

## Conference Paper

# Alms-Giving and Financial Management

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## Abstract

Objectives of financial management may be broadly divided into two parts such as profit maximization and wealth maximization. But alms-giving doesn't have any connection with profit maximization or wealth maximization. Giving of alms is individual spending with non-profit oriented. Alms-giving objective for religious reason only to obey God's order. In macro-economics and micro-economics theory there are alms component as spending. Because alms-giving is better to be spent secretly. The research aims to analyze causality relationship between giving of alms with individual financial management using Econometric analysis Toda-Yamamoto causality test with E-views software. Purposive sampling method is employed to get primary data from respondents. Personal finance management is an activity that involves all the individual financial decisions, which includes budgeting, saving, insurance, mortgages. When a person plans his personal finance, he needs to take a range of financial products and other personal factors into consideration. Personal finance management has a huge influence on one's life and future. Respondents comes from various region with various occupation and income with various religion background. Research analysis finds overwhelming support for the idea which optimism impacts economic decision-making by proving that alms affect financial management.

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**Keywords:** Alms-giving, financial management, Toda-Yamamoto causality test

## 1. Introduction

Giving alms (money or goods offered freely to the poor) is one of the pillars of Lent and an ancient practice in the Church. Al-Qur'an also strongly suggest to alms-giving for the poor. Giving alms (money or goods offered freely to the poor) is one of the pillars of Lent and an ancient practice in the Church. Judging from cultural anthropological data, gift-giving is a typical phenomenon in traditional and modern societies, and it provides a large part of economic subsistence for certain sociocultural groups. However, research into giving in modern settings is underdeveloped compared with studies mentioned in the anthropological and historical literature (Butovskaya et al, 2004).

### OPEN ACCESS

Money or goods to be given as alms are part of financial belonging. Finance may be called as capital, investment, fund etc., but each term is having different meanings and unique characters. Increasing the profit is the main aim of any kind of economic activity. Finance may be defined as the art and science of managing money. It includes financial service and financial instruments. Finance also is referred as the provision of money at the time when it is needed (Paramasivan and Subramanian, 2010). Objectives of financial management may be broadly divided into two parts such as profit maximization and wealth maximization.

According to economic theory, giving of alms doesn't have any connection with profit maximization or wealth maximization. Giving of alms is individual spending with non-profit oriented. Alms objective for religious reason only to obey God's order. In macro-economics and micro-economics theory there are alms component as spending. Because alms-giving is better to be spent secretly.

## 2. Literature Review

### 2.1. Finance Management

Finance function is the procurement of funds and their effective utilization in business concerns. The concept of finance includes capital, funds, money, and amount. But each word is having unique meaning. Studying and understanding the concept of finance become an important part of the business concern. According to Khan and Jain, finance is the art and science of managing money. According to Oxford dictionary, the word 'finance' connotes 'management of money'. Webster's Ninth New Collegiate Dictionary defines finance as "the Science on study of the management of funds' and the management of fund as the system that includes the circulation of money, the granting of credit, the making of investments, and the provision of banking facilities. Finance can be classified into two major parts:

1. Private Finance, which includes the Individual, Firms, Business or Corporate Financial activities to meet the requirements.
2. Public Finance which concerns with revenue and disbursement of Government such as Central Government, State Government and Semi-Government Financial matters.

Financial management is an integral part of overall management. Financial management is one of the important parts of overall management, which is directly related

with various functional departments like personnel, marketing and production. Financial management covers wide area with multidimensional approaches. The following are the important scope of financial management

1. Financial Management and Economics Economic concepts like micro and macroeconomics are directly applied with the financial management approaches. Investment decisions, micro and macro environmental factors are closely associated with the functions of financial manager. Financial management also uses the economic equations like money value discount factor, economic order quantity etc. Financial economics is one of the emerging area, which provides immense opportunities to finance, and economical areas.

2. Financial Management and Accounting. Accounting records includes the financial information of the business concern.

3. Financial Management or Mathematics Modern approaches of the financial management applied large number of mathematical and statistical tools and techniques. They are also called as econometrics.

4. Financial Management and Production Management Production management is the operational part of the business concern, which helps to multiple the money into profit. Profit of the concern depends upon the production performance.

5. Financial Management and Marketing Produced goods are sold in the market with innovative and modern approaches. For this, the marketing department needs finance to meet their requirements.

6. Financial Management and Human Resource Financial management is also related with human resource department, which provides manpower to all the functional areas of the management (Paramasivan and Subramanian, 2010).

This research analysis private (individual) financial management in microeconomics area related to alms-giving. Because the decision maker of private income and spending arrangement by themselves.

For kids, personal finance is all about the coins in the piggy bank. For adults, personal finance means so much more. If one's money stays in the current account without any financial activity, its value shrinks against inflation or other kinds of financial factors. In all history, people try to accumulate their wealth. Bad personal finance decisions can cause bankruptcy. So how can one accumulate personal wealth and make correct financial decisions? In this thesis, the author will explain about personal finance and current common financial products and activities.

Personal finance management is an activity that involves all the individual financial decisions, which includes budgeting, saving, insurance, mortgages. When a person plans his personal finance, he needs to take a range of financial products and other personal factors into consideration. Personal finance management has a huge influence on one's life and future (Mao, 2017).

Financial goals can be anything, such as a phone, a trip, a wedding, a house. In some countries, individuals also need to save for education and retirement. Individuals should know where they are heading before they set out. Besides defining a financial goal and attaching a price to it, individuals should also determine how much time they need to accomplish the goal. Every goal has its own time axis ranging from weeks to many years (Magnarelli, 2011). Financial goals can be so personal and doesn't have any connection with making profit or getting rich. Financial goals mainly related with inner satisfaction.

## 2.2. Alms-Giving

In English, much confusion has been caused by the conflation of two entirely different senses of the English word 'charity': charity as spiritual love, or the New Testament agape, and charity as alms. This ambiguity has allowed Christians, when they put their alms in a collection plate, the luxury of assuming that they are engaged in an act of spiritual love. Modern churches, by using terms such as Christian Stewardship, try to bring the practice of alms-giving back to its historical origins, where there is hardly more than differences of emphasis between Jewish, Christian, and Muslim teaching: all say that wealth belongs to God rather than to us (Benthall, 1998).

In Islam, funds of alms-giving collected primarily during the month of Ramadan, when giving alms is especially meritorious, but also throughout the whole year by means of telephone, fax, videotapes, mailshots, and other techniques by non-profit institution. Non-profit institution main activities are food relief, caravans of charity (mobile health services to isolated villages), scholarships, income-generating projects and – above all – sponsoring orphans. Orphans, defined for this purpose as children without fathers (Benthall, 1998).

Previous studies about alms-giving its benefit and management are explained below. Lessy (2009) research concludes that private zakat institutions have tremendous efforts to improve the welfare of Indonesia. The government, however, wants to enact legislature to ensure that private zakat institutions are under state control. This paper

suggests that the government and private zakat institutions should collaborate instead of competing with each other.

Puri and Robinson (2005) find that optimism affects work choices, career choices, retirement choices, portfolio choices and marital choices. These findings are important for a number of reasons. From a psychological perspective, many researchers have noted that optimism in one domain of activity does not necessarily translate into optimism about other domains (Weinstein, 1980). In other words, optimism is often thought to be event, or domain based, and while individuals may display optimism about a certain event, this does not necessarily translate into optimism about other events (Puri and Robinson, 2005).

Butovskaya et al (2004) study has revealed that Russians donate to beggars significantly more frequently than Czechs; at the same time Czech donated more per time than their Russian counterparts. This difference could be attributed to differences in mentality.

### 3. Research Methodology

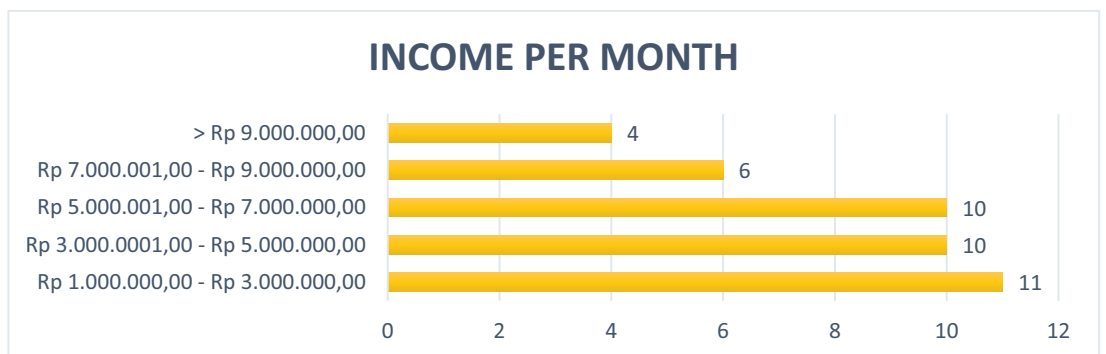
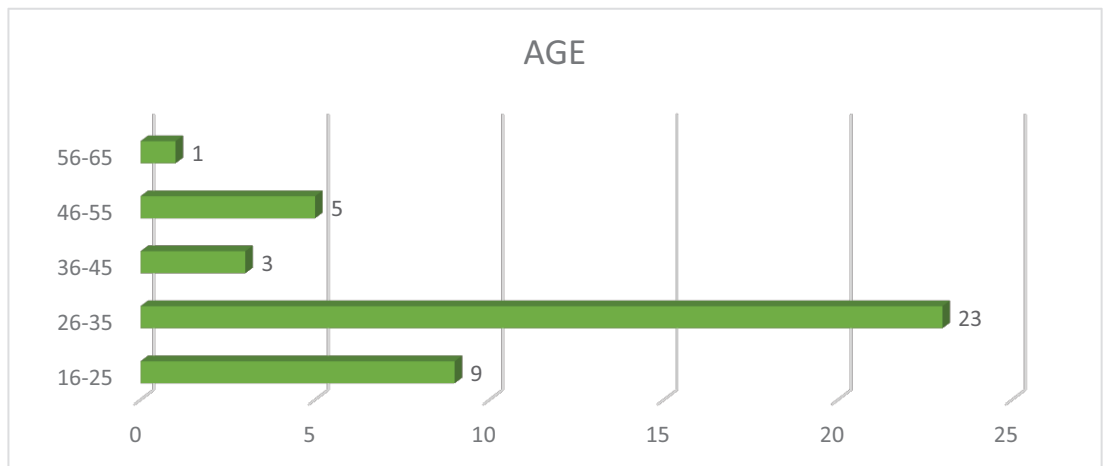
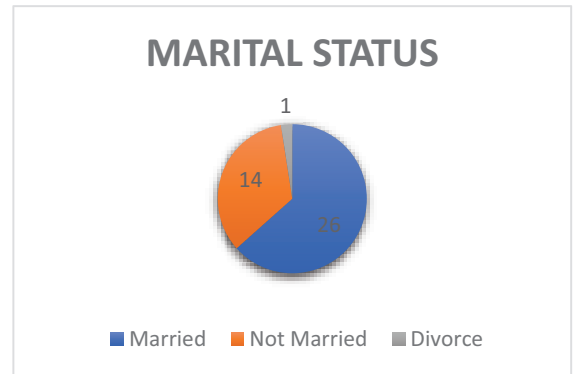
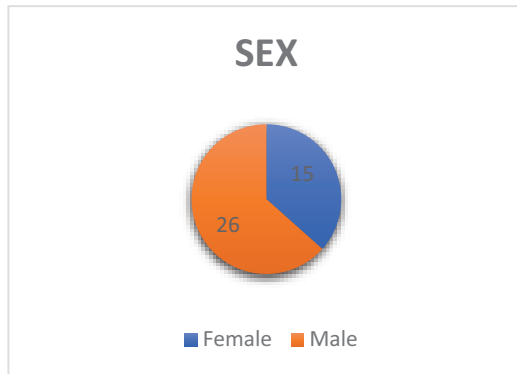
Toda and Yamamoto presented technique which can be implied without depend on system integration and cointegration. This methode also involve modified Wald statistics to test estimator significancy VAR (*Vector Autoregression*) model which has more than one lags. Estimation of VAR( $s+d_{max}$ ) guaranteed  $x^2$  distributed asytmotic from Wald statistic, where  $d_{max}$  is maximum ordeo from model integration. Lag of causality model variables established based on *Akaike Information Criterion* (AIC). Dependent variable lag raise in every equation from its causality model (Oladipo, 2008).

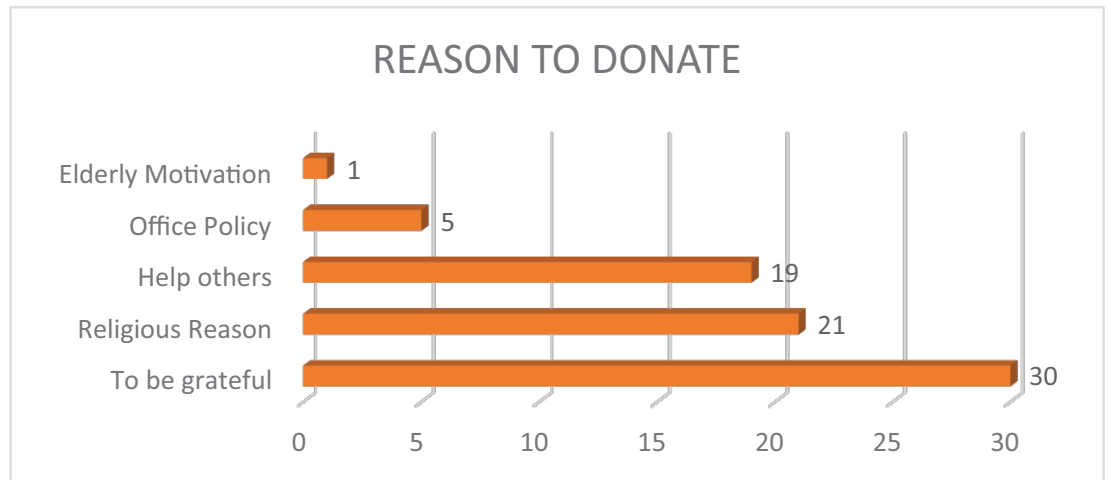
Toda-Yamamoto causality test based on Granger divided in to 2 ways. First, established determinant lag (k) and maximum integration ordo ( $q_{max}$ ) variable in system. If lag (k) VAR and integration ordo already identified, VAR will be estimated with lag  $k+q_{max}$ . Second, applied Wald test standard to coefficient matrix VAR to first lag Granger causality derivative.

### 4. Analysis Result

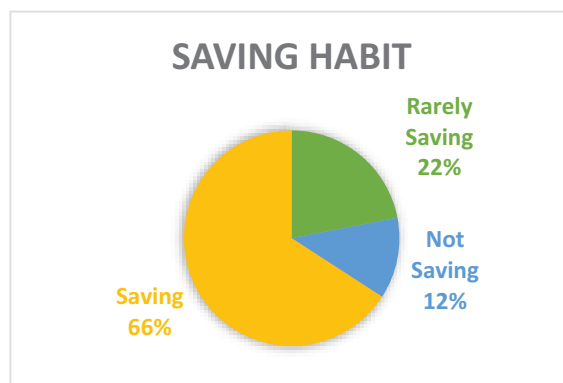
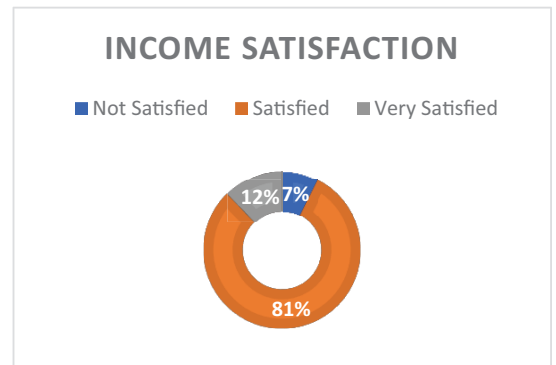
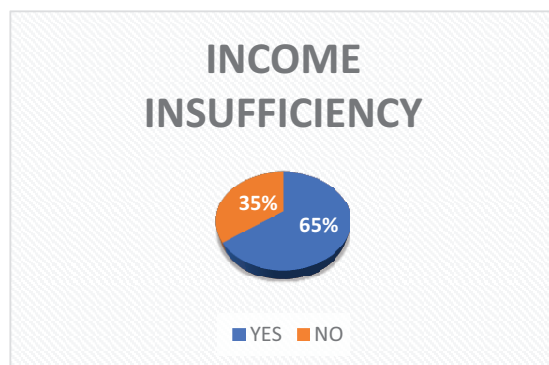
#### 4.1. Respondent's Profile

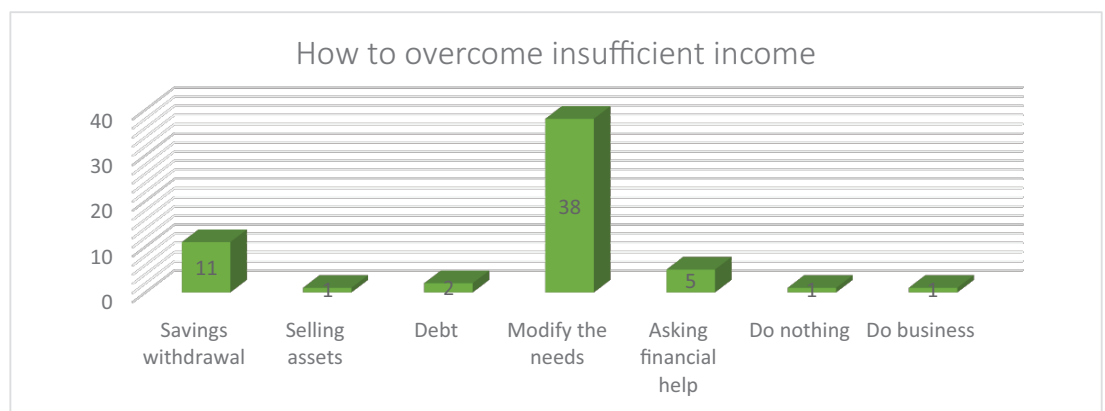
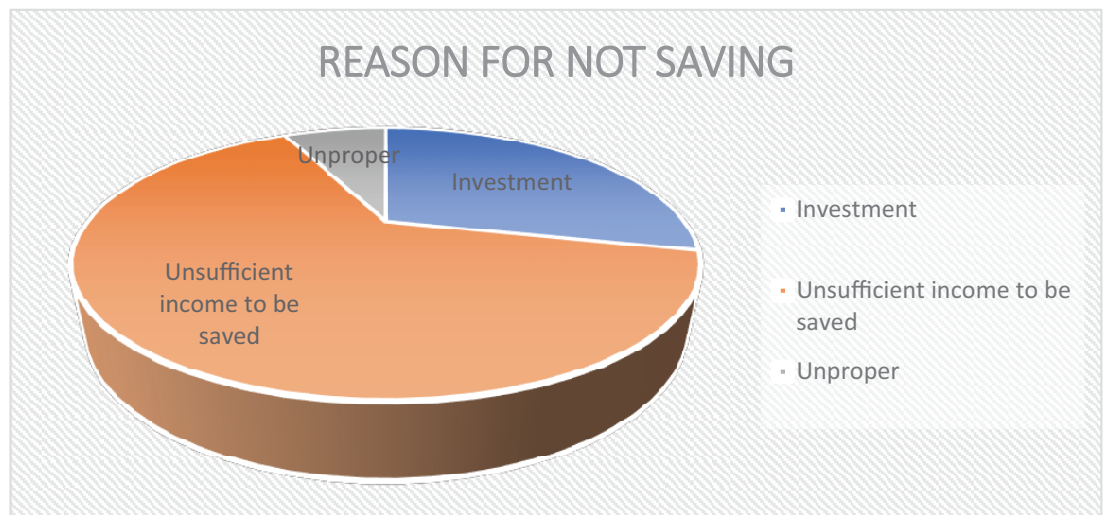
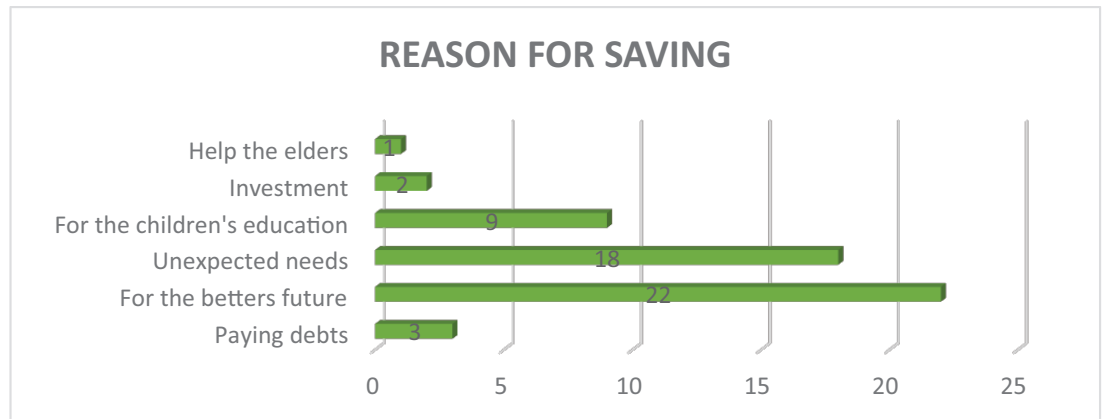
Respondents of this research are 41 persons with productive age in middle income class.





In the 2 diagrams below show that most of respondents (65%) describe their income is not sufficient to fulfill the family needs. But most of them (81%) also response that they are satisfy with their income, regardless of income insufficiency. The satisfaction becomes objective according to the person, not the income itslef.





Saving habit could be determined by parents, experience, community, academic lessons, religion, and all the external impose. Alms-giving also become very personal decision and doesn't has any correlation with income. Some person with low income could alms-giving in huge ammount, vice versa. Because alms-giving is very objective according to the person.



Researchers try to analyze causality between alms-giving (GA) and financial management (FM) quantitatively by employing Toda-Yamamoto causality test to examine bivariate VAR ( $k+q_{max}$ ) model as follow

$$\begin{bmatrix} GA_t \\ FM_t \end{bmatrix} = \begin{bmatrix} \alpha_1 \\ \alpha_2 \end{bmatrix} + \sum_{i=1}^{k+q} \begin{bmatrix} \beta_{1i} & \delta_{1i} \\ \beta_{2i} & \delta_{2i} \end{bmatrix} \begin{bmatrix} GA_{t-i} \\ FM_{t-i} \end{bmatrix} + \begin{bmatrix} \varepsilon_{2t} \\ \varepsilon_{2t} \end{bmatrix}$$

$GA_t$  = Giving of alms

$FM_t$  = Financial management

$\beta$  dan  $\delta$  = coefficient of GA and FM

$\varepsilon_{1t}$  dan  $\varepsilon_{2t}$  = white noise assumed error term

Optimal lag (k) of VAR determined by Akaike (AI) and Schwarz Information Criterion (SIC). Null hypothesis is “ $GA_t$  is not causality of  $FM_t$ ” if  $\delta_{1t}=0$ . Alternative hypothesis is “ $GA_t$  is causality of  $RSCA_t$ ” if  $\delta_{1t} \neq 0$ . The first k coefficient used to count Wald test. So the same hypothesis could be the result of  $GA_t$  and  $FM_t$  (Sevitenyi, 2012).

Result of causality test by using Toda-Yamamoto causality method indicates GA has unidirectional causality relation to FM with level of significant under 0.05.

TABLE 1: Result of Toda-Yamamoto causality test.

Dependent Variable: GA	
Excluded	INDIVIDUAL
FM	6.465803
Dependent Variable: FM	
Excluded	INDIVIDUAL
GA	13.8472**

(\*), (\*\*), (\*\*\*) shows significant level of 90%, 95%, and 99%.

Alms-giving affect financial management because by giving of alms, individual will be more careful to spend their income and doing more effective financial management to maintain their wealth in present and future.

## 5. Discussion

The research analysis finds overwhelming support for the idea that optimism impacts economic decision-making. Alms affect financial management because with giving of alms, individual will be more careful to spend their income and doing more effective and efficient personal financial management to maintain their wealth in present and future. Rationality of alms giving would not increase wealth. But by giving of alms, individual

will have healthier mind and soul which increase their productivity and integrity so their income will increase as well. In turn, giving of alms could increase assets and become wealthier. So giving of alms affects wealth indirectly. According to Butovskaya (2004) alms-giving represents a ritual sign, a kind of appeal to God (if connected with religious motivation) or fulfillment of social duties in the present.

There are some common misconceptions about financial planning

1. One only needs to start financial planning when approaching retirement. Financial planning is a life-long process. The earlier you start, the sooner you can enjoy the benefits – and the more time you have to grow your savings.
2. Financial planning is just another name for investing. Financial planning is more than just investment. Rather, it is about the big picture: bringing together all aspects of personal finance to achieve your financial goals.
3. Once you finish your financial plan, you do not have to think about it again. Financial planning is not a one-time deal! You should revisit and review your financial plan regularly to make sure you are on the right track towards achieving your goals.
4. You need a lot of money to do financial planning. Everyone can benefit from financial planning, not just multi-millionaires. No matter how much income or savings you have, you can always benefit from having a clear plan for your finances (thechinfamily, 2011).

One has to realize that misconception in financial planning will lead to financial mismanagement. With correct financial management, one could change his/her shopping into saving behavior, being thrifty but not stingy. Personal income sometimes has its own fluctuation or not stable, so it needs adjustment over and over again. The enjoyment of financial management is arranging income and expenses to satisfy personal goal by setting aside some part of our income for alms-giving.

## 6. Conclusion

Most of respondents describe their income as not sufficient to fulfill the family needs. But most of them also respond that they are satisfied with their income, regardless of income insufficiency. The satisfaction becomes subjective according to the person, not the income itself.

Alms-giving affect financial management because by giving of alms, individual will be more careful to spend their income and doing more effective financial management to maintain their wealth in present and future.

Rationally, alms-giving would not increase wealth. But by giving of alms, individual will have healthier mind and soul which increase their productivity and integrity so their income will increase as well. In turn, giving of alms could be increase assets and become wealthier. So giving of alms affect wealth indirectly. The enjoyment of financial management is arranging income and expenses to satisfy personal goal by set aside some part of our income for alms-giving.

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