions included within the scope of the management of zakat institution. This limits the research studies in the management of zakat oriented public choice and agency relationships both internally and externally.

The type of data that is required in this study consisted of two types, namely primary data and secondary data. Primary data were collected using two techniques, i.e. participatory observation techniques (participant-observation), and interviews (interview). Meanwhile, secondary data collected by technical documentation. Data validity checking is done so that the validity of data tested level of credibility, transferability, dependability, and conformability (Hamidi, 2005: 82). Triangulation technique is used to test the validity of the data collected. Analysis of the data used in this research is the analysis of the data model of Miles and Huberman. Analysis of this data through several stages. (1) Organizing data performed after the data obtained from each research question was considered adequate. (2) To formulate and interpret data about the research. (3) Take a final conclusion on the data in the form of general findings and specific findings.

5. Results and Discussion

Environment within an organization can be distinguished on the internal environment (internal environment) and the external environment (external environment) (Wright et al., 1996: 4; Wheleen and Hunger, 2000: 8; Hitt, 1995: 6). The internal environment consists of a structure (structure), culture (culture), resources (resources) (Wheleen

& Hunger, 2000: 10). The internal environment should be analyzed to determine the strength (strength) and weaknesses (weaknesses) in the company. The structure is how the company is organized with respect to communication, authority and work flows. The structure is often called the chain of command and depicted graphically using organization charts. Culture is a pattern of beliefs, expectations, and values shared by members of the organization.

AZKA institution is the pioneer of Foundation of Al Bait al Amien Mosque of Jember. This institution was founded in 1999 by starting a Suffering Community Care Program (Propelitamas, an institution specifically addressing social issues with the flagship program of coaching protégé.

Along with the development of society as well as the foundation and with the enactment of Law No. 38 of 1999 on the management of zakat, the foundation Amien Al Bayt Institute tune into channeling Zakat & Charity Donation Waqf Al Bayt Amien (AZKA). In 2004 AZKA set by the regents as distribution of zakat institutions (LAZ) with the revelation of the Regent Decree 103 2004.

The purpose of establishing institutions to facilitate AZKA suppliers in fulfilling the obligation of zakat, in accordance with the rules of religion. In addition, it is also expected their distribution zakat is right on target and useful in empowering the community.

In perspective, the agency relationship Baitul Amin Al foundation can be synonymous as a principal, which gives credence to the agent, in this case is AZKA to regulate zakat in Jember. Because the system run decentralized, management AZKA can perform actions that are not profitable principal (foundations Al Baitul Amin), as a whole in the long term could harm the agency. Differences of interest between principal and agent is called agency problem which one of them caused by the presence of asymmetric information. Asymmetric Information, which is information that is not balanced and is caused by the unequal distribution of information between principal and agent.

In terms of management of zakat, the principal should obtain the information required to measure the success rate of zakat regulations that run the agent, but it turns out information about the measure of success of the regulation of zakat are not fully served by the agency. Consequently, the information obtained principal incomplete and therefore cannot explain the actual performance of agents in managing zakat, which has been entrusted to the agent.

Agency theory is part of an institutional approach that focuses on transaction costs, normative, there are costs of agency, while the agency costs are part of the transaction costs. Internal and external transactions in theory this agency if approached from the transaction costs of internal transaction costs, because in theory mackling internal transaction costs occur in people who are bound in a formal organization. In the management of zakat institution there AZKA internal transaction costs, i.e. costs due to contractual exchange between parties whose information is incomplete, opportunistic behavior and limited rationality that is tied up in a hierarchical organization.

5.1 External Relations Agency

The external environment is an environment that is outside the organization and need to be analyzed to determine opportunities (opportunities) and threats (threat) that will be faced by the company. There are two perspectives to conceptualize external environment. First, perspective view of the external environment as the vehicle that provides resources (resources) (Clark et al., 1994; Tan & Litschert, 1994). The second perspective view of the external environment as a source of information. The first perspective is based on the premise that the external environment is a vehicle that provides the resources critical to the survival of the company (Tan & Litschert, 1994). This perspective also implies an external potential in threatening the internal resources of the company. Strikes, deregulation, changes in legislation, for example, potentially damaging the internal resources of the company (Clark et al, 1994). The second perspective to associate information with the uncertainty of the environment (environmental uncertainty). Environmental uncertainties referring to external environmental conditions that are difficult to forecast (Clark et al., 1994). This is related to the ability of members of the organization in decision-making (decision-making).

From the research that has been done, it was found that the Agreement as a binding relationship between principal contributors to the first AZKA (contributor) choose to become active donors (donors who continue to provide donations to the agency every month). In this case what an agent means is AZKA or incidental donors (donors give donations only from time to time). Both are required to fill out a form in advance so that availability is no clear agreement between the principal agents. Form contain contractual agreements that contain a large amount of funds that give, delivery time zakat which consists of the date submitted zakat, alms handover execution, whether submitted by the principal directly to an agent, or taken by officers interpreter adoptee who is a permanent employee agents. In addition, the contract also stipulated on the election program utilization of zakat which is owned by the agency. Principal can choose the program, among others; scholarships, smile orphans, teacher of the Koran prosperous, caring style disaster, poor wallet, endowments Koran, saving sacrifice, micro credit and service charity, donation and charity.

In the agency theory, a contract has two purposes. First, to improve the ability of individuals (both principal

and agent) to evaluate the environment where decisions must be made (The belief revision role). Second, to evaluate the results of the decisions that have been taken in order to facilitate the allocation of the results between the principal and the agent in accordance with the employment contract (The performance evaluation role). Broadly classified into two agency theory (Eisenhardt, 1989: pages), which is positive research agency and principal agent research. Positive agent research focuses on identifying situations where agents and principals have conflicting objectives and control mechanism that is limited to only keep the agent self-serving behavior.

Exclusively, this group manage the conflicts of interest between owners (stockholders) with the manager. Meanwhile, the principal agent research focuses on optimal contract between behavior and results. Broadly speaking, the emphasis is on the relationship of principal and agent. Principal-agent research revealed that the agent-principal relationship could be applied more widely, for example, to describe the relationship of workers and employers, lawyers with clients, auditors with auditee

Agency theory cannot be removed from both sides at the top, both principal and agent is the main perpetrator and both have their respective bargaining position in a put position, role, and status. Principal as capital owners have access to the company's internal information, while the agents as perpetrators in the company's operational practice has information about the operation and performance of the company is real and thorough.

Position, function, situation, goals, interests, and backgrounds of principal and agent which are different and opposite each other will cause conflicts with each of interests (conflict of interest) and influence each other. Relating to auditing, both principal and agent is assumed as a person who has economic rationality, which every action is motivated by self-interest or would meet its interests before fulfilling the interests of others. Second finding of the study was associated with Akkad Enforcement Barriers; not written contributor Ethics. Zakat managed by AZKA institution belongs to the category of rational contract. It is a contract that cannot count all the uncertainties of the future, but only based on the agreement in the past, in the present, and expectations for the future relationship between actors involved in such contracts (Macneil, 1974). Each party shall both principal and agent running something that has been agreed and avoid treacherous. The third relations with receiver of AZKA external agency. Fourth Written Agreement as a binder Relationships

There is not only agreement (contract) between the principal (contributor) with an agent (AZKA), but also a contract (contract) between the agent (AZKA) and receiver (target group). Application of agency theory can be realized in the employment contract that regulates the proportion of the rights and obligations of each party with a fixed computation of their overall usefulness. The employment contract is a set of rules governing the mechanism for the results, in either the form of profits or the principal and the agent must approve risks. The employment contract will be optimal if the contract can balance between the principal and the agent are mathematically demonstrated the optimal implementation of the obligations by the agents and the provision of special satisfactory fee from the principal to the agent. According Eisenhart (1989) agency theory is based on three assumptions, namely; 1) assumptions about human nature, that a man has a nature to be selfish (self-interest), have limited rationality (bounded rationality) and dislike risk (risk aversion). 2) Organizational assumptions, namely the conflict between members of the organization, productivity and efficiency as criteria for their asymmetric information between the principal and the agent. 3) Assumptions about the information that the information is seen as a commodity that can be traded.

Agency theory, which was built in the major proposition, is the theory building that consists of the minor premise. The formulation of the theory illustrated in the chart Comparison Theory of Governance (Meier) and the Agency Theory (Jensen and Meckling) By Proposition Minor. Departing from the facts and empirical data that theoretically this research provides an understanding that the services related to the theory of agency services in institutions such as AZKA promote Good Service Governance with multiple patterns agency. Every principle involved in the system agent has a role and a dual function (Principle and agents) through a regulation system (double position), governance is run oriented to customer satisfaction not only profit oriented, it is intended as a guarantee of the continuity of services and objectives set in internal and external agreements

All contracts are executed in promoting the principle of Good Service Governance Transparency, Accountability, Justice and Participation. Implementation of the external shape of the Principle with AZKA (Foundation, director, employee) that the principles of agency and program targets stipulated in the technical service. Furthermore, governance in the wake of an internal contract between the Foundation-Directors and Employees to achieve good service governance are set in the technical system. Then external contracts built by AZKA (Foundation, Directors and Employees) with received in achieving good governance service set in agent service.

The practical findings of this research, the tangible system of governance promotes optimal service form of technical service, technical system and agent service that aims to make the management of zakat funds can rationalized and well distributed with the principles of accountability, transparent, justice and participation in accordance with the external and internal contract that has been done. There are three aspects expected to maximize agent performance and principle; the first performance indicator is AZKA be optimized with the ability to manage, to prepare a report and to distribute zakat. Second, the performance of director as the executor of the mandate of

the Foundation and contributor (Principle) which has the management ability, innovation leadership, performance of management capabilities and have sufficient leadership skills. Third, as the Employee Performance as Agent of donors, the Foundation and Director (Principle) are expected to have the ability to optimize the performance of good, has the ability to draw up a performance report, has the ability to map the field and duties and have the ability to work in a teamwork. Fourth, the target distribution program to the Recipient need the ability to manage and use zakat mainly productive zakat. Productive means maximizing the benefits of zakat to the priority needs. The distribution of zakat by agent expected on target as required recipient in the field and capable of being solutions to alleviate poverty. Productive zakat, either managed by individuals or groups are expected to assist and encourage the recipients to break out of the status of the receiver becomes a contributor in the future.

These research findings provide a new paradigm based on those results of the comparison between Good governance, Good Corporate Governance and Good Governance Service based on their differences. Firstly, in the aspect of good governance structure format (GG) was born as a solution to the problem management system that is dominated by one party in this government. While good corporate governance (GCG) was born in order to create a harmonious relationship in sharing authority and role while Good Service Governance (GSG) presence as an offer to manage and maximize the service system in the agency system. Second, the management of GG was built as an instrument for measuring the performance of the system of government in ensuring good governance and GCG born as an instrument for checking (control) and the balance of authority over-policy control of a company that GCG is expected to minimize mismanagement or misappropriation of company assets. While GSG formed as checking and service system involving all parties on targets and objectives set forth in the contract between the principle and the agent solely to maximize service as desired by principle, the management as expected by the principle is in line with the theory of Jensen and Mackling (1976). Third, management of GG in the public sector is done collectively for the benefit of the party led. The company's goals and principle interests manage GCG while GSG built on the interests and objectives of all parties, both external and internal through external contracts and internal standard. Those refers to the measurement of achievement performance of corresponding technical service, and technical system service agent. Fourth, the principles espoused differences this case because of the background, objectives and governance system that is different between GG, GCG and GSG. GG utilized principle of public participation, the supremacy of law, transparency, stakeholder care, equality, effectiveness and efficient, accountability, certain strategic vision. The GCG adheres to the principle of fairness (fairness procedural), transparency (openness of the system), accountability (responsibility of performance to the public), responsibility (accountability professionals), disclosure (the complement of a performance with adequate infrastructure), and control (supervision). GSG as a service agency adheres to accountability, transparency, justice authority, information and distribution program and the participation of all parties involved in multiple agencies.

6. Conclusions

Focus study in this research leads to the character of an agency relationship between the principle and the agent in the management of zakat by the Institute AZKA Baitul Amin al Jember. Based on the analysis of empirical data, the results from these studies show that. First, the theoretical characteristics of an agency relationship in the management of AZKA are multiple agency with emphasis on good service governance based on the principles of service Accountability, Transparency, Justice and Participation. So that all parties involved have optimum competence in accordance with the contract of external and internal contracts that have been set in technical service, system of agents and service agents.

Second, the results of this study in a practical deals that the agency relationship should be regulated in the internal and external contract refers to some principals namely; Accountability, Transparency, Justice and Participation which set out in the technical services, system agents and service agents. AZKA has a standard performance namely the ability to manage, to prepare a report and to distribute zakat. Second, standard performance of the Director are the management ability, innovation leadership, performance management capabilities and leadership skills. Third, the standard performance of Employees are the ability to optimize the performance of good, the ability to draw up a performance report, the ability to map the field and duties and also the ability to work in as a team. Fourth, the target distribution program to the receiver had the ability to manage and to maximize the benefits of zakat on priority needs. It means that the distribution right on target as required receiver and could be a solution to alleviate poverty. Especially for zakat productive, either managed by individuals or groups, it should assist and encourage the recipients to get out of the status of the receiver contributor

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