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Identification of Zakat Institution Risks and Mitigation Efforts to Increase Operational Effectiveness (Case Study of LAZISMU Daerah Istimewa Yogyakarta)

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Abstract: This study analyzes the operational effectiveness of the Muhammadiyah Zakat, Infaq, and Sadaqah Institution (LAZISMU) of the Special Region of Yogyakarta through a risk identification approach and mitigation strategies. The problems raised include performance barriers such as delays in fund distribution, program inconsistencies, and recording errors that disrupt internal efficiency. The study uses a descriptive quantitative approach with data collection techniques through structured interviews with internal staff. Risk analysis was carried out using a score assessment method (frequency × impact), both before and after the implementation of mitigation. The results showed a significant decrease in the operational, strategic, reputational, compliance, and market risk categories after the intervention. The mitigation strategies implemented include human resource training, digitization of data management systems, increasing transparency of reports, and updating standard operating procedures (SOPs). These findings confirm that structured risk management can significantly improve the operational effectiveness of zakat institutions and strengthen organizational governance that is responsive and adaptive to external dynamics.

Keywords: risk management; risk mitigation; LAZISMU DIY; operational effectiveness

1. Introduction

The operational effectiveness of an organization is reflected in the extent to which individual, group, and organizational goals can be achieved as a whole. Therefore, the evaluation of the achievement of operational goals begins with an assessment of the effectiveness of each employee's work as part of the organization's overall work process [7]. In non-profit organizations such as zakat institutions, effectiveness is not only determined by program output, but also by the accuracy of implementation, efficiency of internal processes, and the institution's ability to adapt to environmental dynamics [12]. Nonprofit organizations must maintain stakeholder trust through transparency and effectiveness, as declining organizational performance can impact legitimacy and support from donors and beneficiaries [2].

LAZISMU DIY as one of the largest zakat institutions in Indonesia experiences various operational obstacles such as delays in fund distribution, program inconsistencies with planning, and recording errors that impact the accuracy of financial reports and services. This reflects the weak coordination and internal control system of the institution. In the context of the organization, this can be considered a symptom of a deeper structural problem [16].

According to open system theory, an organization is an entity that interacts dynamically with its environment. Effectiveness will be disrupted if there is a mismatch between the internal system and external demands or actual conditions in the field [22]. In the case of LAZISMU, weaknesses in the management of processes, information, and work structures can lead to an accumulation of risks that have a direct impact on the performance of the institution.

One approach that can be used to understand and fix this problem is to identify the sources of risk that cause inefficiency, then mitigate them through improvements to work systems and procedures. As stated by Power, operational risks often originate from process failures, human error, and weak information systems, not from external factors alone [18]. Therefore, comprehensive risk identification is an important step to prevent recurrence of problems and strengthen operational performance.

This study aims to examine the operational effectiveness of LAZISMU DIY through the risk identification approach and mitigation efforts that have been implemented. It is hoped that the results of this study can provide practical contributions to LAZISMU and other zakat institutions in building more adaptive, efficient, and responsible operational systems.

2. Result

2.1. Respondent Profile Description

The respondents in this study were internal staff of LAZISMU DIY from the administration, media, public relations, and fundraising divisions. Each of them explained the risk events that occurred in their division's activities as well as operational risks in this institution. The selection of these respondents was based on the consideration that they had direct knowledge, practical experience, and active involvement in the organization's work processes, so that they were able to provide relevant and in-depth information regarding the risks faced by each division.

2.2. Identification of Risk Types

Based on the results of structured interviews conducted with employees, it is known that the risks at LAZISMU DIY are generally divided and focused on four main categories, namely:

1. Operational risk

Risks arising from failure or errors in the administration process, data management, reporting, and internal governance of zakat institutions. Examples of this risk event are the lack of synchronization between divisions, the number of new activities outside the schedule, lack of people in certain events, lack of human resources in terms of editing, the saturation point of old donors which can reduce the level of donation participation, failure to cooperate with partners, declining relations with old partners who have worked together.

2. Strategic risk

Risks arising from inappropriate strategic decisions, lack of adaptability to change, or the incompatibility of the direction of the institution with the external environment. Examples of these risk events include difficulties in attracting partnerships with other companies or institutions, changes in donor preferences that follow trends that affect the sustainability of institutional programs, high competition due to the large number of institutions that already use the same payment system (digital), decreased effectiveness of fundraising campaigns through social media and digital platforms.

3. Reputation risk

The risk that can damage the image and trust of the community, donors (muzakki), and beneficiaries (mustahik) towards zakat institutions. Examples of these risk events include the lack of transparency in reporting donor funds that have been donated, zakat or given as charity, low public trust that affects the amount of donations.

4. Compliance risk

The risk of not complying with legal regulations or sharia principles. Examples of these risk events include the low understanding of donors regarding the obligation of zakat mal and other sharia provisions.

5. Market risk

The risk caused by fluctuations or external changes that affect the performance of the institution, such as donor behavior or partner policies. Examples of these risk events include the amount of donations fluctuating over time, and the mismatch between donor program requests and the institution's capacity.

2.3. Risk Level Analysis

The risk score in this study was obtained from the results of respondents' assessments of three main indicators, namely frequency of occurrence, level of impact, and likelihood of risk occurring. This assessment was carried out in two conditions, namely before and after the implementation of the mitigation strategy, to measure changes in the level of risk as a result of the intervention carried out. A summary of the results of the risk score calculation is presented as follows:

Table 1. Risk Assessment Before and After Mitigation

Types of risk	Score before mitigation	Score after mitigation	Initial risk category	Final risk category
Operational risk	9	3	high	low
Strategic risk	6	2	currently	low
Reputation risk	9	2	high	low
Compliance risk	6	1	currently	low
Market risk	9	2	high	low

Table created by the author, 2025.

Specifically, the mitigation carried out by LAZISMU DIY for each risk is as follows:

1. Operational risk
Operational risks that occur in LAZISMU DIY are quite numerous and disrupt the operational effectiveness of the institution. From the results of interviews conducted from each division, it was stated that they had carried out mitigation to handle the risks that occurred. Mitigation carried out includes evaluation and improvement both on a large scale and between divisions, recruiting volunteers who are skilled in the required fields, reconfirming the activities of each division so that their schedules do not clash, developing innovations, preparing other plans when partners change policies,
2. Strategic risk
Through our interview, the fundraising division said that this risk was successfully managed by conducting regular evaluations of the strategic plan, as well as adapting to existing trends by creating a special team that monitors current trends. This institution also conducts CSR education to attract other companies or institutions as partners.
3. Reputation risk
Reputational risk is a very crucial risk because it can have a direct impact on public trust. The fundraising division said that the mitigation carried out by LAZISMU DIY was by expanding public communication, as well as optimizing the transparency of financial reports and reports on every activity carried out.
4. Compliance risk
The fundraising manager said that the mitigation carried out for this risk was updating internal policies to adjust to the latest policies, as well as stricter supervision of programs to be implemented so as not to deviate from sharia principles. In addition, LAZISMU DIY also provides education to muzaki who still lack knowledge about zakat.
5. Market risk
This risk is a challenge that comes from outside. This is also said by the fundraising division. Mitigation of this risk, namely by expanding digital channels and following current trends, strengthening relations with donors, and diversifying funding sources.

With the decrease in risk scores after implementing the above strategies, it shows that the mitigation carried out by LAZISMU DIY has an effect on increasing the operational effectiveness of the institution. Although not all risks have been successfully suppressed to a low level, the downward trend that is seen shows that the institution is moving in the right direction in strengthening its risk management system.

This study revealed that the risk identification and mitigation carried out by LAZISMU DIY not only had an impact on reducing risk scores, but also significantly increased the operational effectiveness of the institution. This effectiveness can be seen from the increase in the timeliness of distribution, the decrease in administrative errors, and the increase in public trust through transparency of reports.

For example, operational risks that were previously in the high category were successfully reduced to moderate through cross-division collaboration efforts, the addition of volunteer human resources, and adjustments to activity schedules. In addition, the digitalization of the zakat data reporting and management system not only reduced the potential for errors but also accelerated the service process.

Other mitigation strategies, such as educating muzakki to reduce compliance risks, as well as adapting to digital trends and diversifying donation channels, also support the effectiveness of achieving the institution's targets. This proves that an integrated risk management approach is able to optimize the operational functions of zakat institutions as a whole from planning to reporting.

3. Discussion

3.1. Risk Concept and Risk Management in Islamic Finance

Risk is a condition of uncertainty faced by individuals or organizations, which has the potential to cause losses [4]. Risk and uncertainty are different things. He said that risk is something that can be measured, but uncertainty is something that is not measurable [20]. Risk includes the potential for unexpected results or deviations from predetermined goals [1]. Risk is often described as an event, change in circumstances, its consequences, or a combination of these things, and how it impacts the achievement of goals [13]. The Big Indonesian Dictionary (KBBI) defines risk as an unpleasant (disadvantageous, dangerous) consequence of an act or action [14]. Based on the opinions above, it can be concluded that risk is a condition that involves the potential for loss or deviation from goals due to uncertain events or circumstances, but the impact can still be measured or estimated. different from uncertainty, where risk can be measured, while uncertainty cannot be measured. Risks can arise from changes in circumstances, actions, or decisions, and can affect the achievement of individual and organizational goals.

Risk management is the process of identifying, measuring, and financially controlling a risk that threatens the assets and income of a company or project that can cause damage or loss to the company [5]. Risk management is the process of identifying, assessing, and controlling threats to an organization's capital and income [10]. Risks or threats can arise from various factors, such as uncertainty in financial aspects, legal liability, errors in strategic decision-making, unexpected incidents, or natural disasters. Risk management is a discipline that discusses how an organization takes steps to identify and map the various problems faced, by implementing a comprehensive and structured managerial approach [3]. Meanwhile, according to The Institute of Risk Management in Slack et al, risk management is a process designed to help organizations recognize, assess, and respond to various risks in order to increase the chances of success and minimize the potential for failure [21].

Based on several opinions above, it can be concluded that risk management is a systematic process that aims to identify, assess, and control various threats that can affect assets, income, or the achievement of organizational goals. This process involves a comprehensive and structured approach so that organizations are able to manage risks arising from financial uncertainty, strategic errors, to natural disasters, with the aim of minimizing losses and increasing the chances of success.

3.2. Risk mitigation

Risk mitigation is an effort made by a company to reduce the possibility or impact of a previously identified risk through a systematic and sustainable approach [9]. Risk mitigation is part of the risk management process whose purpose is to control, reduce, and eliminate potential losses arising from uncertainty [6].

The main purpose of risk mitigation is to manage and handle the risks that have been identified, so that the right solution can be determined and the party responsible for handling it [17]. Risk mitigation is the process of identifying, analyzing, evaluating, and managing risks in an organization [23]. Risk is the possibility of an event occurring that can have a negative impact on the

organization's goals, so risk mitigation is important to minimize these negative impacts. There are several steps that can be taken in risk mitigation, namely: Risk identification, Risk analysis, Risk evaluation, Risk management, Monitoring and Evaluation.

In risk mitigation, it is also important to consider factors such as organizational policies and procedures, adequate human resources, and secure and reliable information technology. This will help organizations to identify risks more accurately and manage them effectively.

Based on the opinions above, it can be concluded that risk mitigation is a strategic step in risk management that aims to reduce the possibility of occurrence or impact of identified risks. This process is carried out systematically and continuously, with a focus on controlling and handling risks and determining solutions and parties responsible for minimizing potential losses due to uncertainty.

Some of the main approaches to risk mitigation include:

1. Risk avoidance
The organization chooses not to continue high-risk activities or activities. In the context of zakat institutions, this can be in the form of rejecting funds from unclear sources, or terminating cooperation with partners who have a bad reputation.
2. Risk reduction
Includes various efforts to reduce the level of risk, both in terms of frequency and impact. Examples are: Regular HR training and development to improve competence and integrity. In addition, there is also digitalization of zakat data management to reduce manual input errors. Strict implementation of SOPs and internal audits are also part of this strategy.
3. Risk sharing
Risk is shared with third parties, for example through strategic cooperation with other institutions in zakat distribution or financing operational activities. This can ease the burden on the institution in the event of a loss.
4. Risk transfer
The risk is completely transferred to another party, usually through insurance or outsourcing. For example, the management of data security and information technology is outsourced to a third party with specialization and sophisticated security systems.
5. Risk acceptance
Small or unavoidable risks are acceptable provided that there is a contingency plan. Zakat institutions can prepare reserve funds or emergency funds for such conditions.
6. Risk control
Create and implement internal policies, SOPs (Standard Operating Procedures), and regular internal audits to ensure there are no violations of procedures.
7. Risk communication
Risk communication is important to ensure that all stakeholders (both internal and external) are aware of and understand the potential risks facing the organization. Transparency of reporting to donors and the public is also part of this strategy.
8. Early warning system
Building a system that can detect early signs of potential risks, such as: Monitoring public opinion through social media. Routine surveys of mustahik and muzaki satisfaction. Financial indicators and program audits.

3.3. Operational Effectiveness

Effectiveness comes from the word "effective". In KBBI, "effective" is defined as something that has an influence, produces an effect, or is able to provide certain results [15]. So, effectiveness focuses more on achieving the final result. Effective operations are those that achieve or exceed the objectives set for the operation [11]. Effective operations are essential to a successful strategy. A business firm can measure its effectiveness by whether it has achieved the desired operating profit, gained the target market share, introduced new products ahead of schedule, or achieved the return on net assets as set out in the master budget. A company can assess its level of effectiveness by seeing whether goals such as targeted operating profit have been achieved. Organizational effectiveness is the level of success of an organization in achieving its goals [19]. In the context of zakat institutions, operational effectiveness includes the institution's ability to distribute zakat funds on target, on time, and in accordance with sharia principles, as well as maintaining the satisfaction of muzakki and mustahik [8].

Therefore, from the opinions above, it can be said that if the concept of operational activities is applied to zakat institutions (LAZ), the orientation shifts from obtaining financial profit to achieving social and sharia goals. The level of effectiveness can be assessed from the extent to which the institution collects zakat according to target, distributes funds to mustahik in a targeted manner, organizes empowerment programs that have a real impact, and meets the standards of transparency and public accountability. The success of the institution can also be measured from the increase in the welfare of mustahik, the number of muzaki that continues to increase, the achievement of indicators that have been set in the work plan and annual budget.

4. Materials and Methods

4.1. Data Types and Sources

This study uses a descriptive quantitative approach to assess operational risks at LAZISMU DIY. The goal is to identify the types of risks, their frequency, and impacts in daily activities. This study also assesses the effectiveness of mitigation strategies by comparing conditions before and after the intervention. The data used in this study were obtained through observation and in-depth interviews conducted by the research team with internal parties at LAZISMU DIY, especially individuals or divisions that have a direct role in the institution's operations. All information from the interviews was then converted into quantitative data and arranged in a risk identification table. This table includes types of operational activities, risk events, responsible parties, mitigation, frequency and impact of risks before and after mitigation, and total risk scores. Presenting data like this facilitates descriptive quantitative analysis to provide a systematic picture of the risk profile and effectiveness of the mitigation strategies implemented by the institution.

4.2. Data Analysis Techniques

The analysis used in this study is based on a risk assessment method that aims to measure the level of risk objectively based on numerical values. The assessment is carried out by calculating the risk score using the formula:

$$\text{Risk score} = \text{frequency} \times \text{impact} \quad (1)$$

This calculation is applied in two conditions, namely before and after the mitigation strategy is implemented. By comparing the results of the two conditions,

this study can identify the extent to which mitigation interventions are effective in reducing the level of operational risk faced by the institution.

Table 2. Score and Risk Category

Risk Score	Category
1-3	Low
4-6	Currently
7-9	High

Table created by the author, 2025.

5. Conclusions

This study concludes that risk identification and mitigation at LAZISMU DIY significantly contribute to increasing the operational effectiveness of the institution. The five main risk categories that have been identified operational, strategic, reputational, compliance, and market can be reduced through appropriate mitigation strategies, such as improving the quality of human resources, digitizing the system, improving SOPs, and transparency of reports. Operational effectiveness has increased, marked by a more timely distribution process, more accurate services, and increased public trust. This strategy strengthens LAZISMU's position as an adaptive, professional, and trusted zakat institution, while proving that risk management is not only a control instrument, but also a catalyst in achieving the institution's strategic goals efficiently and effectively.

Based on the findings and analysis in this study, it is recommended that LAZISMU DIY continue to improve communication and coordination between divisions to avoid miscommunication that can cause unsynchronized activities. Routine evaluation of the performance of each division needs to be carried out periodically so that every activity that has been running can be evaluated, as well as being a forum to convey obstacles or operational constraints faced. In addition, the procurement of supporting facilities for activities needs to be prioritized to support the smooth implementation of the program and increase work efficiency. Monitoring and evaluation of risk management should also be carried out continuously so that any changes or potential new risks can be responded to quickly and appropriately. Increasing human resource capacity through training and skills development is also important to strengthen the competitiveness of the institution in facing external dynamics. Finally, transparency in financial reports and activities must continue to be optimized to maintain the reputation and strengthen the trust of donors and LAZISMU DIY partners.

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