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Proposed Risk Management Framework for the Development Waqf Asset Portfolio in Malaysia

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ABSTRACT

The lack of a focused risk management division within the waqf organisation of The State Islamic Religious Council (SIRCs) in Malaysia has resulted in financing limitations owing to exposure to unmanaged risks. Moreover, the lack of this division indirectly impacts the overall waqf operational activities, particularly the development of the waqf asset portfolio. Consequently, it is imperative to establish a risk management section inside the SIRCs waqf organisation to enhance the performance and reputation of the endowment, which is perceived to be deteriorating. This study will analysis the challenges and issues that lead to risk exposure, as well as the causes contributing to the absence of a risk management division inside the waqf organisation. The analysis of suitable risk management strategies will thereafter be included in the primary findings of this study. This study employed semi structured interview and content analysis, which will then be analysed descriptively. This study identifies the absence of a systematic risk management strategy in waqf operations, highlighting a lack of initiatives to address risk exposure effectively within waqf organizations. To overcome this gap, an integrated risk management mechanism, based on the COSO Enterprise Risk Management framework, is proposed. The findings underscore the framework's potential to mitigate risks, enhance governance, and support the development of a sustainable waqf asset portfolio, ultimately ensuring better accountability and long-term benefits for stakeholders.

Keywords*:* asset investment, endowment, non-profit organization, institutional, risk management theory.

INTRODUCTION

The need for risk management in waqf administration has been highlighted by researchers such as Yaakob et al. (2016), Jaafar Ismail (2017), Hydzulkifli and Asmak (2012), Ramli et al. (2015), and Sulaiman and Hasan (2016). This is due to the absence of a dedicated risk management division in waqf organizations, a situation different from what is found in endowment organizations in the West (Kartini Aboo Talib@Khalid, Nidzam Sulaiman, and Wan Kamal Mujani 2015). The lack of risk management causes discontinuity between different levels, weak integration of risk management processes, and insufficient interaction among various stakeholders (Liu et al. 2007).

In the early development of risk management, insurance companies pioneered this field due to their focus on mitigating non-financial risks (Nocco 2006). Subsequently, as early as the 1970s, financial companies began emphasizing risk management (Dickinson 2001), a focus that gained significant attention after financial crises that affected major global corporations (Gordon, Loeb, and Tseng 2009).

The basic risk management process involves identifying risks, assessing the identified risks, selecting appropriate risk management techniques, and implementing the chosen risk management measures (Chee 2003). Risk identification is based on three scenarios: risk events, risk probability, and the quantifiable and qualitative measures of loss as a negative impact (Malesevic 2003).

To establish an appropriate risk management approach, focus, goals, and objectives must be considered to ensure a suitable risk management mechanism. Since waqf institutions lack a dedicated risk management division, studies have been conducted on profit-oriented institutions. However, analyses show that the primary focus of risk management in the context of finance, banking, and takaful revolves around risks such as credit and investment only (IFSB-14 2013). Thus, the approaches employed in these sectors primarily centre on profit and loss considerations.

In contrast, the scope of risks in non-profit organizations is more complex, intricate, and varied, involving issues such as financial protection, technological security, communication crises, and disasters. Moreover, non-profit organizations often emphasize fundamental and societal issues, such as environmental quality improvement, truth-seeking research, and social change (Matan and Hartnett 2011). Furthermore, studies by Young (2009) and Trivunovic, Johnsøn, and Mathisen (2011) found that non-profit organizations still do not prioritize risk management and focus only on minimizing risks rather than managing them, resulting in a trust deficit among donors. Nevertheless, non-profit organizations still require income generation (Solomon et al. 2000) even though they do not focus on capital appreciation (Dimson 2007).

There are two main reasons why non-profit organizations require risk management (F. Ostrower 2007):

1) Organizations need maximum protection for their mission and objectives from potential threats.

2) Non-profit institutions need assistance in identifying the best choices and alternatives to achieve their established missions and objectives (Herman n.d.).

Kleffner, Lee, and McGannon (2003), as well as R.E. Hoyt, Moore, and Liebenberg (2008), found that risk management approaches in profit-oriented institutions are siloed and traditional. The methods used, such as insurance and asset diversification, are considered traditional and underutilized by non-profit organizations (Doherty 2000; Meulbroek 2002). Additionally, risks are managed individually or as separate and distinct units (Dickinson 2001).

The complex risk exposure in waqf institutions, which are tied to diverse stakeholder groups, demands a comprehensive and contemporary risk management approach (Wan Mohd Al Faizee Wan Ab Rahaman, Salmy Edawati Yaacob, and Mohamad Sabri Haron 2020). This complexity arises from interactions between various organizations, involving intricate factors influenced by changes in economic, social, and political environments (Bennett, Iossa, and Legrenzi 2003). The linkage to the ultimate owner, Allah SWT, and adherence to Shariah necessitate a refined waqf structure to incorporate risk management.

The suitability of adopting risk management in waqf institutions aligns with current developments in risk management, which have seen a paradigm shift from traditional to contemporary approaches (Norlida, Isahak, and Mohd 2010). This paradigm shift stems from differing responses to risk (Paape and Speklé 2012).

Since the risks faced by waqf are diverse, waqf institutions require a more holistic and contemporary risk management approach that considers the interrelationship between various aspects of waqf administration. This is because achieving the objectives of waqf necessitates comprehensive integration in waqf management. Given that the risk management approach in financial institutions remains siloed, it is crucial for this study to identify modern, comprehensive, and holistic risk management approaches. Furthermore, the absence of an international regulatory body like the Islamic Financial Services Board (IFSB) to establish risk management standards for financial institutions does not prevent waqf institutions from independently proposing standard operating procedures (SOPs) without specific guidelines.

Based on the outlined challenges, this study aims to explain the current risk management approaches adopted by selected State Islamic Religious Councils (MAIN) and propose a holistic and context-appropriate risk management approach for waqf institutions under MAIN. This study will explore the intricacies of risk management and the present approach employed by MAIN throughout four distinct regions, each exhibiting unique cultural characteristics, while integrating a comprehensive risk management standard for adoption.

LITERATURE REVIEW

Governance refers to the systems and processes designed to ensure the overall direction, efficiency, monitoring, and accountability of an institution in alignment with its objectives (Cornforth 2002). Governance in corporate institutions, particularly those based on Islamic principles, emphasizes elements of justice, transparency, and accountability as essential for managing institutions. Integration between Shariah and moral aspects (Abdul Rahman 1998), grounded in the principles of *tawhid* (monotheism) and *shura* (consultation) (Choudhury and Hoque 2006), is vital for realizing the concepts of *khilafah* (stewardship) and justice. The primary focus of corporate governance is to provide protection to stakeholders (Iqbal and Mirakhor 2014), based on transparency (Gupta 2008). This includes preserving relationships between company management, board members, and stakeholders (OECD 2004). Good governance in Islam promotes *hisbah* (accountability) as a key outcome to prevent ineffective operations, the misuse of public property, the preservation of the organization's primary goals, and the protection of stakeholders under Islamic law (Hasan, Abdul-Rahman, and Yazid 2020).

Risk management is an integral component of a sound governance system (Muhammad Iqmal Hisham Kamaruddin and Nathasa Mazna Ramli 2018). Profit-oriented enterprises focus on achieving growth, understanding the scope of risks, and ensuring continuity (Ansell and Wharton 1992). However, under the Islamic economic system, stakeholders' demands extend beyond financial elements to include ethics, religion, and values (Hasan et al. 2020). The American Institute of Certified Public Accountants (AICPA) highlights that heightened risk awareness is a best practice in organizational governance. Every organization, including non-profit institutions, must account for risks to achieve their mission by planning strategies to meet stakeholder requirements.

The primary objective of risk management is to ensure transparency, accountability, and strict vigilance (Idriz 2008). The risk management function aligns with the emphasis on upholding moral standards and complying with regulatory activities outlined in corporate governance.

To ensure effective corporate governance, appropriate risk management standards must align with governance improvement activities (Rozzani and Rahman 2013; Zeti Akhtar 2013). A key principle of Shariah-based corporate governance is appointing the right individuals to specific tasks (al-Futuh 1986; Idriz 2008). Therefore, risk managers are responsible for identifying key risks, implementing consistent and understandable risk operations, prioritizing risks, assessing risk fluctuations, and establishing procedures to monitor emerging risks (Pyle 1997). Islam places significant emphasis on risk management, especially in the objectives of Shariah (*Maqasid al-Shariah*), which prohibit involvement in destructive activities and prioritize the preservation of five essential aspects of life. For example, the Quran (2:195) explicitly forbids self-destruction. This prohibition is further illustrated by the Prophet Muhammad's (PBUH) advice to a Bedouin to tie his camel before relying on Allah's decree, emphasizing the need for proactive risk management (Wan Mohd Al Faizee Wan Ab Rahaman, Salmy Edawati Yaacob, and Mohamad Sabri Haron 2021).

Additionally, the Quran (2:282) advocates recording debts as a risk management measure. The story of Prophet Yusuf interpreting the king of Egypt's dream (Quran 12:46-49) further demonstrates risk management. Prophet Yusuf advised preparing for a seven-year famine, ensuring that Egypt's people avoided starvation through proactive planning. Comprehensive risk management must include systems, procedures, and strategies (Liu et al. 2007). This is also reflected in Prophet Yaqub's guidance to his sons to take different routes to avoid capture by the Egyptian ruler, illustrating a strategic approach to managing risks.

Risk management is not a new concept; it has been emphasized in Islam for centuries and has been systematically applied in financial activities. Previous researchers have focused on controlling risks and developing strategies to minimize adverse impacts on Islamic financial institutions (Tariq 2001; Sundarajan 2005). Risk management activities are crucial in corporate entities, often involving data analysis and institutional information (Ramli 2000). Additionally, financial development contracts such as *mudarabah* and *musharakah* inherently include risk control features, such as mitigating the risk of losses.

The literature indicates that non-profit organizations and Islamic financial institutions have developed distinct

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risk management approaches. For example, the Red Cross and similar organizations utilize integrated frameworks to ensure operational resilience (Young, 2009; Matan & Hartnett, 2011), while Islamic financial institutions rely on Shariah-compliant mechanisms to manage risks and maintain stakeholder confidence (Sundararajan & Errico, 2002; Hassan & Lewis, 2007). These frameworks provide valuable lessons for waqf institutions in addressing their unique challenges, such as asset sustainability and stakeholder accountability.

Key strategies in banking risk management include risk segmentation and pooling, as well as portfolio diversification, which plays a significant role in this process. Furthermore, Bank Negara Malaysia (BNM, 2018) and Basel (2004) have established frameworks and guidelines that inform risk management in Islamic banking and finance sectors. These frameworks ensure comprehensive and effective governance, fostering sustainable growth and protecting the interests of all stakeholders.

METHODOLOGY

This study employs a qualitative approach based on case studies. Data was collected through interviews conducted with four State Islamic Religious Councils (*Majlis Agama Islam Negeri*, MAIN) from four states in Peninsular Malaysia, representing the northern, southern, eastern, and western regions. The selected institutions are Perbadanan Wakaf Negeri Selangor (PWS), Majlis Agama Islam Negeri Pulau Pinang (MAINPP), Majlis Agama Islam Johor (MAIJ), and Majlis Agama Islam dan Adat Resam Melayu Terengganu (MAIDAM). These councils were chosen due to their substantial assets and the high value of their waqf properties compared to other states (JAWHAR 2004). The study incorporates waqf institutions from northern, southern, eastern, and western regions, providing a representative sample that reflects diverse practices and challenges. The selection criteria considered regional socio-economic, legal, and cultural variations to ensure the findings are broadly applicable.

Managing significant assets demonstrates the complexities of governance and the multitude of issues that could arise, potentially leading to risks. The data obtained is likely to be relevant and useful (Yin 2011) as well as rich in information (Patton 2015). Additionally, content analysis was employed to complement the data collection process. All data collected was analyzed using a descriptive approach to provide a comprehensive understanding of risk management practices in the selected institutions.

Data Analysis

The encouragement to invest movable and immovable waqf assets has been highlighted in the Resolution of the Fiqh Academy No. 140 (15/6) (Mohsin 2013). According to Al-Qurahdaghi (2004), waqf asset development can be achieved through investments that generate returns from the capital invested. Investments can be carried out through Islamic financial portfolio diversification, which offers high returns with minimal risk (Marzuki et al. 2012). Investment instruments identified by previous researchers include *mudarabah*(Cizakca 2004), *murabahah*, *ijarah*, *istisna'*, BBA (Adam 2013), and corporate investments (Hydizulkifli 2016).

Waqf investments are inherently future-oriented and require a certain timeframe to achieve returns. Therefore, two critical considerations must be addressed:

1. Selecting waqf investment projects requires in-depth studies because they are typically long-term in nature and cannot be altered in the short term without incurring significant losses (Umar 2004).

2. Choosing waqf investments that are flexible and easily liquidated without incurring losses, allowing for adjustments in the event of changes in conditions or contracts.

When discussing waqf investments, two essential aspects need attention: capital formation and capital utilization (Umar 2004). These responsibilities should be a priority for waqf managers. Furthermore, waqf managers must enhance professionalism, particularly accountability, in managing waqf funds (Keating and Frumklin 2003). Consequently, all governance-related information, such as operations, risks, priorities, and programs, will facilitate the effective use of resources, activities, and waqf achievements, enabling waqf managers to make accurate decisions.

In practice, waqf institutions under Malaysian State Islamic Religious Councils (MAIN) demonstrate siloed development strategies. For instance, cash waqf funds are often placed in savings accounts exposed to inflation risks, leading to long-term value erosion (Wildermuth 2012). Risk exposure in waqf institutions has been identified across various dimensions commonly observed in non-profit institutions, including complexity, uniqueness, unpredictability, and diversity, stemming from economic, political, and social interactions.

Moreover, waqf institutions must ensure that waqf asset development meets income-enhancing objectives rather than focusing on profitability (Wan Mohd Al Faizee Wan Ab Rahaman et al. 2020). This is because the primary goal of waqf is to ensure the optimal distribution of benefits to beneficiaries while preserving the waqf capital. A critical gap in MAIN's waqf management is the absence of a dedicated risk management division capable of analyzing risks to reduce exposure and optimize developmental opportunities for the overall benefit of waqf.

The scope and activities identified in waqf asset development reveal six main risk categories: governance, operational, financial, reputational, legal, and compliance risks (Domański 2016). These risks arise from issues and challenges in waqf operations at MAIN and have been categorized accordingly by Domanski's framework. Based on this categorization, Wan Mohd Al Faizee Wan Ab Rahaman et al (2020) found that governance and operational risks dominate risk exposure in waqf at MAIN, triggering other risk categories. This is primarily due to the lack of a dedicated waqf management division within the organization.

In conclusion, the absence of a holistic and integrated risk management approach within MAIN's waqf institutions underscores the urgent need for reforms to address these gaps and to enable the sustainable development of waqf assets. Since the objectives of waqf can only be achieved when diverse stakeholders are managed holistically, the risks involved in developing a waqf asset portfolio require a comprehensive, modern, and integrated approach.

This is necessary to avoid traditional risk management methods that operate in isolation, separately, and within silos. Moreover, risk management in waqf does not require an overly sophisticated approach but instead should focus on evaluating integrated alternative outcomes (Young 2009). An analysis of risk management practices in both profit-oriented and non-profit institutions reveals that profit-oriented institutions primarily focus on profit-related risks, such as credit and loans. Furthermore, most approaches adopted by profit-oriented institutions are singular, non-comprehensive, and traditional. Studies also show that non-profit institutions still lack a holistic and contemporary approach to managing the diverse risks they face.

Although waqf institutions share similarities with non-profit organizations (Cizakca 2014), many researchers emphasize the importance of professional governance to ensure transparency and accountability in management (Alpay and Haneef 2015). Adopting professional management practices enhances the quality, service delivery, responsibility, and effective accountability within waqf administration (Hassan and Shahid 2010). Since the waqf management under the selected State Islamic Religious Councils (MAIN) in Malaysia still lacks a dedicated risk management division, an analysis of the current approaches to addressing risk exposure was conducted. This analysis provides a comprehensive understanding of the actions taken by waqf managers when faced with these risks.

This gap underscores the urgent need for a modernized and holistic risk management approach, enabling MAIN to better address risks while optimizing the development and sustainability of waqf assets. The conducted analysis reveals that waqf managers recognize the importance of a dedicated risk management division. This is reflected in the statement of informant PM04:

"Risk management is still relatively new. The good thing about risk management is that it considers the potential negatives beforehand. Although there is already an aspect of risk management in current operations, it is not formally labeled as such. Typically, any planning involves detailed studies and evaluations of its

potential effects. So, risk management is somewhat in place but not recognized under that specific term" (PM04 2023).

However, structural constraints within organizations have hindered the establishment of a formal risk management division. Legally, waqf assets fall under the absolute authority of the Sultan or Yang di-Pertuan Agong, while executive governance is carried out by individual State Islamic Religious Councils (MAIN). This top-down administrative approach was emphasized by PM02:

"Top-down could mean directives from the Yang di-Pertuan Agong or the Prime Minister's agenda. If it's left to individual MAINs, relying on their leadership alone may not be sufficient" (PM02 2023).

To ensure robust governance and efficient operations, a governance framework complemented by competent personnel was highlighted as necessary. PM02 stated:

"A framework is essential. When we talk about a framework, it includes the necessary organizational structure. For instance, like in banks, there is a Board of Directors and under them, a Risk Management Committee. Members of these boards and committees must be qualified and proper individuals" (PM02 2023). A sound governance structure in waqf ensures thorough approval processes and the effective implementation of asset development activities. PM04 explained:

"For large projects, approvals and notifications are presented to the board. For smaller projects, the committee handles them. The committee chairperson is part of the board responsible for waqf. Our committee includes members of the council, and some of our staff. The chairperson is from the board, while I serve as the secretary" (PM04 2023).

To advance waqf asset development, establishing a research and development (R&D) division has been proposed. PM03 emphasized the need for R&D:

"R&D is necessary to monitor and innovate because relying solely on audits limits growth. At some point, fear of expanding can become an issue. R&D ensures safety and progress, much like what happens in organizations like Proton and Petronas" (PM03 2023). Accurate monitoring of waqf assets and risk mitigation require technological adoption, such as Geographic Information Systems (GIS). PM01 shared:

"Initially, data was entered into the SIS system with no subsequent action. Under our supervision, we developed an inventory system to map all land. This allows us to understand its distribution and benefits, but it is currently only accessible internally" (PM01 2023).

Efficient management of diverse waqf funds is critical to avoid financial risks, such as loss, mismanagement, or leakages. PM02 explained:

"Each waqf fund depends on its designation. For instance, Sette Aisyah's waqf must remain within that purpose. They cannot be mixed with other waqfs unless there's a fatwa permitting it. So far, there's no such ruling" (PM02 2023). Raising public awareness is vital, as reputational risks can significantly impact waqf asset sustainability, given that public contributions are the backbone of waqf initiatives. PM04 suggested integrating waqf education at an early stage:

"Awareness about waqf should start at the primary school level. Students only encounter waqf in university through initiatives like food waqf programs. Before that, they may only associate it with donations, which is confusing" (PM04 2023).

The interviews highlight critical aspects, such as awareness, governance frameworks, competent personnel, research and development, systems, and financial management, which underscore the need for a comprehensive risk management approach in waqf institutions. Current risks in waqf management are handled in isolation, leaving some issues unresolved. Therefore, the next section will propose a holistic risk

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management approach, emphasizing governance restructuring, integrated risk management, and enhanced waqf asset development activities.

DISCUSSION

Findings from interviews conducted with four selected State Islamic Religious Councils (MAIN) clearly indicate that waqf management under their supervision still lacks a dedicated and structured risk management division. However, the attention given to its importance, based on the approaches and suggestions provided by informants to manage risks and uncertainties in waqf operations, highlights the critical need to develop risk management within these institutions.

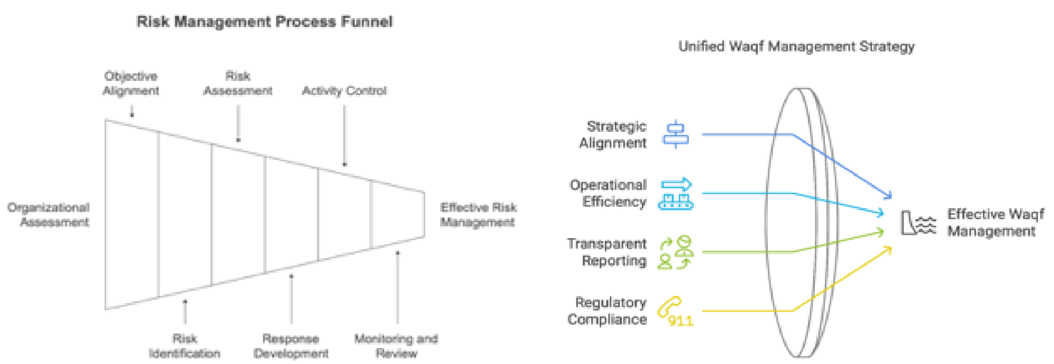
One of the most evident aspects contributing to the differing governance approaches of waqf, particularly in MAIN, is the organisational structure. The Penang State Islamic Religious Council (MAINPP) is under the royal patronage of His Majesty the King of Malaysia, whereas the other three councils are led by their respective state rulers, referred to as "His Royal Highness". The portfolio of these SIRC influences the organisation of activities such as MAIDAM, MAINPP, and MAIJ, which oversee zakat and baitulmal assets rather than waqf explicitly. The study revealed that only the PWS in Selangor exclusively focused on waqf operations. These differences underscore the need for tailored risk management frameworks suited to regional contexts.

Thus, there is a need for a strategy or approach to managing risks by adopting effective guidelines or strengthening existing ones within the institution (Ambrose and Asuhaimi 2019). The importance of risk management in waqf institutions lies in addressing risk exposures that have reduced the ability to optimize waqf assets, resulting in low asset income performance and returns. Factors contributing to this risk exposure include weak governance, which hinders the implementation of strategies to sustain waqf assets, even though ideas for waqf asset development have been proposed by previous researchers. The exposure of waqf institutions to various risks, coupled with the priority to meet stakeholder demands, necessitates a robust administrative structure for waqf management.

The focus on measuring impact or returns in waqf institutions does not need to be overly sophisticated. It should suffice to evaluate alternative outcomes related to these terms in a practical manner (Young 2009). Three key dimensions for implementing integrated risk management include management, finance, and marketing. To achieve the objectives of this study, an analysis of the current waqf management situation has led researchers to propose a contemporary, comprehensive, and effective risk management approach known as integrated risk management, adapted from the Enterprise Risk Management (ERM) framework by COSO.

Integrated risk management based on the COSO framework offers a comprehensive and structured analysis to identify and mitigate financial impacts and portfolio instability. This approach involves the participation of the board of directors and is designed to identify activities that could potentially affect the entity, manage risks within the institution's scope and risk tolerance, and provide assurances aligned with the institution's objectives and goals (COSO 2004).

Fig. 1 Proposal of Integrated Risk Management Framework for Waqf Institutions



Source: Author (2024)

Table 1: The Description of Stage in Risk Management Process Funnel

Stage	Description	Integration with Waqf Principles
Organizational Assessment	Evaluate the institution's structure, capabilities, and external challenges.	Align assessment with waqf goals of asset preservation and stakeholder engagement.
Objective Alignment	Set clear risk management objectives aligned with the institution's mission and Shariah principles.	Ensure alignment with sustainable waqf asset development goals.
Risk Identification	Identify potential risks in governance, operations, finance, and compliance.	Categorize risks specific to waqf portfolios (e.g., economic downturns, legal changes, stakeholder disputes).
Risk Assessment	Evaluate the likelihood and impact of identified risks using qualitative and quantitative methods.	Incorporate Shariah compliance considerations into the assessment process.
Response Development	Formulate strategies to address identified risks (mitigation, transfer, avoidance, acceptance).	Ensure risk responses align with the ethical and operational values of waqf institutions.
Activity Control	Implement control measures (financial safeguards, operational protocols, performance monitoring).	Develop waqf-specific controls (e.g., guidelines for asset utilization and distribution).
Monitoring and Review	Continuously monitor risk indicators and review the effectiveness of implemented strategies.	Use technology like GIS to monitor waqf assets and provide real-time updates.

Table 2: The Description of Unified Waqf Strategy

Element	Description	Integration with Waqf Principles
Strategic Alignment	Develop long-term strategies focused on waqf asset sustainability and compliance with stakeholder expectations and Shariah principles.	Ensure alignment with sustainable waqf asset development goals.
Operational Efficiency	Streamline processes by adopting technology and best practices from other non-profit and Islamic finance sectors.	Enhance efficiency while maintaining Shariah compliance.
Transparent Reporting	Implement reporting frameworks that provide clear and accessible information to stakeholders.	Strengthen accountability and trust, essential for waqf institutions.
Regulatory Compliance	Align all waqf operations with legal and Shariah requirements to minimize risks related to non-compliance.	Ensure adherence to Islamic principles and legal frameworks.

Through the integrated risk management approach, the establishment of the Chief Risk Officer (CRO) position is a critical first step in strengthening the internal structure. The CRO will directly engage with the board of directors to advise on risk exposures and the suitability of waqf asset investments. This will result in enhanced accountability and transparency, thereby adding value and boosting public confidence. According to Jim Garland, protecting waqf capital is a key strategy to ensure optimized returns for beneficiaries, rather than merely focusing on capital appreciation (Dimson 2007). Ismail Abdel Mohsin (2016) suggests that preserving benefits for beneficiaries can be achieved through prudent and efficient investment in waqf assets. Thus, implementing all eight steps of integrated risk management in waqf management will accomplish essential objectives, including strategic, operational, reporting, and compliance goals for MAIN's waqf institutions.

The implementation of the integrated risk management approach provides assurance to management in mitigating uncertainties during operations. This is due to the holistic nature of integrated risk management in addressing corporate risks (Daud and Yazid 2009). Additionally, integrated risk management is designed to minimize existing risks to the lowest possible level to achieve expected outcomes (Dafikpaku 2011). Since waqf institutions currently lack a formal risk management division, the adoption of integrated risk management not only ensures the mitigation of uncertainties that disrupt achievements but also builds confidence and collaboration within the management team to achieve institutional success (Lai and Fazilah A. Samad 2011). Focus on motivation and workforce management will be prioritized (Ahmad Shukri Yazid and Ahmad Rizal Razali 2011) to enhance institutional value (Ryu and Agresti 2008).

From a financial perspective, integrated risk management can reduce financial performance volatility caused by cost fluctuations (Yow et al. 2007). The interaction between the involved elements can be tracked through the integration framework embedded in this approach (Robert E. Hoyt and Liebenberg 2011). By implementing integrated risk management, waqf institutions can enhance their responsiveness by identifying market risks and stabilizing income streams (Di Nardo and Anderson 2009).

However, in order to implement an integrated risk management framework in waqf institutions, some challenges must be anticipated by management, such as the red tape associated with the development of new structures and organisations, the cost of establishing a new department (risk management unit), and the training and retention of well-trained staff. Thus, the management must actively engage with stakeholders, determine the cost-benefit of establishing a new department, and conduct a benchmarking exercise for the training course.

CONCLUSION

The exposure to risks in waqf institutions under State Islamic Religious Councils (MAIN) in Malaysia has hindered many operational activities, particularly in sustaining waqf assets, fulfilling stakeholder rights, and ensuring the continuity of waqf within these institutions. The absence of a dedicated risk management division—an essential component of good governance—has been identified as a significant gap contributing to the challenges faced in developing waqf asset portfolios. Furthermore, the existing risk management approaches in non-profit institutions, including waqf, have shown limited progress and effectiveness. Risk management in financial institutions, on the other hand, tends to focus predominantly on profit and loss aspects, which contrasts with the primary objectives of waqf. This discrepancy highlights the need for a balanced approach that addresses waqf capital preservation, asset sustainability, and the fulfilment of stakeholder rights.

To strike a balance between the preservation of waqf capital, the sustainability of waqf assets, and the fulfilment of stakeholder rights, a holistic and contemporary risk management approach is required. This study introduces an integrated risk management approach, adapted from the COSO framework, for implementation in waqf management. The integrated risk management approach presents a sustainable strategy that emphasizes governance empowerment and comprehensive risk analysis. This method eliminates the segregation of risks within the institution, offering a cohesive framework for managing various types of risks.

By adopting this approach, waqf institutions can strengthen governance structures, ensure a thorough understanding of risks, and enhance the effectiveness of waqf operations. The proposed framework aligns with the overarching goals of waqf, enabling institutions to navigate complexities while ensuring long-term sustainability and adherence to Shariah principles. By including waqf institutions from diverse regions, this study provides comparative insights that contribute to the development of universally adaptable and context-sensitive risk management frameworks. Future research should continue to explore these regional variations to refine best practices for waqf asset sustainability.

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