

Influence of Zakat on Sejahtera Strategic Position and Action

Suhaimi Mhd Sarif & Dolhadi Zainudin
International Islamic University Malaysia

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ABSTRACT

Zakat is religious duty for Muslims. Muslim-owned companies also paid zakat. With religious duty in mind, there is no expectation of worldly rewards. When companies are constantly paid zakat, there is good effect to the companies' performance and competitive advantages. This study postulated that zakat enables companies to gain sejahtera strategic position and action for sustainable performance. The case study on three different companies that paid zakat showed sejahtera position and action. The study uses strategic position and action evaluation (SPACE) Matrix to investigate the influence of zakat on sejahtera strategic position and action. The results of the study showed that zakat has worldly effect.

Keywords: Business zakat, Sejahtera, Strategic position, Strategic management

JEL code: M14, Z12.

INTRODUCTION

Sejahtera concept has been embedded in Malaysia's education system since 1990s when the sejahtera has been the ultimate outcome of the education system. This education system has been producing human talents with sejahtera since 1990s (Adil, 2019; Hussin, 2020; Hopkins et al, 2020; Nketsia et al, 2020). This implied that the stakeholders in Malaysia have been influenced with sejahtera concept.

Sejahtera is not new in Malaysia. Sejahtera has been in Malaysia's system since the introduction of "Rukun Negara" or National Principles in 1970 (Hamdan, 2011; Malaysia, 2015; Abd Razak, 2020). There are five "pillars" in Rukun Negara, namely belief in God, loyalty to the King and country, supremacy of the constitution, rules of law, and Courtesy and Morality.

The background behind the national principles is due to the sejahtera education. People are able to live

harmoniously in multiracial society (Adil, 2019; Abd Razak, 2020). The reasons are due to the ability of the people from different races who are able to live in unity in diversity, able to live in democracy system, able to uphold a caring and just society by ensuring a liberal approach to different traditions. In the meantime, Malaysians are not to neglect the progress of science and technology.

When Muslims are obliged to pay zakat, by default, with the sense of national principles and Sejahtera mindset, Muslims would not have any reason to avoid paying zakat. In fact, they will feel great for paying zakat as a manifestation of their peaceful soul and patriotic behaviour.

Zakat is religious duty for Muslims. Muslim-owned companies also paid zakat. With religious duty in mind, there is no expectation of worldly rewards. When companies are constantly paid zakat, there is good effect to the companies' performance and competitive advantages. This study postulated that zakat enables

companies to gain sejahtera strategic position and action for sustainable performance. The case study on three different companies that paid zakat showed sejahtera position and action. The study uses strategic position and action evaluation (SPACE) Matrix to investigate the influence of zakat on sejahtera strategic position and action. The results of the study showed that zakat has worldly effect.

LITERATURE REVIEW

Zakat is Islamic religious duty for Muslims. There is no excuse to avoid paying zakat when it is due. In a capitalist society, there is no legal action taken on Muslims who did not pay zakat. A responsible Muslim will pay zakat when the zakat is due.

Muslims will always pay zakat when it is due. Every Muslim is aware of zakat is a religious obligation (Othman, Yusuff & Nayan, 2020; Yusfiarto, Setiawan & Nugraha, 2020). When zakat is regarded as income tax, zakat payers are giving excuses due to negative perceptions and surrounding factors (Azzahra & Abd Majid, 2020).

Muslim owners of businesses are aware of zakat obligation. There could be dilemma between paying business tax and zakat. Such excuses are no longer valid when zakat accounting has been introduced to the business world (Bakar, 2007). In fact, many companies are paying zakat (Mohamad & Trakic, 2013). Those who are constantly paying zakat are not just because of religious knowledge, but due to strong faith in executing religious duty. Other factors such as zakat administration leadership, service quality, role model of scholars and vital signs of zakat to the economic development are not the main driver for paying zakat (Azzahra & Abd Majid, 2020).

Is zakat related to legal and ethical obligations? In economic approach, every

business has economic duty to generate profit legally and ethically for the business (Noor Azman & Bidin, 2015). While perception may be a factor for not paying zakat, most of the cases, the compliance behaviour to pay zakat is due to religious, legal and ethical obligations (Noor Azman & Bidin, 2015; Othman, Yusuff & Nayan, 2020).

Some may argue about the literacy inadequacy factor that hinders people to pay zakat. While literacy is essential (Yusfiarto, Setiawan & Nugraha, 2020), the sense of obligation is far more important (Othman et al, 2020; Azzahra & Abd Majid, 2020).

METHODOLOGY

This study uses Strategic Position and Action Evaluation (SPACE) Matrix. The axes of the SPACE Matrix represent two internal dimensions (financial position [FP] and competitive position [CP]) and two external dimensions (stability position [SP] and industry position [IP]). The SPACE Matrix resulted four quadrants, namely aggressive, competitive, conservative and defensive quadrants.

The use of SPACE Matrix in analysing companies' strategic position provides comprehensive internal-external forces in generating competitive strategies. The strategic position allows for optimisation of corporate, business and functional strategies (Abbasi, Nafari & Ebrahimi, 2014). The analytical approach enables for dynamism in the strategy generation and selection (Benson & Henderson, 2005). Any business or organisation can use SPACE analysis (Cross & Henderson, 2003).

SPACE analysis allows companies to examine competitors' position and action (Radder & Louw, 1998). The use of SPACE Matrix optimises resources for greater performance and competitive advantage (Sherafat et al, 2013). The

analytical evaluation allows for To generate SPACE Matrix, the
oprtimezation (Tavana & Banerjee, 1995). first step is to produce X and Y axis.

Table 1. Calculation of SPACE Matrix

Financial Position (FP)	Rating
Rate them as follow: +1 worst to +7 best	
Return on investment	
Leverage	
Liquidity	
Working capital	
Cash flow	
Inventory turnover	
Earnings per share	
Price earnings ratio	
TOTAL	
Average	Total/No of items
Competitive Position (CP)	Rating
Rate them as follow: -1 best to -7 worst	
Market share	
Product quality	
Product life cycle	
Customer loyalty	
Capacity utilization	
Technology know-how	
Control over suppliers and distributors	
TOTAL	
Average	Total/No of items
Stability Position (SP)	Rating
Rate them as follow: -1 best to -7 worst	
Technological changes	
Rate of inflation	
Demand variability	
Price range of competing products	
Barriers to entry into market	
Competitive pressure	
Ease of exit from market	
Risk involved in business	
TOTAL	
Average	Total/No of items
Industry Position (IP)	Rating
Rate them as follow: +1 worst to +7 best	
Growth potential	
Profit potential	
Financial stability	
Extent leveraged	
Resource utilization	
Ease of entry into market	
Productivity, capacity utilization	
TOTAL	
Average	Total/No of items
Directional vector coordination: x axis $3.00 + (-4.25) = -1.25$	
y axis $-3.50 + 2.50 = -1.00$	

Second step is to draw the SPACE Matrix with directional vector coordination.

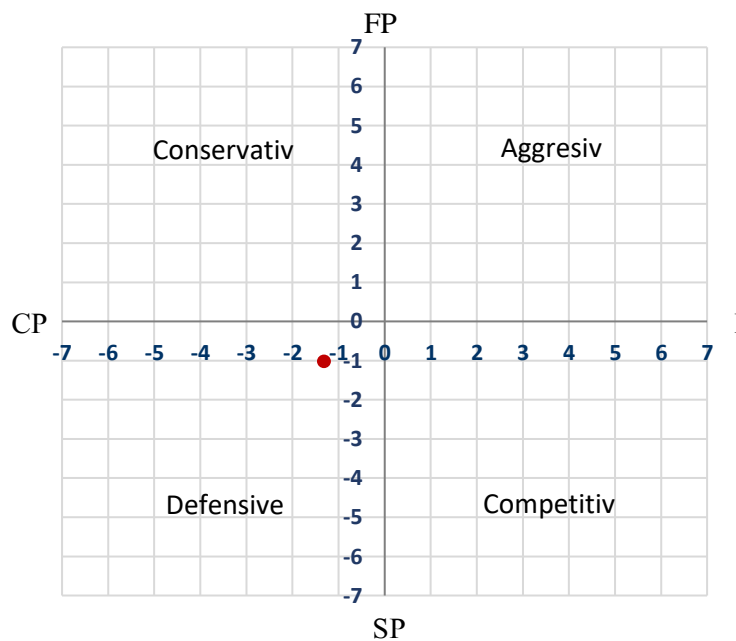
At Aggressive Quadrant (upper right) allows an organization to use its internal strengths to (1) take advantage of external opportunities, (2) overcome internal weaknesses, and (3) avoid external threats. The strategies used will enhance performance and competitive advantages.

At Competitive Quadrant (lower right), indicates competitive strategies. Competitive strategies include backward, forward and horizontal integration; market penetration; market development; and product development

At Conservative Quadrant (upper left), which implies staying close to the firm's basic competencies and not taking excessive risks. Conservative strategies most often include market penetration, market development, product development, and related diversification.

At Defensive Quadrant (lower left) suggests the firm should focus on improving internal weaknesses and avoiding external threats. Defensive strategies include retrenchment, divestiture, liquidation, and related diversification.

Figure 1. SPACE Diagram



RESULTS AND DISCUSSION

This section presents the results of SPACE matrix analysis on three companies. The companies are labelled as Company A and Company B. While Company A is in food manufacturing industry, Company B is focusing on construction industry.

Company A has been in food manufacturing industry for almost 40 years with ups and downs. Quality products and speed delivery are always expected from Company A. Therefore, Company A is obliged to have continuous improvement and innovation through its research and development. This company paid zakat constantly since its inception.

Company B is equally tenured in construction industry for more than five decades. It has gone through challenges in life. However, Company B is never missed to pay business zakat. While zakat is religious obligation, Company B is also paying business tax. Besides zakat, the company is always practicing philanthropy especially with the workers. This company believes in charity begins at home.

Zakat has significant influence to the performance and competitive position of the companies.

Company A has moderate rating for financial position, competitive position, stability position and industry position. The moderate rating in financial position implies that Company A has moderate achievement in terms of return on investment, leverage, liquidity, working capital, cash flow, inventory turnover, earnings per share and price earnings ratio. Nevertheless, a moderate situation of competitive position, implies that Company A has relatively better position in terms of market share, product quality, product life cycle, customer loyalty,

capacity utilization, technology know-how, and control over suppliers and distributors.

A moderate rating of Company A's stability position, implied that Company A is moderately stable in terms of technological changes, rate of inflation, demand variability, price range of competing products, barriers to entry into market, competitive pressure, ease of exit from market, and risk involved in business. This situation is supported by the moderate industry position which means Company A has moderate industry position in terms of growth potential, profit potential, financial stability, extent leveraged, resource utilization, ease of entry into market, productivity, and capacity utilization.

The continuous practice of paying zakat has enabled the company to increase net sales to 31.57% with total assets growth of 9.73%. This situation has improved form least moderate to better moderate position. Table 2 shows the calculation for SPACE matrix of Company A.

Table 2. SPACE Matrix calculation for Company A

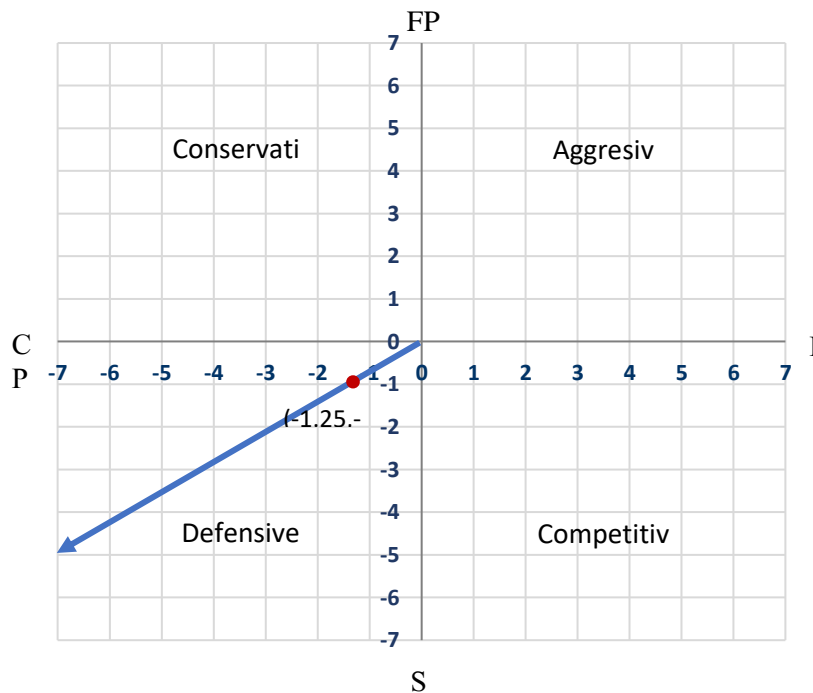
Financial Position (FP)	Rating
Rate them as follow : +1 worst to +7 best	
Net sales revenue increase of 31.57% in 2017	+4
Total assets recorded a growth of 9.73%	+3
Return on Equity of increased 3.82 %	+2
Revenues increased 0.39% from the previous year	+1
TOTAL	+10
Competitive Position (CP)	Rating
Rate them as follow: -1 best to -7 worst	
Increased 0.2% market share in packaged foods	-4
Slow restock – no control over the supply and distribution	-5
No IT Team and no MIS system	-5
Innovative & high R&D outcome using latest technologies	-3
TOTAL	-17
Stability Position (SP)	Rating
Rate them as follow: -1 best to -7 worst	
Increasing demand for FCMG products	-5
Share prices are low to middle range – affordable	-2
Has many competitors especially	-4
Low barriers to entry – small entrepreneurs can easily sell their products– small scale operation and process, cheap rent	-3
TOTAL	-14

Industry Position (IP) Rate them as follow: +1 worst to +7 best	Rating
Has entered foreign market	+3
Has been in the industry for almost 40 years – good sustainability	+3
Largest food manufacturer in the industry	+3
TOTAL	+9
FP Average is $10/4 = 2.50$	
IP Average is $9/3 = 3.00$	
CP Average is $-17/4 = -4.25$	
SP Average is $-14/4 = -3.50$	
Directional vector coordinator: x axis $3.00 + (-4.25) = -1.25$	
y axis $-3.50 + 2.50 = -1.00$	
Coordinate: (-1.25, -1.00)	

Based on the SPACE diagram, at coordinates (-1.25, -1.00), Company A's directional vector is located at the defensive strategies (below-left quadrant) which suggests that Company A should focus on fixing internal weaknesses and avoiding external threats for it to shift into

the aggressive quadrant (upper-right). By continuous to pay zakat and to practice philanthropy, Company A would be able to improve its SPACE position from "defensive" to at least "competitive." Figure 2 shows the SPACE diagram for Company A.

Figure 2. SPACE Diagram for Company A



Company B's SPACE situation is slightly better than Company A. As a construction company, it faces a lot of challenges due to the environment uncertainty and the global pandemic. Company B has higher moderate rating for

financial position, competitive position, stability position and industry position.

Company B has slightly higher moderate rating for financial position, competitive position, stability position and

industry position. The moderate rating in financial position implies that Company B has stronger moderate achievement in terms of return on investment, leverage, liquidity, working capital, cash flow, inventory turnover, earnings per share and price earnings ratio. Nevertheless, a moderate situation of competitive position, implies that Company B has relatively far better position in terms of market share, product quality, product life cycle, customer loyalty, capacity utilization, technology know-how, and control over suppliers and distributors.

A moderate rating of Company B's stability position, implied that Company B is moderately stable in terms of technological changes, rate of inflation,

demand variability, price range of competing products, barriers to entry into market, competitive pressure, ease of exit from market, and risk involved in business. This situation is supported by the moderate industry position which means Company B has moderate industry position in terms of growth potential, profit potential, financial stability, extent leveraged, resource utilization, ease of entry into market, productivity, and capacity utilization.

The continuous practice of paying zakat has enabled the company to reach higher moderate situation. Table 3 shows the calculation of SPACE Matrix for Company B.

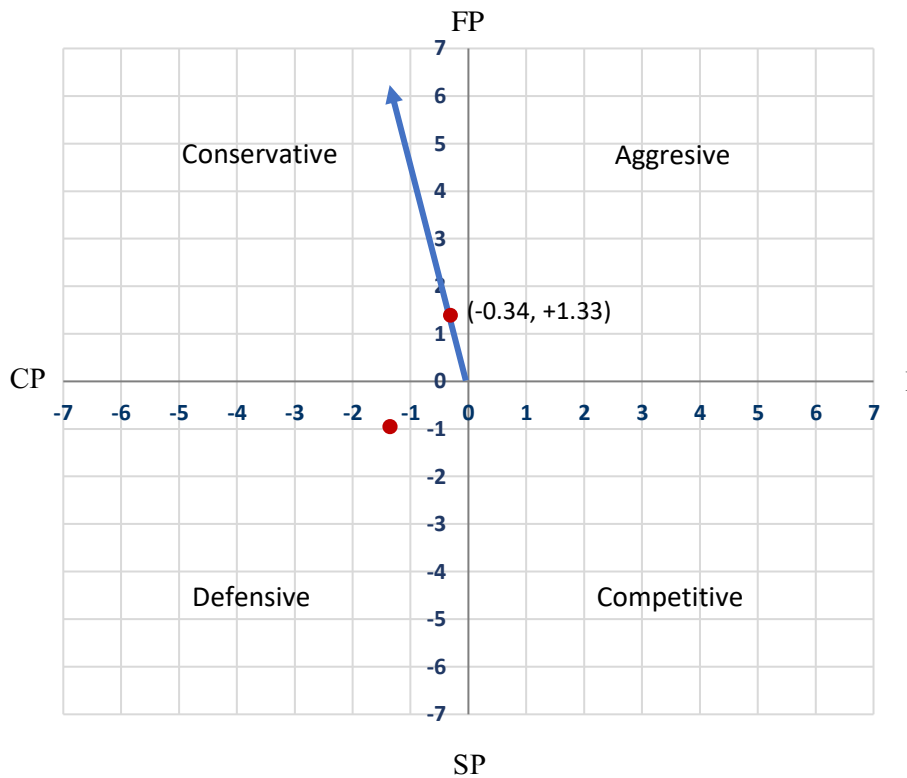
Table 3. SPACE Matrix Calculation for Company B

SPACE MATRIX	
Financial Position (Y-Axis +ve)	+7 Best, +1 Worst
Return on Investment slowly increasing	+3
Diminishing trend of leverage since the last five years	+4
Promising upward trend in Inventory turnover	+5
TOTAL	+12
Average	+12/3 = +4
Industry Position (X-Axis +ve)	+7 Best, +1 Worst
Growth Potential Expected to be Moderate	+3
Barriers to Entry Into Market Is Quite Tight Since Need Large Capital	+4
Profit Potential Expected to be Mediocre Considering Competitive Environment Among Competitors	+3
TOTAL	+10
Average	+10/3 = +3.33
Stability Position (Y-Axis -ve)	(-1) Best, (-7) Worst
Pressure Among Competitors Is Moderate	-4
Level of Technological Change Is Quite Steady	-2
Volatility of Demand Is Relatively Stable	-2
TOTAL	-8
Average	-8/3 = -2.67
Competitive Position (X-Axis -ve)	(-1) Best, (-7) Worst
Quite advance in Technological know-how	-3
Product life cycle is expected to be in growth stage for a quite long time	-4
Moderate power source utilization	-4
TOTAL	-11
Average	-11/3 = -3.67
X axis = IP+CP (3.33 + (-3.67))	-0.34
Y axis = FP+SP (4+(-2.67))	1.33

Based on the SPACE diagram, at coordinates (-0.34, +1.33), Company B's directional vector is located at the conservative strategies (upper-left quadrant) which suggests that Company B should focus on fixing internal weaknesses and avoiding external threats for it to shift

into the aggressive quadrant (upper-right). By continuous to pay zakat and to practice philanthropy, Company B would be able to improve its SPACE position from "conservative" to "aggressive." Figure 3 shows the SPACE diagram for Company B.

Figure 3. SPACE Diagram for Company B



Company A and Company B have been moderate industry position can be related to its compliance behaviour to pay zakat is due to its legal and ethical obligations (Noor Azman & Bidin, 2015; Othman, Yusuff & Nayan, 2020). In the meantime, Company A has no difficulties to do so with the presence of zakat accounting systems (Bakar, 2007; Mohamad & Trakic, 2013). The use of SPACE analysis has proven Company A has been scientific in the business approach (Abbasi, Nafari & Ebrahimi, 2014) in the strategy generation and selection (Benson & Henderson, 2005).

CONCLUSION

This study postulated that zakat has influence on strategic position of companies. While zakat is always religious duty for Muslims, companies are constantly paid zakat received good effect on performance and competitive advantages. The strategic position and action evaluation (SPACE) Matrix has shown the influence of zakat on sejahtera strategic position and action in terms of financial position, competitive position, stability position and industry position.

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Suhaimi Mhd Sarif
Associate Professor,
Department of Business Administration
Kulliyah of Economics and Management
Sciences, International Islamic University
Malaysia
suhaimims@iium.edu.my

Dolhadi Zainudin
Assistant Professor
Kulliyah of Economics and Management
Sciences, International Islamic University
Malaysia
dolhadi@iium.edu.my