

**REPUTATION, GOVERNANCE AND
COMPETITIVE ADVANTAGE ON
FINANCIAL PERFORMANCE OF INFAQ:
THE CASE OF PRIVATE ISLAMIC
SCHOOLS**

**AZIRA HANANI BINTI BERAHIM @
AB RAHMAN**

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by

**AZIRA HANANI BINTI BERAHIM @
AB RAHMAN**

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LIST OF SYMBOLS

Z Statistical significance of the mediation reduction.

LIST OF ABBREVIATIONS

SMKA	Federal Government Religious School
IKIM	Institute of Islamic Understanding Malaysia
KISAS	Sultan Alam Shah Islamic College
NTEP	National Tahfiz Education Policy
JAKIM	Department of Islamic Development Malaysia
NGO	Non-government Organisation
SIRC	State Islamic Religious Council
MAIK	Kelantan State Religious Council
ZPP	Zakat Management Centre of Penang
MITI	Ministry of International Trade and Industry
MIFC	Malaysia International Islamic Financial Centre
RBV	Resource Base View
RBT	Resource Base Theory
UPSR	Ujian Penilaian Sekolah Rendah
PT3	Pentaksiran Tingkatan 3
SPM	Sijil Pelajaran Malaysia
PBUH	Peace be upon Him
PLS	Partial Least Square
SEM	Structural Equation Modelling
SPSS	Software Package used for Statistical Analysis
IIUM	International Islamic University
USM	Universiti Sains Malaysia
UPM	Universiti Putra Malaysia
UKM	Universiti Kebangsaan Malaysia

UTM	Universiti Teknologi Malaysia
USIM	Universiti Sains Islam Malaysia
IIEF	IIUM Endowment Fund
CSR	Corporate Social Responsibility
PTA	Parent Teacher Association
SRI	Private Islamic Primary School
SMI	Private Islamic Secondary School
PERMATA	Persatuan Madrasah Tahfiz Al-Quran Malaysia
PERSIAP	Persatuan Sekolah Islam Persendirian Kelantan
MERSIK	Majlis Guru-guru Besar Sekolah Rendah Islam Kedah
PPPB	Pusat Pembangunan Pondok Berhad
MGSEB	Malaysian Graduate School of Business

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**REPUTASI, TADBIR URUS DAN KELEBIHAN DAYA SAING TERHADAP
PRESTASI KEWANGAN INFAQ: KES SEKOLAH ISLAM SWASTA**

ABSTRAK

Sumber kewangan merupakan nadi kepada sesebuah organisasi terutamanya organisasi yang tidak berasaskan kepada keuntungan. Sumber kewangan yang mencukupi mampu menjayakan misi-misi dan objektif yang telah ditetapkan seterusnya memastikan organisasi tersebut terus berdaya saing dan relevan. Sekolah agama swasta merupakan organisasi yang ditubuhkan oleh individu, badan bukan kerajaan serta pertubuhan Islam yang tidak berasaskan kepada keuntungan tetapi ditubuhkan bagi memenuhi kehendak masyarakat yang inginkan pendidikan dunia dan akhirat yang seimbang kepada generasi akan datang. Walaubagaimanapun, kebanyakan sekolah agama swasta di Malaysia menghadapi masalah kewangan yang menyebabkan sekolah tersebut tidak dapat melaksanakan aktiviti serta pembangunan seperti yang telah dirancang. Sumber kewangan bagi sekolah agama swasta adalah yuran pelajar, namun yuran yang dikutip adalah tidak mencukupi bagi menampung keseluruhan kos operasi serta pembangunan yang dirancang. Justeru itu, sekolah agama swasta di Malaysia banyak bergantung kepada sumbangan dalam bentuk infaq daripada orang perseorangan serta badan korporat. Kajian ini dijalankan adalah bagi meneroka faktor reputasi, amalan tadbir urus serta kelebihan daya saing dalam mempengaruhi kecukupan infaq yang diterima oleh sekolah agama swasta di Malaysia. Kerangka konseptual bagi kajian ini dibangunkan daripada Teori Berasaskan Sumber dan Teori Pemegangtaruh. Kajian ini menggunakan reka bentuk kajian rentas di mana borang soal selidik telah diberikan kepada responden yang telah dikenalpasti secara atas talian melalui aplikasi mel elektronik dan juga aplikasi

whatsapp. Bagi meningkatkan kadar respon, kutipan data juga dibuat melalui kunjungan ke sekolah responden. Sebelum pengumpulan data, kajian rintis yang melibatkan pembangunan soalan dan pembangunan borang soal selidik telah dijalankan. Hanya 146 sampel yang sah diterima daripada jumlah keseluruhan 200 borang kaji selidik yang telah diedar. Kajian ini menggunakan perisian SmartPLS (v. 3.2.9) untuk mengukur teknik Structural Equation Modelling (SEM). Hasil analisis kajian mendapati bahawa kecukupan infaq yang diterima oleh sekolah agama swasta di Malaysia adalah dipengaruhi oleh faktor reputasi yang bagus serta amalan tadbir urus yang baik. Manakala kelebihan daya saing sesebuah sekolah itu tidak memberikan hubungan yang signifikan terhadap kecukupan infaq. Dengan menyedari banyak faktor yang mempengaruhi kecukupan infaq yang diterima, kajian ini hanya mengfokuskan pada kesan reputasi, amalan tadbir urus dan kelebihan daya saing sahaja. Kajian ini akan mengisi ruang pengetahuan dalam model prestasi kewangan yang menfokuskan kepada sumbangan yang diterima terutama di kalangan pertubuhan yang tidak berasaskan kepada keuntungan. Dari perspektif teknikal, adalah dijangka pengurusan sekolah agama swasta mampu meningkatkan dan mencapai kecukupan infaq sekiranya fokus diberikan untuk terus meningkatkan reputasi sekolah serta amalan urus tadbir yang baik dan dalam masa yang sama mengambil kira faktor sampingan lain seperti lokasi sekolah, komunikasi yang efektif, peranan yang dimainkan oleh Persatuan Ibumama dan Guru (PIBG) serta yuran pengajian yang dikenakan ke atas setiap pelajar. Akhirnya, memandangkan kajian yang berkaitan dengan prestasi kewangan di kalangan sekolah agama swasta khususnya amat berkurangan, adalah diharapkan agar lebih banyak kajian seumpama ini dijalankan pada masa akan datang dan fokus dapat diberikan untuk menjalankan kajian secara berasingan di kalangan sekolah pondok, tahfiz serta Sekolah Rendah

Islam (SRI) dan Sekolah Menengah Islam (SMI) supaya mendapat hasil kajian yang lebih jitu.

**REPUTATION, GOVERNANCE AND COMPETITIVE ADVANTAGE ON
FINANCIAL PERFORMANCE OF INFAQ: THE CASE OF PRIVATE
ISLAMIC SCHOOLS**

ABSTRACT

Sufficient financial resources are important to ensure non-profit organisation able to achieve the defined goals and objectives as well as to ensure that the organization remains competitive and relevant. Islamic private schools are non-profit organizations founded by individuals, non-governmental organizations and Islamic organizations established to meet the Muslim society needs who look for a balanced academic and religious education. However, most of the Islamic private schools in Malaysia are facing with financial difficulties that have prevented them from carrying out their activities and development as planned. The main financial resources of these Islamic private schools are student fees, but the fees alone are insufficient to cover the overall cost of the planned operation and development. As such, Islamic private schools in Malaysia rely heavily on infaq from individuals and corporate bodies. The purpose of this study was to explore the factors of reputation, governance and competitive advantage in influencing the sufficiency of infaq received among Islamic private schools in Malaysia. The conceptual framework for this study was developed from Resource Base Theory and Stakeholder Theory. This study used cross-sectional survey design where questionnaire was developed and being distributed to respondents through online application such as electronic mail and *whatsapp* application. To ensure the high response rates, data collection was also made through personal visits to respondent schools. Prior to data collection, a pilot study involving questionnaire development was conducted. Only 146 valid samples

were received from a total of 200 distributed survey forms. By employing the SmartPLS (v. 3.2.9) software to run the Structural Equation Modeling (SEM) techniques, the results of the study found that the sufficiency of the infaq received among Islamic private schools in Malaysia is influenced by good reputation and governance practices. However, the competitive advantage of a school does not provide a significant relationship to the sufficiency of infaq received. By realizing many factors that may influence the sufficiency of the infaq received, this study focuses only on reputation, governance and competitive advantage. This study is expected to fill the knowledge gaps in financial performance models that focus on donation received especially among non-profit organizations. From a technical perspective, it is expected that the Islamic private school management will be able to improve and achieve sufficiency of infaq if the management continue to focus on improving school's reputation and good governance practices while at the same time taking into account other factors such as school location, effective communication, the role of Parents and Teachers Association (PTA) and the tuition fees charged on each student. Finally, as studies on financial performance among Islamic private schools are particularly low, it is hoped that more such studies will be carried out in the future and focus can be given to conducting separate studies among private schools, tahfiz as well as Private Islamic Primary Schools (SRI) and Private Islamic Secondary School (SMI) to get more detail results.

CHAPTER 1

INTRODUCTION

1.1 Background of the Study

One of the most essential elements in development is education where it has always played a vital role in human civilisation (Wan et al., 2018). Education has been successful in producing a holistic system that supports human development in socio-economic and ethical terms (Yusof, 2014). Education accelerates the economic growth of a nation by providing knowledge and skills to people so that their capabilities are enhanced (Yaacob, Osman, & Bachok, 2014).

The contribution of education privatisation in Malaysia among others lies on the gross output and employment opportunities. By referring to the Table 1.1, reports from the Department of Statistics, Malaysia in Annual Economic Survey, 2018¹ showed that the gross output value of educational services increased from RM15.2 billion in 2015 to RM17.6 billion in 2017 and the value of annual growth rate per annum was 7.7 per cent. College and university education were the largest contributors of gross output (RM10.4 billion), followed by other types of education (RM3.5 billion), secondary education (RM1.9 billion) and primary education (RM1.8 billion). The intermediate input value rose to RM6.8 billion (an increased by RM 1.0 billion) which indicate an annual growth rate of 8.0 per cent. This resulted in an additional value of RM10.8 billion in 2017. The amount of employees in this sector also rose by from 134,361 persons in 2015 to 144,958 in 2017 persons, an increase in 3.9 per cent.

In the meantime, wages and salaries amounted to RM4.9 billion was paid in 2017 compared to RM4.3 billion in 2015. There were 126,751 full-time paid

¹ The census only involved registered private organisations in the education sector.

employees, 7,318 part-time employees and 10,889 working owners and unpaid family workers.

Table 1. 1: Key Statistics for Private Education Services in 2015 and 2017

Main Findings	2015	2017	Increment
Value of Gross Output	RM 15.2 billion	RM 17.6 billion	7.7%
Value of Intermediate Input	RM 5.8 billion	RM 6.8 billion	8.0%
Value Added	RM 9.4 billion	RM 10.8 billion	7.5%
Value of Fixed Asset	RM 14.3 billion	RM 16.4 billion	7.2%
Salaries and Wages	RM 4.3 billion	RM 4.9 billion	6.3%
Numbers of Person Engaged	134,361 persons	144,958 persons	3.9%

Source: Department of Statistics, Malaysia

Generally, primary schools in Malaysia comprise the national schools, national-type schools² and private schools³. At the secondary school level, there are also three types of schools, namely government schools⁴ managed by the government's education establishment, government-aided schools⁵ managed by non-profit organisations, and private schools that receive no financial aid from the government and are managed by private organisations or individuals (Mokhtar, 2004).

Over the years, the demand for Islamic education has risen, including the demand for private Islamic schools (Ambotang & Majuleka, 2018; Ibrahim, Aziz, & Azman, 2005; Ismail, 2016). Table 1.2 shows the enrolment for government and private Islamic schools. Based on the table provided, government Islamic schools experienced

² The medium of instruction in national schools is Malay language, while English is a compulsory subject. Conversely, to serve the needs of a multi-ethnic populace, the Chinese and Tamil language is used as a medium of instruction in the national-type schools, while Malay and English languages are compulsory subjects.

³ Private schools are schools that received no financial aid from the government.

⁴ Government schools are also known as national schools. These schools are established, funded and managed by the government.

⁵ Government-aided schools are schools that receive Grant-in-Aid and Capital Grant from the government.

5.27% increase in the number of students from 119,454 in 2016 to 125,753 in 2018. In addition, the enrolment of students in private Islamic Schools ⁶ increased 9.21% from 33,726 in 2016 to 36,832 in 2018. This statistic is supported by the current situation where the remarkable existence of tahfiz schools for instance in the government and private sectors in Malaysia signifies that tahfiz education is at par with mainstream education (Ridza et al., 2017).

Table 1. 2: Enrolment of Islamic Schools in Malaysia year 2016 and 2018

School Type	2016	2018	Increment
Government Islamic Schools	119,454	125,753	5.27%
Private Islamic Schools	33,726	36,832	9.21%

Source: Ministry of Education Malaysia

There are several reasons that contribute to this phenomenon. Ghani, Elham, Ahmad, and Ghani (2016) posited that parent's decision to enrol their children in religious schools is due to several reasons, such as an increase in awareness of the importance of religious education, the advantage of mastering academic and religious education simultaneously, the opportunity to choose a broader field either academic or religious, students' future are not restricted in religious schools, especially federal government religious schools (SMKA), religious school graduates are recognised by the federal government, and the education system in SMKA is more integrated.

Hence, Islamic schools have received attention from the government, especially at the secondary school level, whereby an integrated Islamic education has been implemented by the government. The government also acknowledges the challenge faced by Islamic education to produce Muslims who are knowledgeable, skilled and

⁶ Private Islamic schools (primary and secondary) are registered under the Private Education Division in the Ministry of Education, Malaysia.

motivated in embracing global educational and economic aspirations guided by a strong understanding of Islamic values and practices. Islamic education must assert itself as a significant mainstream educational model and a major contributor to human capital, values and human dignity in Malaysia's national aspiration, as outlined in Vision 2020.

It is undeniable that students from Islamic education institutions have a vital role in developing the country's society and economy. The Malaysian government is aware that Islamic education must go through a transformation to prepare Muslim students so that they can handle the challenges of the modern world that demands highly sophisticated knowledge-based economies and sophisticated technologies. Malaysia has to deal with the growing concern that the national education agenda has compromised the status of Islamic education and its overall position in a Muslim's development and progress, which is detrimental to nation building (Yusof, 2014). The government's commitment to develop Islamic education shows that Islamic education institutions are at the highest level, especially after the introduction of the Malaysian Sharia Index⁷. According to the index, education had recorded the highest score with 82.5% (Kannan & Shahar, 2017).

Previously, students from Islamic-based schools had limited career prospects as they were only allowed to teach in such institutions ("New pride for *sekolah pondok*," 2013). Today, these students can choose to pursue professional careers. Students who have memorised the Quran (*tahfiz*) have gone on to become engineers, lecturers, Sharia lawyers and judges. In addition, these students have the potential to be part of the industry as the government has targeted Malaysia to become a global

⁷ The first ever shariah index in the world was launched by the former Prime Minister, Dato' Seri Najib b Tun Abdul Razak in 2015. It is a method for objectively and scientifically gauging Malaysia's commitment towards achieving the eight principles of Maqasid Syariah (goals of Islamic Principles). The eight principles are related to education, Islamic law, economy, politics, health, social, cultural, infrastructure and the environment.

Halal hub in various sectors, including pharmaceutical, food, cosmetics, packaging, logistics and services sectors by 2020. It is believed that the Halal component in the global economy is projected to be worth RM8.4 trillion, where almost RM2.5 trillion from that is generated by the Halal food industry (MITI, 2015).

It is a great opportunity for Islamic education students to play important roles as sharia advisors, *takaful* agents, and policy makers of a relevant act, model and framework developers and other related positions since the government has proclaimed Malaysia as a World Islamic Finance Marketplace (Central Bank of Malaysia, 2013). Malaysia has since become a dominant Islamic financial market in Asia and internationally as well (Bohari et al., 2013; Shanmugam & Zahari, 2009). In this case, the Islamic financial industry demands a skilled and competent workforce that possesses an understanding of Sharia and market insights. However, a study done during the Capital Market Regulators Forum found that 82% of the participating countries faced a shortage of talent in the Islamic financial services area, such as sharia and *takaful*. In addition, studies also discovered that further training and skills development is required for another 60% of Islamic finance professionals (MIFC, 2015). The scarcity of talents in Islamic finance has a significant impact on the industry as it influences the growth of Islamic finance. Furthermore, it shows a significant shortage of qualified sharia scholars equipped with necessary knowledge and expertise in the field of Islamic finance at the expert level.

Among well-known successful figures from Islamic religious schools are Dr Zaharuddin Ab. Rahman, Associate Professor Dr Shamrahayu Ab Aziz and Datuk Dr Norhisham Abdullah. Dr Zaharuddin Ab Rahman, who is an expert in Islamic Finance, is an alumnus of Sekolah Menengah Agama Persekutuan Labu. He is formerly an

Assistant Professor in the Kuliyyah of Economics and Management Science at the International Islamic University, Malaysia (IIUM). He is also a Research Fellow at International Shariah Research Academy (ISRA), Shariah Scholar of Bursa Marketplace Malaysia, registered Shariah Advisor of Securities Commission Malaysia and was also being appointed as Shariah Committee to BNP Paribas Malaysia Berhad, Perbadanan Usahawan Nasional Berhad (PUNB), Onexox Malaysia, EPF Malaysia and Sedania Salam Capital Malaysia. Dr Zaharuddin has written numerous books and articles in local and international journals, especially on Islamic finance and banking and also Islamic economics. Next, Professor Dr Shamrahayu Ab Aziz, an alumnus of Maahad Muhammadi Lilbanat is recognised as an expert in the Malaysian Constitution. Currently she has being appointed as Chairholder of Institution of Malay Rulers, Universiti Teknologi MARA. She was a former Professor at the Department of Islamic Law at the International Islamic University Malaysia. She is also a Main Fellow at the Sharia and Law Studies Centre in IKIM⁸. Tan Sri Dr Noor Hisham Abdullah is an alumnus of Kolej Islam Sultan Alam Shah (KISAS) and appointed as the Director General of Health effective 1 March 2013. He is also a well-trained surgeon and administrator as well as a senior consultant for breast and endocrine surgery in Putrajaya Hospital. Besides that, he has written several textbook chapters on endocrine surgery as well as publications in local and international journals. Currently, Dr Noor Hisham Abdullah received the BrandLaureate Most Outstanding BrandLeadership Award in July 2020 for his exceptional role, leadership, and achievement in handling the COVID-19 pandemic in Malaysia.

⁸ The Institute of Islamic Understanding Malaysia (IKIM) was founded on 18 February 1992 under the Companies Act 1965. Its aim is to provide an appropriate understanding of Islam through various programmes and activities, such as research studies, workshops, seminars, forums, consultancies as well as publishing and training.

In order to meet the nation's target, the management of private Islamic schools should take up the opportunities and challenges to prepare their students not only with Quranic and religious studies, but also other related areas before they further their study in tertiary education or join the industry and market. Thus, four curriculum models have been drafted into the National Tahfiz Education Policy (NTEP)⁹, which aims to ensure the future direction of tahfiz students. Datuk Dr Asyraf Wajdi Dusuki who is the former Deputy Minister in the Prime Minister's Department said that the four models included are Tahfiz Turath (Tahfiz study of the Quran using the Turath Scripture¹⁰), Tahfiz Science (Tahfiz Quran studies with Science subjects), Tahfiz Dini (Tahfiz Quran studies with Islamic subjects) and Tahfiz Skills (Tahfiz Quran studies with the skills training module). In addition, the government had formulated *Model Pondok Moden Malaysia* as an initiative to implement the curriculum in the Malaysian pondok institution (Yusof, 2020). Currently, this model is being developed by JAKIM. It is expected that this model can help strengthen the curriculum and governance of the pondok institution in line with mainstream education.

In order to produce quality students, schools should have qualified and experienced teachers. Schools need to have adequate tools and teaching materials, innovative teaching methods and an interactive learning environment. This situation can only be realised if private Islamic schools have adequate financial resources. However,

⁹ The former government (Pakatan Harapan), which won the 14th General Election in 2018, had agreed to maintain this policy with improvements from time to time. Enhancing the laws and enforcement, strengthening the tahfiz education curriculum by making it on par with mainstream education and empowering the governance of the tahfiz institution are among the initiatives to improve NTEP.

¹⁰ Kitab is interpreted as a book, scripture or a collection of Islamic scholars' writings that contain knowledge related to aqidah (Islamic belief system or principles), feqh (knowledge of Islamic law), akhlak (behaviour or moral character), al-Qur'an, al-hadith, etc. Turath is defined as legacies or heritage from the past used by the next generation. Therefore, Kitab Turath is an old book containing Islamic knowledge that was written by Malay Islamic scholars in the past. Normally this book is written in Jawi and uses the Malay language (Dahri, 2016). Kitab Turath is also known as the yellow book (Kitab Kuning), Jawi book (Kitab Jawi), old book (Kitab Tua) or classic book (Kitab Klasik).

as a non-profit organisation, most private Islamic schools in Malaysia have insufficient funds that denies them from further development as well as providing adequate facilities for their students since most of these schools are run by individuals, non-government organisations (NGOs) or Islamic Foundations that solely depend on students' fees as a major financial resource (Daud et al., 2012). Thus, most of these schools depend on public donations to finance their operations since students' fees alone are not enough to cover operating and development costs.

Non-profit organisations generally receive contributions from the general public, corporations or other stakeholders. Donations from various stakeholders are an important source of funding since these organisations depend on it to run their organisations and carry out their responsibilities. Over the years, donations from the public have been inconsistent and difficult to raise with a general declining trend in charity donations (Kashif, Sarifuddin, & Hassan, 2015; Sargeant, 2001). Non-profit organisations are struggling to raise funds and are facing challenges in attracting and retaining donors as declining support from the government, competition for personal donations mount and fund mismanagement report undermining public confidence (Kashif et al., 2015; Webb et al., 2000). In order to survive the competition, charities need to rely more on individual donors and less on government funding (Lwin et al., 2014).

For non-profit organisations, funds can be obtained through several means, such as fundraising revenue, donations, membership fees or private and government grants, while insisting that organisations carry on their activities where corporate and individual donations are the major sources of the funds. Alternatively, in order to increase school's income, some non-profit organisations have begun to organize commercial activities,

such as campaigns and fundraising activities. Non-profit organisations in Malaysia can also obtain government grants from related agencies (Zainon, Atan, & Wah,2014).

In today's highly competitive and resource-scarce environment, non-profit organisations must create a positive image and reputation to gain the public's favour and trust and consequently, more donations, since the image and reputation of these organisations is critical to influence a donor's behaviour (Huang & Ku, 2016). Organisations that have earned a good name and made their mark tend to secure a large share of the donations. Donors also prefer to repeat a donation and increase the amount of the donation if donors believe that the organisation has a good reputation (Sargeant, 2001; Sargeant & Lee, 2002). However, the growing number of negative issues faced by private Islamic schools in Malaysia, as reported in the local media, might have tarnished the reputation of these schools. This situation has raised public concern over the operation and existence of these schools (Andres, 2017; Aziz, 2018; Bernama, 2018; Ying, 2018). Among the incidences highlighted in the media were that involving an 11-year-old boy who died from infections in both his legs after he was allegedly beaten with a water hose by a religious teacher at a tahfiz school in Johor, allegations of molestations and sodomy involving tahfiz students in Perak, a 7-year-old student from a religious school in Arau, Perlis was allegedly assaulted by a teacher and later died, series of fires, such as in Pondok Pak Ya in Kedah, Darul Quran Ittifaqiyah in Kuala Lumpur, Pondok Nurul Iman in Pahang, Pondok Al-Baghdadi in Kelantan, Maahad Tahfiz Al-Barakah in Selangor, Madrasah Tahfiz Al- Zahra in Johor and many other negative issues and incidences that were reported in the local media.

Moreover, several issues associated with the accountability and transparency of private Islamic schools that had raised concerns among the public. Hence, it is

difficult for donors as well as the general public to select schools that they prefer to support due to the lack of publicly available information about the schools, the school's management and how the donated funds are utilised. In addition, exploitation of students who solicit donations from the public and misuse of public donations has also raised public concern over the governance of these private Islamic schools. Privately owned Islamic schools that have been established by individuals, non-profit organisations or Islamic foundations have different governance practices based on the founder's own aspirations (Bani et al., 2017). The Perlis Mufti, Dr Mohd Asri Zainul Abidin, was concerned that some parties have set up private Islamic schools for their own interest, where some have misused the school's name to raise donations and funds. Since school authorities have no obligation to set up external audit committees and manage the money collected from the public, this situation could create an opportunity for unscrupulous parties to misuse the money for personal interests. He added that, in some cases, the school continues to operate in poor conditions while the school owner lives in luxury with donations from well-wishers. In some other worse cases, students were used to collect donations from the public (Shazwani, 2017).

Hence, some concerned parties and non-profit organisations have voiced their apprehension of the learning system and structure of these schools, the future of students after completing their studies, the importance and contribution of these schools to the country, and some even went to the extent of urging the authorities to shut down all private Islamic schools in Malaysia (Rosli & Basyir, 2018). These negative issues and incidents not only tarnish the school's reputation, but it also discourages donors from donating to these school funds. Therefore, it is vital for these schools to establish a

good reputation and practice professional governance in order to be successful and ensure their existence in the market.

Furthermore, as the number of private Islamic schools increased yearly (Ambotang & Majuleka, 2018; Ibrahim et al., 2005; Ismail, 2016), this situation had forced schools to compete with other schools for the pool of resources. In order to survive the competition, each school needs to identify its competitive advantage and perform better than other schools. Each school must have the capability to attain and sustain its advantage over its competitors in order to be more attractive in the eye of the stakeholders.

1.1.1 Types of Private Islamic Schools

Among the first states to build Islamic education institutions in Malaysia at the time (1414 to 1511) is Malacca (Hamid, 2010). Teaching of the al-Quran started at home, *surau* or mosque, it then switched to the pondok system and madrasah and until today it continues to grow by leaps and bounds at all levels of education (Daud et al., 2012). In general, private Islamic schools in Malaysia consist of the madrasah, pondok, Private Islamic Primary School (SRI), Private Islamic Secondary School (SMI) and also tahfiz schools (Daud et al., 2012; Ramli & Ali, 2015; Siren et al., 2013).

1.1.1(a) Pondok

Historically, the pondok education system in Malaysia started from the Northern Malay states in the early 19th century. This includes Terengganu, Kelantan, Perlis and Kedah. Kelantan had introduced religious education since the 16th century and during the 19th and 20th century, Islamic education had developed rapidly in

Kelantan when the pondok system flourished actively and had shown its fortitude and capability in promoting Islamic education (Abdullah, 2011; Rosnani Hashim et al., 2011). Generally, the pondok education system originated from Patani, in Southern Thailand or Sumatera, in Indonesia (Abdullah, 2011; Tamuri & Jasmi, 2009). The pondok institution began when religious scholars from Aceh emigrated to other places, including Pattani, during the crusade war from 1821 to 1838 and the Aceh war from 1878 to 1904 in Sumatra (Nor et al., 2012). However, other scholars believe that the pondok education system was established in Pattani since the 15th century (Hayimasae, 2009). Along with the existence of the Islamic state of Pattani in the middle of the 15th century, the first pondok was built in Kampung Senor, Pattani by Wan Mustafa. The endeavour was continued by other family members who migrated to a new settlement in Teluk Manok, Narrathiwat and setup a new pondok there in the middle of the 16th century which then led to the expansion of the pondok education system. The emergence of these pondoks had created a series of teacher-student networking and relationships, thus, expanding the development of the pondok institution to other locations in Pattani itself as well as in *Tanah Melayu* (Malay region).

In addition, the on-going war between Pattani and Siam in the 16th century had forced the *ulamak* (Islamic scholars) to flee and build new settlements in nearby areas and later establish a new pondok institution there. Apart from the war, the arrival of Pattani scholars in *Tanah Melayu* was also due to marriage or upon invitation by the Sultan and rulers to teach Islam to the royal families or the public.

It is believed that pondok education in Kedah originated from Sumatera, while in Kelantan and Terengganu, it came from Patani (Mydin & Ahmad, 2014). According to Abdullah (1989), the pondok institution in Kedah was founded by local scholars who

went to study in Pattani and Mecca. The finding is consistent with Hayimasae (2009), who stated that the pondok institution in Kedah was influenced by the pondok education system in Pattani, and it is believed that the first pondok school in Kedah was founded by a Pattani scholar, Tok Haji Ishak (Haji Wan Ishak). The pondok was established in 1840 in Pulau Pisang and Kubang Pasu. In Kelantan, scholars who studied at a pondok in Pattani applied their knowledge and experience that they learned in Pattani to develop the same pondok education system when they came back to Kelantan (Nor et al., 2012). In Perak, the first pondok known as Pondok Ar Rahmaniyyah, was set up by Tuan Haji Abdul Rahman Mahmud in 1918. Tuan Haji Abdul Rahman Mahmud was an alumnus of al-Azhar University (Egypt) and Masjidil Haram (Mecca) (Hussin & Majid, 2013).

In 1945, pondok schools in Kelantan experienced a serious decline due to several reasons. The establishment of a new system of religious schools (madrasah) was one reason. In fact, the development of the madrasah was not only pressuring the pondok establishment, but it actually created a parallel development phase between these two institutions. The pondok system maintained its existence in the rural areas; however, in the urban and suburban areas, the madrasah became a rival to the pondok system. In areas where no pondoks were established, the madrasah was preferred by the community there (Abdullah, 2011)

1.1.1(b) Madrasah

In the early 20th century, a new religious school system was introduced. It was said that the education system in this institution is more systematic and comprehensive comprising the *ilm naqli* (Quranic based knowledge such as *fiqh*¹¹, *shariah*¹²,

¹¹ Fiqh is defined as a knowledge of derivative that attains its core from the shariah (Kamali, 1996)

*usuluddin*¹³, *tasawuf*¹⁴, etc.) and *ilm aqli* (geography, science, math, history, technology, language, etc.). This institution was known as the madrasah. The earliest madrasah introduced in Malaya was the establishment of a school in Teluk Anson, Perak in 1906, Madrasah Al- Misriyah (in Penang and Muar, Johor) in 1907 (Nor et al., 2012) and Madrasah Al-Iqbal (Singapore) in 1908 (Tamuri & Jasmi, 2009). At that time, the *Islah* Movement pioneered by Sheikh Jamaluddin Al-Afghani (1839-1897) and Sheikh Muhammad Abduh (1849-1905) was flourishing in the Middle East and began to expand to Southeast Asia and India (Ramli & Ali, 2015). This movement had a great influence on young people who studied at Al-Azhar University, whereby they initiated the development of the madrasah, which had a slightly different system than the pondok system after returning to their homeland.

The madrasah institution has a more systematic and structured administration and financial management. In terms of the education system, the madrasah has its own syllabus for religious subjects, whether at the *ibtidai* (low level), *thanawi* (medium level) or *takhasus* levels (specialization). In fact, some of the madrasahs also integrated academic subjects, such as English, mathematics and others into the school system and imposed examinations to evaluate students' performances (Tamuri & Jasmi, 2009).

¹² Shariah is defined as the guidance totality that has been revealed by God to the Prophet Muhammad (pbuh) relating to the doctrine of Islam, its practical legal rules and its moral values (Kamali, 1996)

¹³ Usuluddin is an alternate term used to refer to the science of Islamic monotheism or al-tawheed (Alwi et al., 2016)

¹⁴ Hazrat Sheikh ul-Islam Zakariyya Ansari R A, a famous Sufi scholar defines tasawuf by saying, "tasawuf educate someone to purify his/her inner side of life, enhance the moral character, and boost his/her inner and outer life to seek perpetual pleasure of Allah, resulting in a state of perpetual bliss (Sikandari et al., 2017)

1.1.1(c) SRI (Private Islamic Primary School) and SMI (Private Islamic Secondary School)

SRI and SMI is also known as SAS (*Sekolah Agama Swasta*) and SAR (*Sekolah Agama Rakyat*) in some states are academic institutions developed by individuals, companies, non-government organizations (NGOs) or Islamic Foundations solely depend on students' fees as their financial resource without any help from the government (Daud et al., 2012). These schools are registered under the Control of Religious Schools Enactment and the Education Act, and administered entirely by an appointed School Board of Governors (Ramli & Ali, 2015). The establishment of these schools are a continuation of the madrasah system. SAS not only offers academic subjects similar to the national school, but it also offers religious subjects (*Diniah*) to its students. The SAS administration has full autonomy over its education system though it is still bound by the Education Act that requires its students to take public examinations, such as UPSR, PT3 and SPM. The SAS today is consistent with the Muslim need for Islamic education without neglecting other academic subjects in order to excel not only in today's world (*duniah*) but also in the hereafter (*akhirah*).

1.1.1(d) Tahfiz Schools

Tahfiz schools are responsible for educating students who can recite the entire al-Quran from memory, where more than 91% are privately owned by foundations, non-governmental organizations or individuals (Bani et al., 2017). It is mandatory for Tahfiz schools to be registered under the Register of Society, State Islamic Religious Council (SIRC) and Ministry of Education (Bani et al., 2014). The Tahfiz school curriculum is usually determined by its owners, which affords tahfiz institutions the freedom to implement any curriculum focusing on the process of teaching and learning according to

the experience or background of its founder or owner without following any standard syllabus (Ridza et al., 2017). Generally, there are two different streams which are tahfiz education, an education system that focuses solely on Quranic teachings, and a combination of Quranic teachings and academic subjects (Hashim, 2015; Ismail, 2016).

1.2 Problem Statement

Among the biggest challenges faced by Islamic private schools in Malaysia is to maintain its financial sustainability in the long run (Shamsuri, 2018). Sustainable and sufficient financial income is vital for these schools to flourish, ensuring that physical development runs smoothly as planned, the welfare of teachers and other staff is guaranteed, creation of a conducive learning environment and so forth. However, most private Islamic schools in Malaysia experience financial problems caused by several factors. The main factor is that private Islamic schools are not solely profit orienteered, but more importantly, they serve to provide Islamic education as an alternative to the national education system. Therefore, the tuition fees charged by these schools are relatively low compared to other private schools in Malaysia¹⁵. In addition, some schools highly subsidise these tuition fees, and there are some schools that do not charge any fees to a certain category of students, such as orphans and students from very poor families.

“The tuition fees charge for each student is only RM 100 per month”

(Interview 1)¹⁶

¹⁵ Tuition fees for other private primary schools range from RM 9,000 to RM 21,000 per year, while for private secondary schools, it ranges from RM 11,000 to RM 29,000 per year.

¹⁶ The interview was conducted on 20 February 2017 with the Principal of Sekolah Rendah Islam (SRI) Kota, Kota Bharu, Kelantan.

“In term of tuition fees, we charge full amount for regular students. However, for those who are not affordable such as the orphanages and poor students, they only have to pay half. Even some of them are allowed to pay only one third (1/3) of the total amount and some others entitled for free of charge, depending on their parent’s financial condition”.

(Interview 2)¹⁷

Generally, these schools rely mostly on student fees and donations gathered from stakeholders. However, student fees alone are insufficient to cover all school expenses. Historically, the Federal Government had given per capita assistance since 1959 to these private Islamic schools with the aim of improving poor infrastructure facilities in these schools, for teacher’s salary and allowance, school development etc. (Umar, 2007; Umar & Hussin, 2012). However, the aid stopped in 2002. The abrupt decline in funds severely affected the schools who were already financial unstable, leading to closures and dwindling number of staff and students (Hamid, 2010). Then again, the government had allocated some funds in recent years to registered private Islamic schools with the aim of empowering and strengthening these schools (RM50 million in 2013, RM80 million in 2017 and RM50 million in 2019). Yet, the amount received was not on a regular basis and it was still insufficient and unsustainable. Therefore, in order to sustain their existence, these institutions had to turn to public donations to finance their operations. Besides that, in order to increase their financial resources, some schools ran entrepreneurial activities by establishing cooperative stores involved in retailing and planting activities, selling books and carrying out other economic activities to generate income (Abidin et al., 2017; Siren et al., 2013).

¹⁷ The interview was conducted on 16 February 2017 with the Principal of Madrasah Darul Quran dan Kitab, Kg Kedemit, Kelantan.

The Kelantan State Religious Council (MAIK) agreed that financial problems are the main issue faced by most private Islamic schools in Kelantan¹⁸. In addition, several studies also found that most private Islamic schools in Malaysia experienced financial problems (Hamid, 2010; Hashim, Rufai, & Nor, 2011; Latiff & Yusoff, 2007; Siren et al., 2013), such as lack of funds, and had to depend on public donations (Jaafar, 2017). Statements from MAIK and findings from past studies are consistent with the interviews, as stated below.

“The problems faced by us are almost the same where the main issue is insufficient funding to finance the development of pondok and to ensure teachers’ welfare. The pondok management is struggling hard to find funding, particularly for the welfare of teachers”.

(Interview 3¹⁹)

“Contributions received from the community is very helpful, however, it is still insufficient especially for financing physical development projects. We had abandoned a project for almost 4 years to build a school building due to lack of funds. Furthermore, some of the planned student’s programs had to be postponed or down scaled due to the same problem”.

(Interview 4²⁰)

Due to financial problems, private Islamic schools face several challenges.

One of the issues is high teacher turnover. Most teachers receive low salaries and

¹⁸ The interview was conducted on 10 January 2019 with the *Pegawai Dakwah Kanan, Bahagian Hal Ehwal Agama dan Masjid, MAIK*. The *Dakwah Unit* under this division is responsible for the registration and monitoring of Islamic private schools in Kelantan.

¹⁹ The interview was conducted on 21 February 2017 with the General Secretary of Pusat Pembangunan Pondok Berhad, a registered agency for Madrasah and pondok establishments in Kelantan.

²⁰ An interview with the Principal of Maahad Darul Anuar was conducted on 20 February 2017.

allowances and some even receive salaries lower than the mandatory minimum wage of RM1,200 per month, while others receive salaries that are not commensurate with their qualification. Hence, many teachers leave the school when they receive better offers from other parties (Siren et al., 2013).

Another issue faced by private Islamic schools is insufficient and poor school facilities. It was found that lack of funds was the main reason for some pondok institutions not being able to flourish (Huda, 2009) and they lack facilities compared to national schools (Latiff & Yusoff, 2007). Some schools rely on underground water, have poor library and laboratory facilities, inadequate reading materials, as well as small and uncomfortable classrooms and hostels. Most schools operate in small buildings with no security features and are non-compliant with safety standards set by the authorities. The Fire Department reported that more than half of the 956 Tahfiz schools are unsafe (Ujang, 2017). This has caused numerous incidents, such as the fire tragedies that occurred in Tahfiz Schools in Selangor (Darul Ittifaqiyyah), Kedah (Pondok Pak Ya in Yan), Pahang (Pondok Nurul Iman in Pekan) and Kelantan (Pondok Al-Baghdadi, and Maahad Tahfiz Al-Quran Ismailiah).

Hamid (2010) found that some private Islamic schools were closed due to severe financial problems. When the government decided to stop the per-capita financial aid to private Islamic schools, many of these schools faced serious financial problems, which led them to stop their operations (Amin & Jasmi, 2012). Recently, a local newspaper reported that Pusat Pendidikan Al Barakah had announced the sale of its Tahfiz Unit since the management had no means to finance the school's operating costs. Pusat Pendidikan Al Barakah, which is owned by a well-known preacher named Ustaz Kazim Elias, said that the institution is divided into three units, namely the Tahfiz,

Kindergarten and Pondok units. The owner hopes that by selling the Tahfiz Unit, the funds can be used to save the other two units (Arop, 2018). Therefore, managers of Islamic private schools are struggling to seek the attention of the general public and corporations that can actively donate money so that these schools can retain their existence and operate smoothly.

In contrast, Private Chinese Schools, even though without any government assistance, are still able to develop and provide better learning facilities compared to private Islamic schools. These schools receive full support from the Chinese community in Malaysia, especially from the business sector and private corporations. For instance, in 1965, millions of ringgit was collected during a donation campaign to help 6 problematic Private Chinese Schools in Perak. This action had inspired Chinese communities in other states to follow suit. During the 1980's and 1990's, most schools extended their buildings and upgraded their infrastructure to accommodate high enrolment rates in these schools. These schools were also able to provide financial aid to teachers to further their education, thus, increasing the ratio of professionally trained teachers (Jia, 2015; Raman & Sua, 2015).

The financial performance of infaq and the amount of donations received by private Islamic schools is closely related to the giving behaviour of donors and other stakeholders. Sargeant et al., (2006) posited that trust, commitment and giving behaviour are related sequentially. Moraga, Parraga, & Barra, (2010) suggested that among the key feature of trust is the reputation of an organisation, which is crucial for non-profit organisations. Donations can be repeated and increased if the donors believed that the organisation has a good reputation (Sargeant, 2001; Sargeant & Lee, 2002). Kong & Farrell (2010) also argued that reputation is a dominant element in non-profit

organisations that helps build and strategize relations with external stakeholders. The study added that this kind of relationship can assist organisations in gaining important resources, such as donations and volunteer support.

The problem of weak governance practices should not be underrated. In the non-profit sector, governance practices and accountability has increased concerns that have diminished the trust in these entities due to several publicly documented adverse events related to these entities (Aldashev et al., 2015; Ebrahim, 2003). Undeniably ideal accountable governance attracts donors as these donors will be looking for good governance practices and accountability protocols. Barr, Fafchamps, and Owens (2005) reported that good governance is essential for non-profit organisations to retain its credibility, thus, attracting public funds to the organisation. Viader and Espina (2014) agreed that governance is vital for non-profit organisations, especially when they are seeking public funds. The study added that governance is not only related to organisational performance but also affects the organisation's credibility and image among its stakeholders.

Therefore, to establish a good reputation and efficient governance practices, the key concern of the private Islamic school's management is to attract more students to study at their institution as well as to gain the support of potential donors. Good reputation and good governance practices could pave the way for these private Islamic schools to be competitive in the market, which could then influence stakeholders to consistently contribute funds to these schools. Thus, this study aims to investigate the correlation between reputation, governance practices, and competitive advantage with the performance of infaq received by private Islamic schools in Malaysia.

1.3 Research Objectives

This study attempts to empirically investigate the contributing factors of the financial performance of infaq received by private Islamic schools in Malaysia. The following supporting objectives are established:

- i. To identify the relationship of private Islamic school's reputation with competitive advantage and financial performance of infaq.
- ii. To examine the relationship of governance practices with competitive advantage and financial performance of infaq.
- iii. To determine the relationship of competitive advantage with financial performance of infaq.
- iv. To evaluate the mediating role of competitive advantage in the relationship between the private Islamic school's reputation and governance practices with the financial performance of infaq.

1.4 Research Questions

The contributing factors forms the main question in this study relating to the influence of the performance of infaq received by private Islamic schools in Malaysia. The supplementary research questions answers the main question which are as follows:

- i. Does the private Islamic school's reputation have a relationship with the competitive advantage and financial performance of infaq?
- ii. Do good governance practices have a relationship with the competitive advantage and financial performance of infaq?

- iii. Does competitive advantage form a relationship with the financial performance of infaq?
- iv. Does competitive advantage have a mediating role in the relationship between the private Islamic school's reputation and governance practices with the financial performance of infaq?

1.5 Significance of the Study

This research exhibits two significant insights which are theoretical perspective and practical perspective. Theoretically, this study is expected to fill in gaps regarding the performance relationship model by suggesting new independent, antecedent, and mediating variables. From past studies, the study of financial performance in business research is not new and there have been numerous discussions on the financial performance of organisations (González-ramos et al., 2018; McIntyre et al., 2007; Ocak & Ozturk, 2018; Parastoo et al., 2015; Rose & Thomsen, 2004; Vig et al., 2017). Besides, several studies have investigated the financial performance of non-profit organisations (Connolly & Hyndman, 2004; Dijk & Holmén, 2014; Moxham, 2009; Yang, Brennan, & Wilkinson, 2014); however, few had focused on the educational sector. Thus, by studying the financial performance of non-profit organisations, with a focus on private Islamic schools, this study aims to highlight the gaps previously stated by expanding the body of knowledge regarding the determinant factors that influence the financial performance of private Islamic schools.

Previous research had mainly focused on the required resources in creating competitive advantage (Carter, 2006; Ivanov & Mayorova, 2015; Ma, 2000; Pulles et al., 2016; Talaja, 2012) but had disregarded other variables, such as governance

practices which have not been discussed in great detail in analysing the competitiveness and the performance of an organisation (Limakrisna & Yoserizal, 2016; Madhani, 2007, 2014). Governance practices, as well as its constructs in the existing model, will be added as a factor in this study to assess the organisation's financial performance.

Third, most studies on private Islamic schools focused on the prospect, issues and challenges (Amin & Jasmi, 2012; Daud et al., 2012; Ismail, 2016), as well as its history and development (Abdullah, 2011; Hamid, 2010; Nor & Othman, 2011). There are very few studies that touch on reputation, governance and the financial performance of private Islamic schools. Hence, it is expected that this study fills the gap concerning performance, governance practices and competitive advantage related to non-profit organisations, generally, and the education sector, specifically.

Next, from a practical point of view, these schools will form a benchmark for other schools, especially newly established schools for consolidating the school's reputation and governance practices required to attract more funds for the school since the respondents in this study are from private Islamic schools that have been operating for more than 5 years in the educational sector.

The findings from this study can be used by government agencies and policymakers to encourage and ensure that private Islamic schools register with the authorities and make it compulsory for schools to establish a more comprehensive governance practices, such as external auditing. The practice of good governance and accountability by these schools is expected to increase the parents and stakeholders trust, thus, it is believed that this situation will encourage stakeholders to contribute more funds to the schools. Besides that, it will ensure that the school operators obey to