Sharia governance and organizational performance in zakat management organization: evidence from Indonesia

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Abstract

Purpose – This paper aims to investigate the impact of sharia governance on organizational performance in zakat management institutions in Indonesia over the period 2017-2021.

Design/methodology/approach – This study examined 33 zakat management organizations in Indonesia from 2017 through 2021 for 151 observations. Gross allocation ratio and growth of ZIS collection are used as organizational performance measures. The independent variables in this study are board of director size, educational background of the board of directors, sharia supervisory board size, sharia supervisory expertise, supervisory size and management size. Also, the study uses size, age and audit opinion as control variables to help measure the relationship between sharia governance and organizational performance.

Findings – This study shows that the board of directors and supervisory size positively and significantly affect organizational performance. Then, the educational background of board of directors has a negative and significant effect on organizational performance. In Model 1, sharia supervisory board size has a positive and significant effect on organizational performance, but in Model 2, sharia supervisory board size does not. Meanwhile, sharia supervisory expertise and management board size do not affect organizational performance.

Practical implications – The findings in this study illustrate the importance of transparency in the zakat management organization. Transparency helps minimize conflicts of interest and information asymmetry in the zakat management organization. In addition, sharia governance mechanism helps regulators and top management to make effective policies to improve and enhance organizational performance.

Social implications – Sharia governance is essential for zakat management organizations to increase accountability, credibility and public trust and support the practice of zakat management organizations.

Originality/value – This study discusses sharia governance and organizational performance in socioreligious organizations, especially zakat management organizations, which are still rarely carried out. Thus, this study broadens the insights of sharia governance and highlights the importance of performance appraisal in zakat management organizations.

Keywords Board of director, Management board, Organizational performance, Zakat management organization

Paper type Research paper
1. Introduction
Organizational performance indicates the organization's activities in managing its resources (Samsul Haidir, 2020). Performance challenges are not only faced by profit organizations but nonprofit organizations as well including zakat institutions. In addition, zakat institution is an organization empowered by the community to manage as much zakat, infaq and shadaqa as possible (Alshater et al., 2022; Huda and Sawarjuwono, 2013). So, the organization is responsible for good performance, which cannot be measured by return on asset or return on equity as other commercial institutions. In this study, performance relates to the effectiveness of ZIS fund distribution and the growth rate of ZIS fund (Baznas, 2019).

Moreover, the growth of zakat, infaq and shadaqa in Indonesia from 2002 to 2022 shows a positive trend. The ZIS collection reached Rp 22tn in 2022. It means there has been a significant increase, accounting for 11,881.81 billion or 84.16% compared to 2021. The growth trend also occurred in 2005 and 2007, when ZIS growth reached 95% due to natural disasters that occurred in Aceh and Yogyakarta. Similarly, in 2020, during the COVID-19 pandemic, the number of donations increased more than usual, as stated by the Puska Baznas policy brief (Baznas, 2023). The distribution for the collection in 2021 and 2022 is also considered very effective at 92.77%. At the beginning of 2022, the Directorate of Research and Development has mapped the potential for zakat in Indonesia. The potential of its collection can reach up to Rp 250,406.32bn in 2023 (Baznas, 2023).

Despite of its potential, zakat institutions still cannot reach the targeted number. In other words, zakat institutions still cannot maximize their potential. Following that, Widiastuti et al. (2021) mentioned, zakat institution is still a lack of coordination and synergy among zakat institutions, which leads to overlapping zakat collection. There are still many zakat organizations that cannot identify the potential of muzakki, both individual and corporate. Besides, zakat institutions is also lack of human resources both in its quantity and quality, lack of technology awareness, lack of management and financial skill, as well as lack of ability in selecting zakat recipient.

Good governance is the key for a zakat management organization to become a credible, accountable, transparent and trusted organization by the community (Anwar and Khalsiah, 2017; Indrarini, 2017; Nurhasanah, 2018; Putra et al., 2020; Saputra, 2020). Good governance is also a problem-solving for the problems faced by the zakat management organization. Sharia governance mechanisms are internal controls designed to ensure that management applies appropriate corporate governance principles and is consistent with sharia principles ( Sawmar and Mohammed, 2021). The effectiveness of zakat distribution and zakat growth is the key performance indicator of zakat institutions (Baznas, 2019). However, good organizational performance can be proved through a good sharia governance structure (Ahmad, 2019; Hasan et al., 2019; Nomran, 2021).

Widiastuti et al. (2021) provide a strategy for maximizing zakat governance to support zakat institution performance. It is highlighted that the governance standardization for zakat institutions must be carried out like the other companies does. This standardization includes a good sharia governance structure, supervision and sanctions by the supervisory board. Second, human resources’ quality, quantity and capacity must be developed, specifically in organizational management, financial management and technology. Amalia (2019) emphasized that her research findings can also be used to develop guidelines on the governance of zakat administration and serve as a reference for developing guidelines related to standardization of governance in zakat institutions. In addition, internal control and sharia supervisory board roles are a form of sharia governance. According to Mediawati and Fitrijanti (2016), the influence of internal control implementation and the role of sharia supervisory board has a positive effect on the performance of zakat institutions. Similarly,
Mediawati et al. (2019) stated that the role of sharia governing body is crucial to the governance and performance of the zakat administration.

On top of that, there are many research has been conducted on sharia governance. Grassa and Matoussi (2014), Mollah and Zaman (2015), Nawaz (2017a), Quttainah et al. (2017) and Zeineb and Mensi (2018) shows that sharia governance has principles that are in line with Islamic law, where the goal is to ensure that organizational policies do not conflict with religious values and the interests of stakeholders. This aligns with agency principles, where managers as agents must act to achieve principal goals. In Islam, the principles of justice and accountability are emphasized. In practice, sharia governance emphasizes compliance with sharia law, transparency, accountability, social responsibility and active participation of stakeholders. Other studies include those conducted by Almutairi and Quttainah (2017), Bouri and Ajili (2018), Farag et al. (2018), Hakimi et al. (2015), Musibah and Alfattani (2014), Nawaz et al. (2021) and Nomran et al. (2016) shows that with these principles, sharia governance can help minimize the tendency of managers to carry out agency behavior that is detrimental to other stakeholders. Conversely, sharia governance encourages management to be morally and ethically responsible in managing the organization by maintaining the expectations and trust of stakeholders. In the context of agency theory, sharia governance can help strengthen the relationship between principals and agents within the organization by ensuring adequate supervision and control to minimize potential conflicts of interest.

Sharia governance is a popular research subject used to test Islamic banks performance and plays an important role for the company (Almusheifri and Matriano, 2021; Buallay, 2019a; Elamer et al., 2019; Falikhhatun et al., 2020; Hamza, 2013). The issues used in this research are board of directors, sharia supervisory board and another component. However, research on sharia governance and organizational performance in zakat institutions is still rare; hence, this research is the first study to address this topic. This study attempts to explore the impact of sharia governance on organizational performance in zakat institutions in Indonesia. The proxies used are the board of director size and educational background, sharia supervisory board size and expertise, supervisory board size and management board size. In contrast, the performance uses proxies for the gross allocation ratio (GAR) and growth of ZIS. This research was inspired by Rahman and Jusoh (2018) regarding the board of directors, sharia supervisory board and zakat distribution performance, which are still at the review level, so the current research tries to test it empirically.

This research is divided into several parts. Section 1 is a research introduction, Section 2 outlines literature review, theoretical framework and research hypotheses. Section 3 presents methodology, Section 4 provides findings and discussion of the research and Section 5 is conclusions followed by research impacts, limitations and future research.

2. Literature review and hypotheses development

2.1 Agency theory

This research uses agency theory to explain the role of implementing sharia governance on organizational performance in zakat management organizations. Jensen and Meckling (1976) mentioned that agency theory is the relationship between two individuals, namely, principal and agent. The principal entrusts management to manage funds with full responsibility. The principal usually provides incentives in the form of financial and nonfinancial to management (Fama and Jensen, 1983; Jensen and Meckling, 1976). The problems arise between agents and principals is the different perspectives and actions between the two parties regarding information. Over the agency theory, it is known that there are labor contracts that regulate the asymmetry of each party interest (Darwanto and Chariri, 2019). In the zakat institutions, the founder gives a mandate to the board of directors
and other boards to manage the organization. To avoid conflicts of interest, zakat institutions must implement good sharia governance and comply with sharia principles (Amalia, 2019; Sawmar and Mohammed, 2021).

2.2 Zakat management organization in Indonesia
Zakat institutions are organizations that collect, distribute and use zakat (Mardian et al., 2021). These institutions have helped reduce poverty and improve economy in various countries (Saputra, 2020). As has been practiced in Morocco, the Ministry of Finance and the Ministry of Awqaf work together to form a zakat institution to collect zakat from the public, even though it is in the form of a private or semipublic structure (Ghaouri et al., 2023). Ahmad’s research (2019) reveals that if appropriately managed, zakat institutions in Nigeria can improve the country’s infrastructure, assisting in eradicating poverty and realizing the millennium development goals. In Malaysia, even zakat is mandatory based on a law issued by the government (Hasan et al., 2019).

The Law Number 23 of 2011 concerning zakat management has become an essential history for zakat management in Indonesia. This law is a form of revision of the previous zakat management law (Cahyadi, 2020; Rini et al., 2021). According to the law, zakat management is carried out by the Amil Zakat Agency (BAZ) and the Amil Zakat Institution (LAZ). BAZ is a government institution, whereas LAZ is a private organization with a legal permit from the government. According to the law, zakat management organizations have the task of planning, implementing and coordinating the collection, distribution and utilization of zakat. Specifically, the management of zakat in Indonesia has two objectives, increasing zakat management effectively and efficiently, and increasing the benefits of zakat to realize social welfare and poverty alleviation.

2.3 Sharia governance
Based on agency theory, corporate governance is built to oversee the companies’ management. Besides, corporate governance is an action that can protects shareholders from managers’ takeover (Aslam and Haron, 2021). However, current corporate governance is no longer seen in the relationship between shareholders and management but also the relationship between management, board of directors, shareholders and other corporate stakeholders. In the context of zakat, the relationship between the founders, board of directors and other related parties. This modern view aligns with stakeholder theory, which states that building good relationships with all stakeholders is essential in achieving organizational goals (Aslam and Haron, 2020).

Corporate governance is the company’s internal control that aims to ensure management applies the principles of good corporate governance (Firmansyah and Devi, 2017; Tahliani, 2018). Good corporate governance principles include accountability, transparency, responsibility and fairness (Ayuniyyah and Hafidhuddin, 2020). The performance of zakat management organization as measured by the effectiveness of the distribution of the collection and growth of zakat is a form of embodiment of the principles of good organizational governance. However, good corporate governance can only be realized through a good corporate governance structure (Rahman and Jusoh, 2018). Therefore, corporate governance structure can affect the performance of zakat management organization (Amir et al., 2022; Rahman and Jusoh, 2018).

The corporate governance structure generally consists of a general meeting of shareholders, a board of commissioners, directors and committees under the board of commissioners (Aslam and Haron, 2020; Nomran and Haron, 2019). In the context of the zakat management organization, sharia governance structure consists of the foundation owner, supervisory board, management board, supervisory board and board of directors.
Interestingly, sharia governance has a specific role different from conventional organizations, namely, sharia supervisory board (Ginena and Hamid, 2015). Sharia governance views that organizations must be managed in accordance with sharia principles. Therefore, sharia supervisory board must involve prominent experts and academicians (Ginena and Hamid, 2015; Musibah and Alfattani, 2014; Nawaz et al., 2021; Pratama et al., 2022).

Strong sharia governance is needed to improve stakeholders’ performance, trust and confidence in zakat management organizations. Such beliefs will impact organizational stability and performance (Mubarokah et al., 2018; Pamuncak et al., 2021). Strong sharia governance will also help increase stakeholder knowledge and understanding of sharia transaction law. Thus, they will be better positioned to decide whether they wish to donate or not, based on proper, accurate and adequate sharia disclosure. Such efforts will reduce information asymmetry between managers and stakeholders and increase public trust (Jensen and Meckling, 1976).

2.4 Theoretical framework and research hypotheses
Sharia governance is an organization’s internal controls aimed at ensuring good governance and adherence to sharia principles. Good governance structures reflect sharia governance (Aslam and Haron, 2020; Elamer et al., 2019). Various characteristics determine the performance effectiveness of each board. According to agency theory, the more members on an organization’s board of directors, the less effective communication and coordination become (Jensen and Meckling, 1976). As a result, the lack of unanimity slows down decision-making. Previous research has shown that ineffective board performance impacts organizational performance (Grassa and Matoussi, 2014; Mollah et al., 2017; Mollah and Zaman, 2015).

Similarly, Rahim and Mahat (2015) argue that more boards impact performance due to coordination costs. However, Hakimi et al. (2015), Mezzi (2018) and Nawaz (2017a) argued that the size of the board of directors significantly affects organizational performance. Farag et al. (2018) explain that the increasing need for many boards of directors is due to the organization’s growing needs. The bigger the board of directors, the more harmonious and effective it will be in decision-making. Education on the board of directors is the intellectual capital that allows members of the organization to be more productive and more motivated to achieve goals and improve organizational performance. Board of directors with a high educational background tends to be able to process information to produce excellent and profitable decisions for the organization. Previous research has found that board directors with a high background positively affect organizational performance (Agustia et al., 2022; John et al., 2020). In line with Darmadi’s (2013) research, organizations with highly educated boards of directors will be more profitable, especially in decision-making. However, according to Boadi and Osarfo (2019), boards of directors with a higher educational background can experience failure in implementing strategies which result in decreased organizational performance.

A large sharia supervisory board is predicted to be more effective in conducting supervision. Quttainah et al. (2017) found that board size affects its ability to control and review all transactions of zakat management organizations. With many members involved in sharia supervisory board, their knowledge and experience will encourage greater levels of information disclosure (Mollah and Zaman, 2015; Musibah and Alfattani, 2014; Nomran et al., 2016). Almutairi and Quttainah (2017) also mentioned that the size of the sharia supervisory board leads to better sharia compliance. Unlike the case of Bouri and Ajili (2018) and Zeineb and Mensi (2018), the size of sharia supervisory board does not affect organizational performance. This is due to the existence of sharia supervisory board just to...
enforce regulations that require a sharia institution to have such a board. In addition, it is possible that sharia supervisory board has not been optimal in supervising the institution’s activities as a whole. The expertise possessed by the sharia supervisory board has a vital role in the quality of decision-making. It will affect zakat management organizations’ compliance level (Mukhibad and Anisykurillah, 2020). According to research conducted by Grassa and Matoussi (2014), the expertise possessed by sharia supervisory board will assist them in solving sharia and zakat problems. In line with the research of Almutairi and Quttainah (2017), there is a positive relationship between the competence of sharia supervisory board and the level of sharia compliance. However, according to Bouri and Ajili (2018) and Nomran et al. (2016), there is still a lack of expertise in Islamic finance to occupy the board positions.

Supervisory and management boards are part of the zakat management organization’s organs. The supervisory board has a role in internal control, and management board has a role in overseeing the policies, programs and budgets, and approvals executed by board of directors. Studies on these two organs are still scarce. However, empirical evidence proves that the existence of a supervisory board has a positive effect on organizational performance (Mediawati and Fitrijanti, 2016). The size of the large supervisory board is expected to increase the quality of internal control of zakat management organizations. Another study conducted by Amir et al. (2022), Mediawati and Fitrijanti (2016) and Yolanda et al. (2020) found that internal control has an important role in the supervision carried out by management. Likewise, with the management board, it is hoped that a large management board will improve the performance of zakat management organizations. According to Croci (2018) and Failikhatun and Putri (2022), the management board’s size will impact performance. Many experiences are used as a reference in preparing policies, programs and budgets. But beyond that, the size of a large board tends to be more challenging to communicate and coordinate (Grassa and Matoussi, 2014; Mollah and Zaman, 2015). The impact is that there is information asymmetry, which causes a decrease in the performance of an organization (Mollah et al., 2017).

2.4.1 Board of director. Board of directors is an essential organizational governance mechanism (Aslam and Haron, 2020, 2021). The board of directors has a role in designing an efficient control mechanism for organizational governance (Croci, 2018; Feng et al., 2016). According to agency theory, the agent–principal relationship is usually based on an agency contract stipulating the agent’s duties, responsibilities and incentives. This contract aims to achieve organizational goals and minimize conflicts of interest between agents and principals (Aslam and Haron, 2021; Jensen and Meckling, 1976). In zakat management organizations, board of directors is appointed by management board who are tasked with making strategic decisions, such as closing annual reports, designing strategies and budget plans and programs for the following year (Mubtadi and Susilowati, 2018; Sawmar and Mohammed, 2021; Tahlani, 2018). Board of directors is generally responsible for managing zakat management organizations, implementing good organizational governance principles, preparing budget plans and programs, establishing and communicating strategic policies to all stakeholders and presenting financial reports. In addition, board of directors is also responsible for reporting to stakeholders regarding nonfinancial matters such as empowerment programs, human resources, information technology, muzakki, mustahik and organizational partners (Amalia, 2019; Firmansyah and Devi, 2017).

The effectiveness of the directors’ performance is affected by the size of board of directors (Nawaz, 2017b; Nawaz et al., 2021). According to Mediawati and Fitrijanti (2016) and Widiastuti et al. (2021), the low collection is due to a lack of human resources and quality. This is confirmed by Baznas Regulation Number 3 of 2019, which states that human
resources in zakat management organizations must have the technical, administrative and financial capabilities to carry out their activities and number at least 20 people. Previous research that has been produced by Farag et al. (2018) and Nawaz (2017a) shows that board size positively affects organizational performance through more effective manager control. Other studies, including those conducted by Falikhatun and Putri (2022), Hakimi et al. (2015) and Mezzi (2018) also show that large board sizes have more diverse expertise, enable wider internal and external networks and increase the ability to handle complex problems using extensive information to provide advice to managers. Seeing that zakat management organizations still need standardization to form good governance, it is hoped that a larger board will be better able to provide input and advice on issues related to the governance of zakat management organizations so that it will impact their performance. Understanding the role of board of director's size in influencing the performance of zakat management organizations can expand in this context. As a result, the following hypothesis was proposed:

**H1.** BOD size has a positive effect on organizational performance in zakat institution.

Agency theory suggests that boards of directors with an educational background tend to understand the principles of agency theory better. They can identify agency risks in the company and implement appropriate strategies to reduce them (John et al., 2020). In addition, the educational background of the board of directors can influence how they analyze and understand relevant information in making strategic decisions (Darmadi, 2013). Educational background is also a measure of board of directors' effectiveness (Croci, 2018; Khan and Abdul Subhan, 2019). According to Kusumastati et al. (2022), an organization that is led by a professional and has expertise is expected to be able to deal with various problems in its business. Background and experience matching the organization's needs are important for the board's composition (Saidu, 2019). Board of directors with a high educational background and experience are expected to identify, analyze and make decisions correctly in optimizing all existing opportunities for success, especially organizational performance in the future.

Research conducted by Agustia et al. (2022) and Darmadi (2013) found that board of directors education positively affects organizational performance. High education will be reacted positively compared to low education by the market. In addition, board of directors can use that mindset resulting from the educational process as a reference for better strategic decision-making (John et al., 2020). So, the higher the education of board of directors, the better it will be in deciding for the organization. As a result, good decision-making will impact organizational performance. Board of directors of zakat management organization must have a high educational background, which will significantly help improve governance and organizational performance. To test the impact of the educational background of board of directors on zakat management organization's performance, the following hypothesis was proposed:

**H2.** Educational background of BOD has a positive effect on organizational performance in zakat institution.

2.4.2 Sharia supervisory board. AAOIFI governance standards No. 1 state clearly that the sharia supervisory board is an independent board responsible for directing, reviewing and overseeing sharia compliance and legal decisions in Islamic financial institutions (AAOIFI, 2016). This is also in line with the agency theory, which sharia supervisory board has an essential role in overseeing the compliance of zakat institutions with sharia principles.
Sharia supervisory board functions as sharia control over the zakat management process starting from collecting and distributing zakat. In particular, sharia supervisory board has the following roles and functions: examining the basis of sharia law based on the Al-Quran, hadith and ijtihad of the scholars, issuing sharia opinions on issues or questions raised by each staff and serving as guidelines (Rahman and Jusoh, 2018). In addition, sharia supervisory board must ensure that the zakat management organization complies with sharia rules and principles (Wijayanti and Setiawan, 2022).

Sharia supervisory board has a role in influencing and supervising zakat management organizations. Previous research has investigated that the effectiveness of distribution is influenced by the existence of sharia supervisory board (Mediawati and Fitrijanti, 2016). The existence of a sharia supervisory board as an internal control for zakat management organizations for sharia compliance (Mediawati et al., 2019). As with the board of directors, the performance effectiveness of the sharia supervisory board can also be determined by the size of sharia supervisory board. Based on Baznas regulation Number 3 of 2019, the number of sharia supervisory boards in zakat management organizations consists of at least a chairperson and two members who have received recommendations from the Indonesian Ulema Council. Several previous studies have shown that the more members of sharia supervisory board, the better the ability of sharia supervisory board to control and supervise the performance of organizational management and ensure compliance with sharia principles (Almutairi and Quttainah, 2017; Mollah and Zaman, 2015; Musibah and Alfattani, 2014; Quttainah et al., 2017). As a result, the governance of zakat management organizations is better and as a form of compliance with sharia principles (Farag et al., 2018; Hakimi et al., 2015; Nomran et al., 2016). With various kinds of transactions that occur in zakat management organizations and the emergence of contemporary transactions, the presence of many and prominent sharia board members is more capable of providing input to management and affecting its performance. Therefore, a hypothesis is presented to examine the impact of sharia supervisory board size on the zakat management organization’s performance in Indonesia:

$$H_3. \text{SSB size has a positive effect on organizational performance in zakat institution.}$$

Nawaz et al. (2021) argue that every zakat management organization must have a sharia supervisory board capable of various skills and expertise. Meanwhile, IFSB-10 reviews that board members comprise a panel of sharia experts who supervise the related activities. With the roles and functions the sharia supervisory board carries, its members are experts. Sharia supervisory board’s expertise in agency theory is significant because they act as independent supervisors that help prevent conflicts of interest and ensure compliance with sharia principles (Mukhibad and Anisykurlillah, 2020). In addition to sharia supervisory board size, the performance effectiveness of sharia supervisory board is also related to the expertise of sharia supervisory board (Nawaz, 2017a). The expertise of sharia supervisory board represents the breadth of knowledge and level of professionalism of sharia supervisory board, which is not only related to issues of sharia principles but also economic, financial and social issues (Mukhibad et al., 2021; Mukhibad and Anisykurlillah, 2020). Therefore, it is suggested that there is sharia supervisory board not only from sharia experts but experts in other fields so that they can deal with current issues (Mediawati et al., 2019). The studies that have been conducted found that professionalism. Sharia supervisory board’s expertise positively affects the organization’s financial performance (Grassa and Matoussi, 2014; Mukhibad and Anisykurlillah, 2020). The existence of sharia supervisory board is a differentiator from other financial institutions, especially in zakat management.
organizations, because all transactions must comply with sharia principles. Therefore, the expertise of sharia supervisory board is significant for the effectiveness of the zakat management organization. Therefore, this study attempts to examine sharia supervisory board’s expertise against zakat management organization’s performance. As a result, the following hypothesis was proposed:

\[ H4. \text{SSB expertise has a positive effect on organizational performance in zakat institution.} \]

2.4.3 Supervisory board. Supervisory board is one of the organs in the zakat management organization. The existence of supervisory board as an independent board tasked with overseeing the activities of zakat management organizations. Agency theory argues that there is a need for oversight of agents to ensure compliance with assigned duties and responsibilities. Supervision can be done through performance monitoring, financial reports, audits or other oversight mechanisms. Adequate supervision can help reduce the risk of agent actions inconsistent with the principal’s interests (Mediawati and Fitrijanti, 2016; Yang, 2012). The role and function of supervisory board is to ensure that the financial reports presented comply with generally accepted standards and applicable regulations. Then, ensure the reliability of financial reports, because financial reports are a form of accountability of zakat management organizations to the public. In addition, the role of the supervisory board is in line with COSO’s statement regarding internal control, namely, that internal control does not affect the reliability of financial reports but also demonstrates effective control for all transactions carried out in compliance with generally accepted laws and regulations (Amir et al., 2022).

Supervisory board size can determine the effectiveness of supervisory board’s performance. Not many studies have discussed the supervisory board of zakat management organizations. However, empirical evidence proves that the greater the number of supervisory boards, the stronger the internal control. That internal control affects the performance of zakat management organizations because internal control will affect compliance with generally accepted laws and regulations (Amir et al., 2022; Mediawati and Fitrijanti, 2016; Yolanda et al., 2020). A large enough supervisory board will improve performance and internal control in zakat management organizations. Thus, the following hypothesis was formulated:

\[ H5. \text{SB size has a positive effect on organizational performance in zakat institution.} \]

2.4.4 Management board. Another board in the zakat governing body is management board (Saad et al., 2023). The management has functions and roles such as overseeing the implementation of the approved work plan, overseeing the implementation of established policies and overseeing the board’s administrative activities, including the collection, distribution and use of ZIS (Amalia, 2019; Hasan et al., 2019). Board of directors is elected by the founder to report directly to management board in performing their duties in the zakat institution. Management board must approve the programs and policies implemented by board of director. In addition to supervising the implementation of the policies that have been set, the management board’s function and role is as an agent. In line with agency theory, management board must establish good communication with board of directors to prevent information asymmetry. This can result in moral risk or adverse selection (Elamer et al., 2019; Jensen and Meckling, 1976).

The performance effectiveness of management board can also be determined using management board measurements. Studies on the effect of management board size are rare,
but some empirical evidence shows that management board size can boost performance levels in zakat management organizations (Amir et al., 2022; Syafiq, 2016; Yolanda et al., 2020). The sizeable number of management boards encourages more effective decision-making and policies. Thus, the following hypothesis was formulated:

$$H6. \ MB \ size \ has \ positive \ effect \ on \ organizational \ performance \ in \ zakat \ institution.$$ 

3. Research methodology

3.1 Data collection and sampling procedures

This quantitative study uses secondary data collected from zakat management organization financial report and annual report in Indonesia during 2017–2021. The population in this study is zakat management organization in Indonesia, which includes zakat management organization is national board of zakat (Baznas) and private amil zakat institution (LAZ). Samples were selected using purposive sampling method based on several criteria:

- the Republic of Indonesia’s national board of zakat and provincial and national board of zakat;
- private amil zakat institution registered with the Ministry of Religion; and
- national board of zakat and private amil zakat institution has been published financial reports or annual report period 2017–2021. This study examined 33 zakat management organizations, with the total samples that meet the criteria are 151 observations from 2017–2021.

3.2 Measurement of variables

Six variables are used as proxies for sharia governance: board of director size, educational background of board of directors, sharia supervisory board size, sharia supervisory board expertise, supervisory board size and management board size. Board of directors is a component of sharia governance in zakat institutions. In this study, this variable was measured using the board of director's size and the educational background of board of directors. This measurement is in line with Farag et al. (2018), Grassa and Matoussi (2014), Nawaz (2017b) and Rahim and Mahat (2015). Sharia supervisory board is a unique board not owned by an institution other than an Islamic institution. Sharia supervisory board is an independent board responsible for overseeing sharia compliance in an Islamic institution. In this study, sharia supervisory board is measured using sharia supervisory board size and sharia supervisory expertise. Several previous studies such as Almutairi and Quttainah (2017), Bouri and Ajili (2018), Mollah and Zaman (2015) and Zeineb and Mensi (2018) are used as a reference as a measurement of sharia supervisory board. In the zakat institution, supervisory board has a role as internal control. In addition, management board has a role as a policymaker carried out by the board of directors. In this study, the two proxies were measured using supervisory and management board sizes. Research on supervisory board and management board sizes is rarely carried out, but the measurements in this study can refer to the research of Grassa and Matoussi (2014), Mezzi (2018), Mollah et al. (2017), Nawaz (2017b) and Zeineb and Mensi (2018).

The size of zakat management organization, the age of zakat management organization and the audit opinion are used as control variables in this study. Zakat management organizations with relatively large collections can dominate market coverage and compete, having relatively stable financial performance (Mardian et al., 2021). The measurement of zakat management organization size aligns with Falikhatun and Putri (2022) and Grassa and Matoussi (2014). The
age of zakat management organization is an essential indicator for assessing the institution’s stability, experience and long-term success. The longer the zakat institution has been operating, the larger the zakat institution has a strong foundation, a good reputation and in-depth knowledge that impacts performance (Mubarokah et al., 2018). This measurement refers to Ridwan and Mayapada (2020) and Zulfikar et al. (2020). The audited financial reports of zakat management organizations impact institutional accountability and performance, increasing public trust (Al-Saadi et al., 2022). The measurement of audit opinion in this study refers to research conducted by Mukhibad et al. (2021).

Several previous studies have measured the performance of profit organizations using ROA or ROE, especially in sharia institutions (Buallay, 2019b; Buallay et al., 2019; Musibah and Alfattani, 2014; Ousama et al., 2020; Peong et al., 2018), but this is less relevant when applied to nonprofit organizations. Ritchie and Kolodinsky (2003), in their research, explained that calculating the total donations and other contributions compared to the expenses incurred for implementing the program can be equated with collection at the zakat management organization. In line with research conducted by Ritchie and Kolodinsky, Zietlow et al. (2018), in his book, state that it is crucial to know the proportion of distribution for programs carried out by nonprofit organizations when compared to the donations they receive. Therefore, based on the performance measurement of the zakat management organization issued by Baznas (2019), the dependent variable in this research is the GAR and growth of ZIS (GZIS). GAR is an activity ratio to measure the effectiveness of distribution to collection in one period. Meanwhile, the growth of ZIS is a growth ratio to describe the growth in ZIS collection from previous years (Baznas, 2019; Zakiy et al., 2022).

To test the hypothesis that sharia governance affects organizational performance, we estimate the following empirical model using multiple linear regression with a selected common effects model. The panel regression Model 1 used in this research is:

\[ GAR = \alpha + \beta_1 \text{BODsize} + \beta_2 \text{BODedu} + \beta_3 \text{SSBsize} + \beta_4 \text{SSBexp} + \beta_5 \text{SBsize} + \beta_6 \text{MBsize} + \beta_7 \text{Size} + \beta_8 \text{Age} + \beta_9 \text{AO} + \varepsilon \]  \hspace{1cm} (1)

The panel regression Model 2 use in this research is:

\[ GZIS = \alpha + \beta_1 \text{BODsize} + \beta_2 \text{BODedu} + \beta_3 \text{SSBsize} + \beta_4 \text{SSBexp} + \beta_5 \text{SBsize} + \beta_6 \text{MBsize} + \beta_7 \text{Size} + \beta_8 \text{Age} + \beta_9 \text{AO} + \varepsilon \]  \hspace{1cm} (2)

4. Result
4.1 Descriptive analysis
Table 2 describes the results of descriptive statistical analysis. The performance of zakat management organizations in this study was measured using the GAR and the growth of ZIS. The GAR is the ratio for calculating the effectiveness of distribution to the collection in a certain period plus the balance of the previous year’s ZIS funds that have not been distributed in the following period. The mean GAR score is 0.75, whereas the minimum GAR score is 0.17, and the maximum GAR score is 1.66. GAR’s average score is considered effective, whereas the highest GAR score is considered very effective. This means that zakat management organizations show outstanding performance. Zakat management organizations can distribute all funds collected in a certain period. Growth of ZIS is a ratio that describes the growth of ZIS.
<table>
<thead>
<tr>
<th>Variables</th>
<th>Codes</th>
<th>Definitions</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sharia governance (independent)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Board of director size</td>
<td>BODsize</td>
<td>The total number of boards of director members at the end of each year</td>
<td>Farag et al. (2018), Grassa and Matoussi (2014); Nawaz (2017a); Rahim and Mahat (2015)</td>
</tr>
<tr>
<td>Educational background of board of director</td>
<td>BODEdu</td>
<td>BOD member with a bachelor degree, the value is 1, with a master degree, the value is 2, with a doctoral degree, the value is 3</td>
<td></td>
</tr>
<tr>
<td>Sharia supervisory board size</td>
<td>SSBsize</td>
<td>The total number of sharia supervisory board members at the end of each year</td>
<td>Almutairi and Quttainah (2017), Bouri and Ajili (2018); Mollah and Zaman (2015), Zeineb and Mensi (2018)</td>
</tr>
<tr>
<td>Sharia supervisory board expertise</td>
<td>SSBexp</td>
<td>Sharia supervisory expertise as a percentage of SSB members with sharia or other expertise knowledge</td>
<td></td>
</tr>
<tr>
<td>Supervisory board size</td>
<td>SBsize</td>
<td>The total number of supervisory board members at the end of each year</td>
<td>Grassa and Matoussi (2014), Mezzi (2018); Mollah et al. (2017); Nawaz (2017b); Zeineb and Mensi (2018)</td>
</tr>
<tr>
<td>Management board size</td>
<td>MBsize</td>
<td>The total number of management board members at the end of each year</td>
<td></td>
</tr>
<tr>
<td><strong>Organizational performance (dependent)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| Gross allocation ratio                    | GAR      | \[
\frac{\text{Distribution of Z fund + IS fund}}{\text{(Receipt of Z fund + IS fund)+}}
\frac{\text{(fund balance of }Z\text{I }- 1 + \text{fund balance of }IS\text{I }- 1)}{\text{Receipt of ZISt } - 1}
\] | Baznas (2019)                                                               |
| Growth of ZIS                             | GZIS     | \[
\frac{\text{Receipt of ZISt } - \text{receipt of ZISt } - 1}{\text{Receipt of ZISt } - 1}
\] | Baznas (2019)                                                               |
| **Control variables**                     |          |                                                                             |                                                                        |
| Size                                      | Size     | Natural log of the organization total assets                                | Falikhatun and Putri (2022), Grassa and Matoussi (2014)               |
| Age                                       | Age      | Year \(n\) — the first year of the organization's establishment             | Ridwan and Mayapada (2020), Zulfikar et al. (2020)                     |
| Audit opinion                             | AO       | If the organization gets an unqualified opinion, the value is 1, and if the organization gets a qualified opinion or adverse opinion, or disclaimer opinion, then the value is 0 (dummy variable) | Mukhibad et al. (2021)                                                |

**Source:** Authors’ analysis from previous studies
fundraising at zakat institutions from previous years. The mean GZIS score was 0.26, whereas the minimum and maximum GZIS scores were 0.17 and 2.82. The average and highest GZIS scores show increased collection growth at zakat institutions. This means that most zakat institutions experience an increase in collection every year.

Board of directors, sharia supervisory board, supervisory board and management board are measured by the number of board members in each sample. The board of directors has a sample average of 6.01, meaning that most of the sample has six directors on the board. The optimal board of directors has between seven and nine board members. Nawaz (2017a) argues that the large number of boards of directors makes internal control better and optimal and provides a lot of input to management. Although sharia supervisory board has a sample average of 2.99, meaning that most of the samples have three boards as members of sharia supervisory board. According to Baznas regulation Number 3 of 2019, zakat management organizations must at least have a sharia supervisory board consisting of one chairman and two members. Likewise, supervisory board and management board have sample averages of 1.60 and 2.10, meaning that most of the samples have two boards as supervisory boards and have two boards as management boards. According to Widiastuti et al. (2021), the minimum quantity of human resources owned by zakat management organizations is a problem, but Mediawati and Fitrijanti (2016) reveal that the greater the number of boards, the stronger the internal control will be and will have an impact on the performance of zakat management organizations. Educational background of board of directors measured by the higher level of education, the higher the score. Education has a sample average of 6.01, meaning that most of the sample is highly educated at the bachelor’s level. Boards with an educational background will have more experience and wise problem-solving for management (Rahman and Jusoh, 2018). Sharia supervisory expertise is measured by a dummy variable. Expertise has a sample average of 0.90, meaning that the sample size has one board with expertise in a particular field. Expertise reflects the breadth of knowledge and professionalism of the sharia supervisory board (Mukhibad and Anisykurlillah, 2020).

The control variables in this study are the size of zakat management organization, the age of zakat management organization and audit opinion. Organizational size is measured using the natural logarithm of total assets with an average score of 23.18 and a maximum score of 26.66. Organizational age is measured using the subtraction of the year of research and the year of organization was founded, with an average score of 15.67 and a maximum

<table>
<thead>
<tr>
<th>Variables</th>
<th>N</th>
<th>Mean</th>
<th>Median</th>
<th>Max.</th>
<th>Min.</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>GAR</td>
<td>151</td>
<td>0.75</td>
<td>0.76</td>
<td>1.66</td>
<td>0.17</td>
<td>0.18</td>
</tr>
<tr>
<td>GZIS</td>
<td>151</td>
<td>0.26</td>
<td>0.14</td>
<td>2.82</td>
<td>0.17</td>
<td>0.49</td>
</tr>
<tr>
<td>BODsize</td>
<td>151</td>
<td>5.11</td>
<td>5.00</td>
<td>10.00</td>
<td>1.00</td>
<td>1.96</td>
</tr>
<tr>
<td>BODedu</td>
<td>151</td>
<td>6.01</td>
<td>5.00</td>
<td>19.00</td>
<td>1.00</td>
<td>3.31</td>
</tr>
<tr>
<td>SSBsize</td>
<td>151</td>
<td>2.99</td>
<td>3.00</td>
<td>6.00</td>
<td>1.00</td>
<td>1.23</td>
</tr>
<tr>
<td>SSBexp</td>
<td>151</td>
<td>0.90</td>
<td>1.00</td>
<td>1.50</td>
<td>0.50</td>
<td>0.18</td>
</tr>
<tr>
<td>SBsize</td>
<td>151</td>
<td>1.60</td>
<td>1.00</td>
<td>5.00</td>
<td>0.00</td>
<td>1.44</td>
</tr>
<tr>
<td>MBsize</td>
<td>151</td>
<td>2.10</td>
<td>3.00</td>
<td>9.00</td>
<td>0.00</td>
<td>2.15</td>
</tr>
<tr>
<td>Size</td>
<td>151</td>
<td>23.18</td>
<td>23.34</td>
<td>26.66</td>
<td>19.41</td>
<td>1.71</td>
</tr>
<tr>
<td>Age</td>
<td>151</td>
<td>15.67</td>
<td>16.00</td>
<td>30.00</td>
<td>3.00</td>
<td>5.69</td>
</tr>
<tr>
<td>AO</td>
<td>151</td>
<td>0.98</td>
<td>1.00</td>
<td>1.00</td>
<td>0.00</td>
<td>0.14</td>
</tr>
</tbody>
</table>

Table 2. Descriptive statistics

Source: Authors’ analysis
score of 30.00. The audit opinion is measured by a dummy variable with an average score of 0.98 and the highest score of 1, meaning that most of the financial statements of zakat management organizations have been audited and received opinions from external auditors.

The results of classic assumption test for the two models show that the data meet normality, as evidenced by a probability greater than 5%. Then the results of the multicollinearity test show that there are no symptoms of multicollinearity. This can be shown by the tolerance value on all independent variables above 0.1 and the variance inflation factor value below 10. Furthermore, the results of the heteroscedasticity test show that there is no heteroscedasticity, because the chi-square is above 5%. Finally, the autocorrelation test shows no signs of autocorrelation because the Durbin-Watson value in the regression model is close to 2.

4.2 Result of multiple linear regression

As in Table 3 (i.e. Model 1), it shows that board of director size and sharia supervisory board size have a probability of 0.0346 and 0.0477 with t-counts of 2.1347 and 1.9978. These results indicate that board of director size and sharia supervisory board size positively and significantly affect the performance of zakat management organizations at the 5% confidence level. Meanwhile, the educational background of board of directors has a probability of 0.0040 and t-count of −2.9294. These results indicate that the educational background of board of directors has a negative and significant effect on the performance of zakat management organizations. Furthermore, supervisory board size has a probability of 0.0508 and t-count of 1.9707. These results indicate that the supervisory board size positively and significantly affects the performance of zakat management organizations at the 10% confidence level. However, it differs from the case with sharia supervisory board expertise and management board size, which have probabilities of 0.3418 and 0.1842. That is, the two independent variables do not affect the performance of zakat management organizations.

Furthermore, Model 2 (as in Table 3) shows that board of director size and supervisory board size have a probability of 0.0288 and 0.0142 with t-counts of 2.2099 and 2.4753. These

<table>
<thead>
<tr>
<th>Variable</th>
<th>Model 1</th>
<th>Model 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>0.2205</td>
<td>0.8258</td>
</tr>
<tr>
<td>BODsize</td>
<td>2.1347</td>
<td>0.0346**</td>
</tr>
<tr>
<td>BODedu</td>
<td>−2.9294</td>
<td>0.0040***</td>
</tr>
<tr>
<td>SSBsize</td>
<td>1.9978</td>
<td>0.0477**</td>
</tr>
<tr>
<td>SSBexp</td>
<td>−0.9538</td>
<td>0.3418</td>
</tr>
<tr>
<td>SBSize</td>
<td>1.9707</td>
<td>0.0508*</td>
</tr>
<tr>
<td>MBsize</td>
<td>−1.334</td>
<td>0.1842</td>
</tr>
<tr>
<td>Size</td>
<td>−0.7246</td>
<td>0.4699</td>
</tr>
<tr>
<td>Age</td>
<td>0.7578</td>
<td>0.4498</td>
</tr>
<tr>
<td>AO</td>
<td>0.7347</td>
<td>0.4637</td>
</tr>
</tbody>
</table>

\[ R^2 \] 0.211292 0.258381
\[ Adjusted \ (R^2) \] 0.142708 0.188009
\[ Prob \ (F-statistic) \] 0.000697 0.00053
\[ N \] 151 151

Table 3. Estimation results for all models

Notes: *** = 1% significance level; ** = 5% significance level; * = 10% significance level. Model 1 = GAR as a dependent variable and Model 2 = GZIS as a dependent variable.

Source: Authors’ analysis
results indicate that board of director size and supervisory board size positively and significantly affect the performance of zakat management organizations at the 5% confidence level. Meanwhile, the educational background of board of directors has a probability of 0.0142 and t-count of −2.4848. These results indicate that the educational background of board of directors has a negative and significant effect on the performance of zakat management organizations. The three other independent variables, which include sharia supervisory board size, sharia supervisory board expertise and management board, have a greater probability than the level of trust. These three variables do not affect the performance of zakat management organizations.

In addition, the adjusted score ($R^2$ as in Table 3) indicates that Model 1 (14%) and Model 2 (18%), showing that the variables BOD size, BOD edu, SSB size, SSB exp, SB size, MB size, size, age and audit opinion variables can explain 14% of the GAR variation and 18% of the GZIS variation. The Prob value ($F$-statistic) in Models 1 and 2 is significant at the 0.01 level. All variables simultaneously affect organizational performance (GAR and GZIS). This confirms that the implementation of sharia governance significantly affects the performance of zakat management organizations. The control variables used in this study are organizational size, organizational age and audit opinion. These three variables are empirically proven not to affect organizational performance.

5. Discussion

5.1 Board of directors and organizational performance

The test results for both Models 1 and 2 show that board of director’s size has a significant effect on organizational performance in zakat management organizations. That is, the hypothesis is accepted. In addition, this study is also in line with agency theory, board of directors is an agent acting on behalf of stakeholders and has a fiduciary duty to manage zakat organizations with good governance (Amalia, 2019; Jensen and Meckling, 1976). Therefore, it can be said that the bigger board of directors, the more influential the distribution of funds toward collection will be, and the growth of collections will increase. This finding is in line with Falikhatun and Putri (2022), Farag et al. (2018), Hakimi et al. (2015), Mezzi (2018) and Nawaz (2017a). According to Falikhatun and Putri (2022), the size of board of directors increases the board’s capabilities and expands the external network. These conditions will lead to better and more effective decision-making in monitoring the activities of managers. Therefore, the size of board of directors influences the performance of zakat management organizations and adding a board has the potential to improve organizational performance (Darmadi, 2013).

Furthermore, a quality board will minimize information asymmetry in zakat management organizations (Khan and Abdul Subhan, 2019). Therefore, they must understand the governance of zakat organizations. Good governance in zakat organizations is usually divided into several categories. First, there are good planning, implementation and coordination in the collection, distribution and utilization of zakat. Second, the existence of internal control as a form of supervision to achieve the effectiveness and efficiency of the organization’s operations and compliance with organizational policies and regulations. Third, sharia compliance is a manifestation of fulfilling sharia principles in an organization with the characteristics, integrity and credibility of a zakat management organization (Firmansyah and Devi, 2017; Sawmar and Mohammed, 2021; Tahliani, 2018).

The educational background of the board of directors shows negative effect on organizational performance in zakat management organizations based on the results of testing Models 1 and 2. That is, the hypothesis is rejected. This finding contradicts Agustia et al. (2022) and Darmadi (2013). This finding also contradicts agency theory, which suggests that boards
of directors with an educational background tend to understand the principles of agency theory better. They can identify agency risks in the company and implement appropriate strategies to reduce them (John et al., 2020). According to Mourao et al. (2017), higher education can make boards overqualified or overeducated. Board members who are overqualified may feel dissatisfied with their jobs and feel they do not fit in with the work environment they find themselves in. This can affect their work performance and reduce organizational performance. In addition, boards with high education may have higher expectations than boards with low education (Boadi and Osarfo 2019). This can affect their perception of work and the work environment, ultimately affecting their motivation and performance. The operational costs incurred by the organization will be higher in line with higher board education (Hasan et al., 2019).

5.2 Sharia supervisory board and organizational performance

The results of Model 1 testing prove that the size of sharia supervisory board has a significant and positive effect on the performance of zakat management organizations. That is, the hypothesis is accepted. This finding is in line with Farag et al. (2018), Hakimi et al. (2015) and Nomran et al. (2016) and aligns with the agency theory, sharia supervisory board has an essential role in overseeing the compliance of zakat institutions with sharia principles (Mukhibad et al., 2021; Wijayanti and Setiawan, 2022). The larger the size of sharia supervisory board, the more effective the board's ability to control and supervise management performance and ensure compliance with sharia principles. According to Hanafi and Ratmono (2021) and Mediawati et al. (2019), the primary function of sharia supervisory board is to establish zakat management policies that are by sharia principles and oversee the implementation of the zakat management program, including zakat collection, distribution and utilization. In addition, providing advice and recommendations to management regarding the effectiveness of the distribution of collections.

However, Model 2 proves that the size of sharia supervisory board does not affect the performance of zakat management organizations. That is, the hypothesis is rejected. This finding contradicts Almutairi and Quttainah (2017), Mollah and Zaman (2015), Musibah and Al fattani (2014) and Quttainah et al. (2017). This finding is also not in line with the agency theory, supervision can be carried out effectively with the active involvement of the board. Sharia supervisory board must be able to participate in monitoring actively and providing advice to management (Elamer et al., 2019). According to Firmansyah and Devi (2017), the existence of sharia supervisory board only fulfills regulations that require organizations to have such a board. Coupled with the inactivity of the sharia supervisory board in supervising management performance and organizational activities, especially in the collection.

The results of Models 1 and 2 testing found that the expertise of sharia supervisory board did not affect the performance of zakat management organizations. This finding contradicts Bouri and Ajili (2018) and Hakimi et al. (2015) and contradict with agency theory, that sharia supervisory board has good expertise and competence, zakat institutions can improve their integrity, minimize risk and build stakeholder trust (Nurkhin et al., 2018). The expertise of sharia supervisors is not only in the field of sharia, there must be adequate other fields so that it can help zakat management organizations make better decisions and ensure that the activities of zakat management organizations are in line with sharia principles (Mukhibad et al., 2021). According to Nomran and Haron (2019), the expertise of sharia supervisory board alone is not sufficient to guarantee the good performance of zakat institutions because there are other factors, such as effective management and good communication which also affect the performance of zakat management organizations. In
addition, Syafiq (2016) found that the active role of sharia supervisory board is to help improve the governance and supervision of zakat management organizations.

5.3 Supervisory board and organizational performance
The results of testing Models 1 and 2 found that the size of supervisory board has a positive effect on the zakat management performance. That is, the hypothesis is accepted. This finding aligns with research conducted by Amir et al. (2022) and Mediawati and Fitrijanti (2016), the implementation of internal control affects the performance of zakat management organizations. This study is also in line with agency theory, adequate supervision can help reduce the risk of agent actions inconsistent with the principal’s interests (Mediawati and Fitrijanti, 2016; Yang, 2012). The role and function of the supervisory board is to carry out internal supervision to ensure the legitimacy and transparency of zakat management. In addition, maintaining good relations with the community and other stakeholders to increase participation in zakat collection. Internal control plays an important role in ensuring that organizational resources are used effectively and efficiently, and that the financial information produced is accurate and reliable (Yolanda et al., 2020). With good internal controls, organizations can reduce the risk of fraud, misuse of assets and inaccurate financial reports. Effective internal controls can also increase the organization’s operational efficiency and assist in identifying and managing existing risks (Mediawati and Fitrijanti, 2016).

Conversely, if the internal control is ineffective, it will negatively impact the performance of the zakat institutions. This is because the risk of fraud and misuse of assets will increase so that the organization will experience financial losses. In addition, inaccurate financial reports can give wrong signals to users of financial reports about organizational performance, which can impact the organization’s image in society. Therefore, good internal control ensures sustainable and prosperous organizational performance (Syafiq, 2016).

5.4 Management board and organizational performance
The test results for both Models 1 and 2 prove that the size of management board does not affect the performance of zakat management organizations. That is, the hypothesis is rejected. This finding contradicts the research of Amir et al. (2022), Syafiq (2016) and Yolanda et al. (2020) and contradict with agency theory, the greater the number of boards, the more expertise they have so that the quality of the policies made are more effective and efficient. In addition, one must establish good communication with many boards to prevent information asymmetry (Elamer et al., 2019; Jensen and Meckling, 1976). According to Widiastuti et al. (2021), an indication that the management board does not affect zakat management organizations due to the lack of competence of human resources owned by zakat management organizations. One of the problems faced by zakat management organizations is the lack of quantity and quality of human resources managing zakat management organizations. Therefore, it will affect the organization’s overall performance in achieving its goals, such as increasing the number of donations received, increasing the efficiency of using zakat funds and strengthening existing programs. In addition, according to Huda and Sawarajuwono (2013) and Rahayu et al. (2019), there is a lack of responsibility for the board of directors in carrying out their duties with high integrity and accountability. In addition, there are still weaknesses in the human resource of the zakat management organization. According to Adnan et al. (2013) and Hasan et al. (2019), these weaknesses include limited religious knowledge, a lack of qualified and highly committed human resources to work in an environment that demands morality and integrity and a lack of experience.
6. Conclusion
The results of the analysis show that all independent variables have a significant effect on the performance of zakat management institutions. Meanwhile, Model 1 shows that BOD size, SSB size and SB size have a significant and positive effect on organizational performance and SSB expertise and MB size have no effect on organizational performance. Meanwhile, the educational background of BOD has a negative and significant impact on organizational performance. In Model 2, it shows that BOD size and SB size have a significant and positive effect on organizational performance and SSB size, SSB expertise and MB size have no effect on organizational performance. Meanwhile, the educational background of BOD has a negative and significant impact on organizational performance. In connection to agency theory implementation, all boards in zakat management organizations must become mediators between principals and agents to minimize information asymmetry and conflict of interest as part of the organizational governance mechanism. For example, the transparency of zakat management. Transparency has a positive influence on organizational performance. Good transparency can help increase stakeholder trust, both internal and external, to the organization. Besides that, transparency can also help companies to identify and fix internal problems that might affect their financial performance. Overall, transparency can help organizations improve performance, minimize information asymmetry and build a good reputation to stakeholders. In the context of agency theory, sharia governance can also help strengthen the relationship between principals and agents in an organization by ensuring effective supervision and control to minimize potential conflicts of interest. Therefore, sharia governance is closely related to agency theory in maintaining relationships and trust between owners and organizational management. The contributions of this study include providing views on increasing efficiency and transparency in the management of zakat in zakat institutions and investigating the relationship between sharia governance through boards and zakat institution’s performance, including aspects of accountability and transparency. This helps build a strong argument for implementing better sharia governance practices in zakat institutions.

7. Implication
These empirical findings significantly affect managers and policymakers in zakat management organizations. The implications of this empirical finding are regarding the quantity of board members, quality and especially the board’s activity. Zakat management organizations expect the activeness of the boards to provide advice and input to managers. Input and suggestions are expected to encourage growth in the collection and effectiveness of distribution to zakat management organizations. In addition, other strategic policies, such as the preparation of clear policies so that the board can work in a more structured and accountable manner, the application of a robust oversight mechanism to ensure the accountability of the board, increased transparency and reporting to all stakeholders, the involvement of external parties such as academics, independent auditors or civil society organizations to strengthen the policies and accountability of zakat institutions, so that zakat management organizations become organizations with good governance and have a good reputation to community. Boards also have a critical role in influencing organizational performance. As representatives of donors or zakat givers, councils are responsible for ensuring that the zakat funds they receive are used effectively and on target. Thus, the policies recommended by board of directors can affect the organization’s overall performance in achieving its goals, such as increasing the amount of zakat donations received, increasing the efficiency of using zakat funds and strengthening existing programs. In addition, the boards also have the responsibility to ensure that the organization carries out its
duties with high integrity and accountability. In this case, competent boards with integrity and a long-term vision will be beneficial in positively directing organizational performance, especially in ensuring that zakat institutions continue to develop and provide significant benefits to people in need.

8. Limitations and future research
The limitation of this study is that the proxies used to measure the performance of zakat management organizations only describe ZIS collection and its effectiveness. In addition, the proxy used for the independent variable is still limited to the size of each board. This is not able to describe the performance of the board comprehensively. Then the limited data used is because the level of publication of financial reports or annual reports of zakat management organizations is still low. Future research is expected to use organizational performance proxies that can describe zakat, infaq and shadaqa separately. Furthermore, expanding the characteristics of the existing boards in zakat management organizations, so that it can better describe the performance of each board. A similar approach can be applied to the study period by extending the year of observation.

References
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Further reading


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