



A Theoretical Study on the Success Elements of Endowment in Malaysian Public Universities

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ABSTRACT - Endowment is one of the important sources of income for Higher Education Institutions (HEIs) in many countries, including Malaysia. The elements that contribute to the success of this fund need to be identified so that its role can be sustained. There are several elements driving the success of endowment in HEIs were found in the previous study which consist of highly-skilled investment managers, superior investment committees and alumni networks. In this study, these elements were revisited in the context of Malaysia. This study is conducted based on a literature review which acts as a preliminary ground for further empirical research in this area. This study found that there are specific aspects that need to be included with the aforementioned elements to ensure that they are suitable to be applied in Malaysia. At the same time, other elements (i.e., diversity of income sources and effective fundraising) should be considered as well as they have the possibility to contribute to endowments' success, especially in this country.

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INTRODUCTION

Public universities in Malaysia are largely funded by the Malaysian government as the main stakeholder in the nation's higher education sector. Public universities depend more than 90% of their expenses on government funds (Ministry of Higher Education, 2016). Since this dependency is considered very high, the government has taken the initiative to reduce it by giving autonomy power to universities in order for them to seek their own funds. According to Amran and Muhammad (2015), the autonomous power given requires universities to earn 30% of their own income. This was however not good news for the universities because their job scope has now increased, rather than just focusing on teaching and researching where expertise is built, trained, groomed and created to be well-known. From being in the comfort zone, universities now need to be involved in income generation to fulfil the newly set-up requirements. To meet the requirements, universities need training, exposure to commercialization and the understanding of different funding models to develop new sources of income, as mentioned by Fielden (2008).

Building on the success of the world's leading universities like Harvard University and Yale University in generating their incomes through endowment funds, the Malaysian government of late has encouraged public universities in this country to empower this fund. The Malaysian

government's serious encouragement can be seen through the publication of the "Purple Book" which provides guidance to universities to empower their respective endowment funds. In 2019, all public universities (20 universities) in this country had established their own endowment funds. Based on data provided by the Department of Higher Education through e-mail, out of the 20 universities, only one university has an endowment fund of more than RM1 Billion (i.e., University of Malaya (UM)), while three universities have endowment funds exceeding RM50 million (i.e., Universiti Kebangsaan Malaysia (UKM), Universiti Teknologi Malaysia (UTM) and Universiti Teknologi Mara (UiTM)). This shows that the other public universities are still looking to empower their endowment funds. Therefore, a study on the elements that can contribute to the success of endowment funds needs to be conducted so that it can provide universities the key aspects they need to focus on.

The elements that drive the success of endowment funds at HEIs were previously explored by Lerner et al. (2008). They found that highly-skilled investment managers, superior investment committees and alumni networks are elements that can determine an endowment fund's success. To the best of the authors' knowledge, these elements have not been explored in detail in the context of Malaysia, except for a study conducted by Abdul Hamid et al. (2018). Therefore, the present study will help enrich the existing literature on HEI endowment funds in Malaysia.

LITERATURE REVIEW

Framework on the Success Elements of Endowment Funds

Based on the study by Lerner et al. (2008), an endowment fund's performance in more selective universities is achieved through asset allocation on alternative assets. They further revealed that there are several elements that can drive the success of investments in this asset, namely highly-skilled investment managers, superior investment committees and alumni networks. However, in this study, discussion about the endowment investment is done by including other aspects as well to ensure that they are suitable with the nature of HEIs in Malaysia. The elements discovered by the aforementioned scholars are also revisited in this study with new enhancements by including specific aspects, especially the Islamic perspective since Malaysians acknowledge Islam as a way of life. Discussion on all the mentioned elements can be found in the following subsections.

Alternative Investments

Investment is a strategy used by endowment funds to expand its reserves. An endowment fund's performance depends on the allocation decisions made between asset classes which have different risk and return characteristics. There are five main asset classes allocated for an endowment fund to invest in, namely equities (stocks), fixed income (bonds), real estate, alternatives (like hedge funds, commodities and private equity) and cash. Historically, endowment funds invest largely in bonds and high-dividend stocks, as discussed by various scholars (Fishman, 2014; Goetzmann & Oster, 2014; Rosen & Sappington, 2015; Chambers & Dimson, 2015). Between the 1970s and 1980s, there was a shift in endowment funds' investment choice from the traditional asset class (i.e., bonds and stocks) to alternative assets (i.e., hedge funds and private capital funds) (Lerner et al., 2008).

Investment allocation to alternative assets has become increasingly popular with the existence of the Endowment Model that was developed by David Swensen for Yale University's endowment fund (Swensen, 2009; Takahashi & Alexander, 2002). This model suggests sophisticated institutional investors to allocate a more significant amount of their portfolios for alternative assets. During the period of 1993 to 2005, Lerner et al. (2008) found that many universities have increased their allocation for this asset class. For Ivy Schools, they allocated a large part of their portfolios to this type of asset class at two times larger than other schools (9.3 vs. 1.1 percent in 1993; 37.1 vs. 8.1 percent in 2005). This finding is consistent with that of the World Economic Forum (2015) which elaborated that alternative investments have become the

go-to choose of wealthy institutional investors. As a pioneer in alternative investments, Ivy League Schools have achieved higher returns in this asset class despite putting controls on the allocation percentage (Lerner et al., 2008). This is because various benefits are available from alternative investments, as discussed by Taback et al. (2018), which are:

- i. Exposure to a broader range of investment opportunities and strategies;
- ii. Potential for improved risk-adjusted returns;
- iii. Less-extreme market cycle peaks and troughs;
- iv. Access to less efficient markets, which can create investment opportunities and
- v. Historically lower correlation-that is, they may respond differently to market conditions-versus traditional investments.

Since alternative investments are riskier and more illiquid compared to traditional assets (Kaplan & Schoar, 2005; Rosen & Sappington, 2015; Dimmock et al., 2018), diversification of investments is a strategy that has been discussed by various scholars (Leković, 2018; Jayeola et al., 2017; Gurrib & Alshahrani, 2012). Corrado and Jordan (2005) defined diversification as the process of spreading an investment across assets. This theory demonstrates that the risk-adjusted returns of a portfolio can be improved through diversification (Azlen & Zermati, 2017; Jayeola et al., 2017; Lord, 2014a). The percentage of each asset class can be decided on by each investor. According to Azlen and Zermati (2017), this theory has an important key in the investment philosophy of Harvard and Yale Universities' endowment funds and has also become a basis on which their portfolios are built. Based on these facts, discussion on endowment investment cannot focus on alternative assets only. This study adopts the term 'appropriate investment planning' as elaborated by Abdul Hamid et al. (2018) so that discussion on endowment fund investment can be presented on a balanced basis.

Most importantly, the nature of Malaysia needs to be taken into account in discussing endowment investments, especially those involving public institutions. The most important thing that should be emphasized on in managing money contributed by the public, especially from Muslims, is the issues of halal and haram. This principle has become Muslims' priority when dealing with all matters in their daily lives. Halal or haram is not only in the form of items' physical nature, but also includes the ways of getting it. For them, finding halal products is obligatory and compulsory since it is ordered by Allah. In Muslims holy book which is Al-Quran, there are many verses that order them to prioritize halal compared to haram. One of them is Verse 168, Surah al-Baqarah which says:

يَا أَيُّهَا النَّاسُ كُلُوا مِمَّا فِي الْأَرْضِ حَلَالًا طَيِّبًا وَلَا تَتَّبِعُوا خُطُواتِ الشَّيْطَانِ ۚ إِنَّهُ لَكُمْ
عَدُوٌّ مُبِينٌ ﴿168﴾

The verse means: "O mankind, eat from whatever is on earth [that is] lawful and good and do not follow the footsteps of Satan. Indeed, he is to you a clear enemy".

Al-Baqarah [2:168]

From this perspective, endowment funds in this country that want to attract Muslims' contributions must address the issue of halal or haram in each of its dealings, especially in terms of investment as this is how funds earn income (from the interest payments, dividends and capital gains collected). In Islam, interest (*riba*) is a prohibited element since there are many verses in Al-Quran demanding to leave it and classifying it as haram. One of them is Verse 275, Surah al-Baqarah which says:

وَأَحَلَّ اللَّهُ الْبَيْعَ وَحَرَّمَ الرِّبَا ﴿٢٧٥﴾

The verse means: “*But Allah has permitted trade and has forbidden interest*”.

Al-Baqarah [2:275]

As an alternative to conventional investments, Islamic investments are now available in the market. These investments take the form of two fundamental and standard Islamic types, which are *mudharabah* and *musyarakah* (Ouertani et al., 2020; Adznan, 2018). What makes both types of investments halal are that the profit gained by the capital provider (*rabbul mal*) is based on a ratio—not the value of money as this practice is considered as *riba*. This is already discussed by various contemporary Islamic scholars, such as Ibrahim (2015), Alam and Rajjaque (2016), Rohayati et al. (2016), and Ouertani et al. (2020) who mentioned that any element that is prohibited in Islam (e.g., *riba*) must be avoided when doing investment activities to ensure that the investments conducted comply with Shariah rules and principles. In banking institutions, these rules and principles are also applied. According to the former Governor of Bank Negara Malaysia (BNM), Dr. Zeti Akhtar Aziz (2005), “*this is crucial in instilling confidence on the purity of the operations*”.

Today, there are various capital market products available for Muslims who seek to invest and transact in the Islamic Capital Market (ICM). Among the products are Shariah-compliant securities, *sukuk* (Islamic bond), Islamic unit trusts, Shariah indices, warrants/call warrants and crude palm oil futures contract. For securities, in order to determine whether it is Shariah-compliant or not, the Shariah Advisory Council (SAC) (2019) of the Securities Commission Malaysia (SCM) who acts as the reference body and advisor to BNM on Shariah matters in the ICM has adopted a two-tier quantitative approach, which are business activity benchmarks (5% benchmark and 20% benchmark) and financial ratio benchmarks (cash over total assets and debt over total assets) as requirements for Shariah compliance. Securities are considered Shariah-compliant if their business activities and financial ratios are under these benchmarks. At May 2019, 689 or 76% of securities listed on Bursa Malaysia are considered Shariah-compliant by the SAC (2019). The list provided can be used as a tool for Muslims to invest, especially when investing in endowment funds.

Superior Investment Committees

The responsibility of managing a university’s endowment fund is usually given to a governing board. There are two structures of endowment governance in a university; either as part of the university itself, or as a separate legal entity. Although these two governance structures exist, most universities delegate the responsibility to manage and invest their endowment fund to an investment committee, as has been discussed by various scholars (Binfarè et al., 2018; Lord, 2014b; Fishman, 2014). Lord (2014b), Barber and Wang (2013), and Brown et al. (2014) explained that an investment committee is responsible for determining an endowment fund’s asset allocation (e.g., stocks, bonds and alternatives) and manager selection (e.g., active versus passive). In this regard, its role cannot be overlooked since Bosse et al. (2017) mentioned that the investment committee plays a crucial role in determining the success of an organization. The importance of their role in determining the success of an endowment fund is also recognized by Lerner et al. (2008) who highlighted the role of superior investment committees as they are able to provide oversight and guidance to an endowment fund’s management. This fact is supported by Lerner et al. (2008) who stated that top-performing endowments have active investment committees. Having an active investment committee is very important because its role is not only to control every small part of the decisions made by the investment staff, but the committee also needs to set broad policies and serve as an informed sounding board. The question now is how to measure whether an investment committee is superior or otherwise?

Lord (2014b) investigated the characteristics of certain endowment teams. He found that there are several characteristics of an endowment team that categorize them as top-performing

endowments. The characteristics are great investment expertise, efficacy, decision-making independence and learning commitment. The best practices of investment committees were further investigated by Bosse et al. (2017) who found that the basic elements needed for the success of the investment committee are size, expertise and diversity.

According to Bosse et al. (2017), having a great number of committee members indicate that the endowment has a greater collective memory and wider knowledge than smaller ones. However, its number must not be too large since Lord (2003) mentioned that it “tends to become inefficient in decision-making”. Ellis (2011) mentioned that the most effective committee size ranges between five to nine. Bosse et al. (2017) on the other hand mentioned between six to nine members. They argued that this range is large enough for diversity (i.e., experience, expertise and opinion) and small enough so that all people can provide meaningful contributions and still achieve an acceptable decision speed. This is consistent with the National Association of College and University Business Officers (NACUBO) (2017) on the endowment study which proposed a committee size ranging from an average 6.7 to 9.2. Large endowment funds with over than \$1 billion in assets normally have an average of 9.2 voting members, while endowment funds with assets under \$25 million have an average of 6.7 voting members. Indirectly, it can be understood that investment committee size is influenced by endowment size. However, the standard size stated by the NACUBO is not applied by the public universities in Malaysia. This is because the Malaysian government has issued its own Investment Guidelines in relation to the number of committee members required for an endowment fund. Whether the size of the fund is large or small, the number of committee members required is six, which consists of:

- i. Vice-Chancellor or representative as the Chairman;
- ii. A member from the university’s Board of Directors;
- iii. Two representatives from professional bodies;
- iv. The Bursar as a member and
- v. A representative from the Special Unit of university’s Business as the secretariat.

Expertise is another fundamental element in determining the success of an investment committee (Bosse et al., 2017). If an endowment wants to invest in a certain asset class, they need to have experts in the field so that the benefits can be obtained. For example, for alternative investments, Binfarè et al. (2017) stated that an endowment can gain benefits directly if there are experts on alternative investments in its investment committee. This is further agreed by the same authors in a further study (Binfarè et al., 2018). Furthermore, having experts in diverse asset classes can provide greater benefits to an endowment since Lord (2014a) found that they can contribute to greater portfolio diversification.

In addition, if endowment investments are conducted based on Shariah rules and principles, a Shariah expert should be included in the investment committee to verify whether the investment is lawful or not in Islam. The appointment of a Shariah expert in any endowment investment committee is not a strange thing in Malaysia as it has been practiced in the banking institutions of this country as stipulated in the Shariah Governance framework by Bank Negara Malaysia (2019). This is typically done through the appointment of a Shariah Committee or Shariah Panel. Siddiqi (2006) explained the role of a Shariah expert:

Shariah experts do care for maqasid al-Shariah. As I have argued elsewhere, there are numerous recent examples of fatawa given on the basis of maqasid. The problem in my opinion is not of willingness to take maqasid into account. The challenge comes from the nature of the task in the new environment. These are tasks calling for not only economic analysis but drawing upon latest developments in other social sciences like sociology, psychology, political science and management. Lacking proper institutional arrangements for training to do the task, with its necessary backup in terms of fundamental research, instances of malfunction have been increasing in recent years, causing anxieties in the market and raising the possibility of a backlash in terms of consumer rejection.

Diversity is another basic criterion that can determine whether an investment committee is successful or not, as mentioned by Bosse et al. (2017). They explained that a committee with diverse members in terms of professional and committee experiences, education, gender, age and race can make better decisions compared to less diverse ones. This is because issues related to group dynamics such as groupthink, confirmation bias and group polarization can be limited. It is also the best opportunity to enhance committees' effectiveness by adding diversity to its membership. The role of diversity and its elements are regarded to be more relevant and important in measuring the performance of an organization, as revealed by various scholars, such as Díaz-Fernández et al. (2016) and Cuadrado-Ballesteros et al. (2017). In a study by Harjoto et al. (2018), the relationship between board diversity (i.e., gender, race, age, tenure and expertise) and board performance in corporate investment oversight was examined. They found that there is no relationship between gender, race, age and board performance in investment oversight, while tenure and expertise are negatively associated with suboptimal investment. In this regard, they suggested that diverse experiential boards make better investment decisions than homogeneous ones.

Highly-Skilled Investment Managers

In essence, an endowment fund is an asset that needs to be invested in order to generate a stable income stream for an institution. One of the parties with a very big role in ensuring that the endowment's investment is well-managed and succeeds is its manager. With oversight and guidance from the investment committee, investment managers play a role in making decisions on how funds need to be invested to ensure guaranteed returns in the future. This is because each asset class (i.e., cash, fixed interest, property, alternative investments and shares) is expected to have different levels of risk and return characteristics which will cause each asset class to behave differently over time.

There are two types of investment management in a university—either managed by an investment office in the university itself or delegated to an external asset management firm. Examples of universities applying the first type of investment management are Yale University (i.e., Yale Investments Office) and Emory University (i.e., Emory Investment Management Office). Meanwhile, examples of universities applying the second type of investment management are Harvard University (i.e., Harvard Management Company (HMC)), the University of Texas and Texas A&M University Systems (i.e., The University of Texas/Texas A&M Investment Company (UTIMCO)) and Duke University (i.e., Duke Management Company (DUMAC)).

Although there are two types of investment management, the selection of endowment manager needs to be emphasized to ensure that the right manager is selected. This is already mentioned by Donnelly (1985) who said that the selection of investment managers for trust funds should be done in a very careful manner. To select investment managers, he highlighted three criteria that need to be evaluated, which are (a) investment performance, (b) investment philosophy and (c) professional skills. Only managers with skills can contribute to the success of an endowment fund of a university, as revealed by Lerner et al. (2008). The authors further explained that this is because they are able to explain the differences in investment performance. The importance of this criteria in selecting investment managers is also stressed by Ellis (2011) who said that managers with professional skills learn through painful experience and it is a reason for them to invest carefully (“bold, but not too bold” and “modern, but not too modern”) without following the way of the crowd. These criteria is also applied by Yale in selecting their investment managers, as revealed by Deguchi (2018).

Since external managers can be appointed to both types of investment management mentioned earlier, there is thus another aspect that needs to be considered in selecting them besides their skills which is management fees. Management fees are important to be evaluated by a university, especially for those who implement an active investment strategy in order to chase higher returns. If the payment to internal investment managers is controversial enough at some

schools, as discussed by Lerner et al. (2008), then the payment to external investment managers may be higher. This is because in a survey by Callan Associates (2013), it mentioned that the “external investment management fees represent the lion’s share of total fund expenses at 90%. This figure has grown steadily over time from 83% in 1998. The increase can largely be attributed to growing allocations to more expensive alternative asset classes, namely hedge funds and private equity”. The high payments made to external managers are practiced even by the best performing college endowments, such as Yale University. Although it has been criticized, Yale defended its decision by arguing in its annual report in 2016 that a low-cost passive strategy would have “shortchanged” the Ivy League School’s students and faculty. As a result of higher payments to its external managers, Yale argues that it has successfully become the world’s second largest university endowment (Kerr, 2019).

According to an analysis made by Charles Skorina and Co. (2017) on the three fiscal years of 2013 to 2015, all universities (only 9 universities were involved from the 15 universities who provided responses) spent a greater amount of money to pay external managers compared to internal managers, with an average of 123 basis points. However, its total management cost is still at a satisfactory level if combined with the payments made to external managers at 143 basis points. The Commonfund Institute (2017) explained this by saying that an endowment is considered “well-diversified” if the total management cost is between 100 and 175 basis points.

In recent years, the outsourcing of investment management of endowment portfolios has become quite common even though payments are quite expensive. In this regard, Mr. Narv Narvekar, the Chief Executive Officer (CEO) of HMC reminded that “in the past, HMC’s unique approach of investing in internally-managed portfolios generated superior returns. In recent years, however, the tremendous flow of capital to external managers has created a great deal of competition for both talent and ideas, therefore making it more difficult to attract and retain the necessary investment expertise while also remaining sufficiently nimble to exploit rapidly changing opportunities” (Ryan, 2017). This is because endowments with similar characteristics (i.e., Carnegie Classification, location and market value) tend to choose the same external managers (Kaffe, 2019).

It is quite important to highlight how manager selection is done at Yale University where it “pays particularly close attention to start-up and early-stage firms run by seasoned principals, believing that investment talent and entrepreneurial drive outweigh the risks of backing an unproven firm” (The Yale Endowment, 2017). This indicates that the performance of an endowment depends not only on the management, but also those who are involved at the beginning stages as well. Benefits in terms of management costs can also be obtained because the fees charged by managers or firms which are still at the start-up and early stages may be lower than those charged by established firms or managers. In the context of Malaysia, if a university wants to appoint external managers to manage its endowment investment, the selection of managers then needs to be done through the SCM since it has the power to regulate all matters related to unit trust schemes as stipulated under the Guidelines on Unit Trust Funds in 2008.

Alumni Networks

Besides the elements discussed above, Lerner et al. (2008) argued that another element that relates to why more selective universities have access to superior alternative investment opportunities is due to their alumni networks. If communication is stopped once students have graduated and leave the university, their knowledge of the university, especially the implementation of the endowment fund in the university will also end. In this regard, matters or information related to the endowment fund of the university must always be informed to the alumni so that they are constantly involved and kept abreast of the endowment’s progress. In the context of Malaysia, Abdul Hamid et al. (2018) and Hassan et al. (2017) proposed that alumni networks should be built and preserved so that university endowment funds can benefit from it.

Zhimin et al. (2016) conducted a research on the alumni relations in Chinese HEIs. They found that “creating and sharing” values (i.e., equality, tolerance and love) should be positioned as

the starting point and ultimate goal in building a relationship between the university and alumni so that a sustainable relationship can be built. They added that this idea does not only drive the alumni to recognize their relationship with the university as a “destiny community”, but also prompted them to share support, honor or disgrace, growth, happiness and benefits. This is consistent with Drezner (2017) who found that alumni who share at least one marginalized social identity with students profiled in fundraising solicitations influenced them to give greater amounts. This has been practiced by Harvard University through their slogan which is, “Sharing the Harvard Experience” (Harvard Alumni, 2012).

Alumni’s readiness to share their support with the university has been associated with their previous experience during their period of study at the university. This was revealed by Vidal and Pittz (2018) who found that alumni who have positive experiences while being called as students are more likely to recognize the value of the students’ experiences and are more likely to donate to their university. This is agreed by Morse and Brooks (2018) who mentioned that satisfaction drives alumni to contribute to their university. This is supported by Wang (2018), and Saraeh et al. (2018) who found that alumni experience is significantly related to their giving back to the university. According to Gallo (2018), experience can be built through mentorship, offering of work placements, or improving the university’s infrastructure. Hence, such programs need to be built by universities to ensure that their students can create positive experiences so that it can be a reason for them to contribute back to the university later upon their graduation.

Moreover, Zhimin et al. (2016) also found that a sustainable relationship between a university and its alumni can be built and maintained with the aid of related organizations, suitable platforms, and decent access. Typically, a university has an alumni association that employs staff to network and communicate with their alumni. This association can be seen as a way to build and maintain the sustainable relationship. The role of this association needs to be emphasized since Wang (2018) revealed that alumni associations are one of the most important factors influencing alumni to contribute back to their university. To ensure that the alumni keep in touch with the university, campus events after graduation cannot be overlooked since Weerts and Ronca (2007) found that it was a boost for alumni to initiate life-long relationships with the university. This is supported by Grant and Lindauer (1986), Bruggink and Siddiqui (1985), and Holmes (2009) who revealed that attending campus events, including reunions is a predictor of alumni participation.

The role of alumni in providing contributions to HEIs cannot be taken lightly since an annual survey by the Council for Advancement and Support of Education (2020) found that of the \$49.60 billion in contributions to the HEIs in the United States (U.S.) in 2019, 22.6% percent (\$11.20 billion) came from alumni. The university which received the highest contributions from the alumni in the last two academic years was Princeton University with 59.1 percent of the contribution, as reported by Moody (2018). More impressively, Kerr (2019) reported that this university is one of 10 universities with the biggest endowments.

In the Malaysian context, 341,311 graduates (61.5 percent were undergraduates) were produced by 702 HEIs in this country in 2018 based on a report issued in 2019 by the Ministry of Education Malaysia (2019). From that amount, 132,518 graduated from public universities. Within a period of 5 years (2014 to 2018), the employment rate after graduation had increased annually, with the highest rate in 2018 at 79.3 percent, while the unemployment rate has shown a decline each year with the lowest rate of 20.7 percent in 2018. Logically, if the percentage of graduates who possess incomes is increasing, more graduates are then able to contribute to their alma mater. Therefore, building a network with them is a matter that needs to be given attention by universities so that they are willing to contribute back to the university.

The Elements of Diversity of Income Sources and Effective Fundraising

Since Lerner et al. (2008) mentioned that their findings do not imply that ordinary endowments could achieve similar results as top endowment funds, other elements such as diversity income sources and effective fundraising were also reviewed in this study as they have the possibility to contribute to the success of endowment funds. Discussion on these two elements can be found in the following subsections.

Diversity of Income Sources

The nature of universities' endowments, especially public universities in Malaysia is not similar with the top-performing endowment universities; the latter makes investment the largest contributor to their growth (Lerner et al., 2008). Their courage to expand their endowment size through investment can be seen through their portfolio diversification which includes alternative assets discussed earlier. Although investment remains the main medium in generating endowment funds in this country, most public universities have a very passive portfolio as they choose to focus on the local market since their endowment sizes are too small to take more risks (Abdul Hamid et al., 2018).

In this regard, the generation of endowment funds through other alternatives needs to be considered to ensure that the endowment funds can be expanded. Schaffer et al. (2015) who investigated the non-profit success factors of endowment funds found that the theme of diversity of revenue sources which is contained in the business model component, is an important variable since it has large correlation with the Non-Profit Organization's (NPOs) success. In a study by Ceptureanu et al. (2018), this variable was also found to be positively correlated with organizational sustainability. This is supported by Lee and Shon (2018) who mentioned that obtained resources from commercial activities have an effective impact on fundraising. There are three major types of businesses that can be ventured in by endowment funds, which are i) service business (provide services such as salons, repair shops, etc.), ii) merchandising business (buys products at wholesale price and sells it at retail price) and iii) manufacturing business (buy raw materials to produce a new product).

The NPO's involvement in business was also discussed by Skloot (1984). He mentioned that the NPOs may face miserable failure in business unless they meet certain conditions. First, they must have a product to sell. This can be understood that if the NPOs want to engage in business activities, they must have something to sell, there is a market niche for it and they are able to fill it. At the same time, they also have to be cautious of the financial risks and hazard the business brings to their organization's mission. Second, they must possess managerial talent. When involved in business activities, NPOs also need to have skilled human resources who can perform according to the current market conditions. Third, trustee support. In doing the business, the NPOs also need to ensure that they have the trustees' support because they not only can contribute in terms of money, but can provide essential services in various fields (e.g., marketing, law or accounting). At the same time, they also play an important role in analyzing whether the NPO's business is successful or otherwise. Fourth, an entrepreneurial spirit. In achieving success in business, the NPOs' also need to have employees who do not only have entrepreneurial spirit but commercial wisdom as well since they are considered as able to do the job well. Last but not least, money or the ability to get it. For NPOs that have limited financial resources, joint venture has become a very important method to earn funds. Joint ventures with the private sector cannot be seen lightly since apart from providing funds, they can also provide support in terms of marketing and management. Indirectly, the risk can be reduced.

Effective Fundraising

Fundraising is a crucial activity for many non-profit organizations, including endowment funds since it is one of the key elements for its success (Franz & Kranner, 2019). Through fundraising, voluntary financial contributions either from individuals, foundations, corporations and the government can be gathered. There are various communication channels that can be used by NPOs to attract potential donors to contribute to their funds, which are radio, television, newspapers, magazine, direct mail and others. According to Kotler and Andreasen (1991), fundraising activities by many NPOs run throughout the year and most of them carry out their efforts under the umbrella concept of a campaign. For endowment funds, campaigns have also become one of the main ways to raise funds (Weinstein & Barden, 2017). Basically, campaigns are often invented by fundraisers to induce feelings of guilt, fear, pity and other negative emotions among potential donors (Bennett, 2019).

High investments in the campaign must be made by endowment funds since Chapman et al. (2018) revealed that it is the strongest factor in determining a fundraising's success. This is proven by Harvard University's experience in raising a fund of \$9.62 billion through their latest campaign (Rosenberg, 2018). In *waqf*, the activities that promote this fund are also important as found by Johari et al. (2018), that continuous promotion is able to create familiarity and easy access for the donors to cash *waqf* in order to encourage them to contribute in a recurring way. Although various communication channels exist to attract potential donors, all however need payment and are also considered as a classical trade fair, as mentioned by Tomczak et al. (2018). At the same time, the Global Trends in Giving Report (2018) reported that traditional television and radio media channels inspire donors to give only 9%.

In the recent years, social media has a big influence and has gained popularity rapidly amongst the society. This shift has also been utilized by fundraisers. As stated by Weerawardena (2018), the use of social media by NPOs to convey effective marketing messages has increased. The importance of social media for fundraising campaigns has been discussed by various scholars, such as Ortiz et al. (2018), Lagazio and Querci (2018), and Lund (2019). The Global Trends in Giving Report (2018) also proved that social media is the biggest tool behind people's gifts compared to other tools at a record level of 29%.

There are various social media network tools such as Facebook, Instagram, Twitter, YouTube, et cetera. Based on the Global Trends in Giving Report (2018), 56% of donors around the world vote that Facebook inspires them to give, while 20% said Instagram, 13% said Twitter and 6% said Youtube. In the context of Asia, Facebook remains the most inspiring tool for donors to give—at 63%, followed by Instagram at 13% and YouTube at 9%. Therefore, fundraising campaigns by endowment funds through Facebook, especially in Malaysia need to be considered as they affect donors' inspiration for contribution. At the same time, achieving a large number of potential donors in this country is no longer impossible. This is because a majority of internet users in this country are Facebook subscribers—at a total of 22,000,000 subscribers, as reported by the Internet World Stats (2019). Meanwhile, Facebook is also found to be an effective instrument to reach greater numbers of alumni, thus making relationship-building with them easier and at less cost (Zickar et al., 2018; Peruta & Benson, 2018). Dillon (2017) found that alumni who "liked" their university's Facebook page has distinctive roles in alumni role identity which is comparable to alumni who attended a university event. In addition, sharing activities on Facebook is also influential for campaigns that aim to supply public goods (Hong et al., 2015).

Various scholars such as Mohd Noor et al. (2015), Tashfeen et al. (2015), and Rohayati et al. (2016) found that religion is one of the important factors influencing an individual's giving behavior. In the study of pious endowment, specifically on the cash *waqf* giving, the religion is also found as a potential and significant factor for that purpose as mentioned by Rizal and Amin (2017), and Osman and Muhammed (2017). In order to ensure that giving becomes a culture for the Muslim community, Mahamood and Ab Rahman (2015) believed that it requires religious teaching. They added that people will contribute if they have religious consciousness in realizing their Islamic

obligations. Consistent with this, Charseatd (2016) suggested to include religious belief in doing promotional programs because it can enhance people's attitude toward donations since a positive image can be built. In this regard, religious beliefs need to be highlighted when conducting endowment campaigns so that more donors will be encouraged to contribute.

METHODOLOGY

Since this study is theoretical in nature, then the sources are in the form of secondary data. The secondary data was obtained through the literature related to the success elements of endowment fund which consists of books, seminar proceedings, periodicals and internet resources, either in English or Malay. The authors applied the inductive, analytical and critical methods through deep and intense readings and understanding of the previous texts and literatures related to the topics of this study in order to achieve the objectives mentioned earlier.

DISCUSSION

Although Lerner et al. (2008) mentioned that endowment performance in more selective universities is achieved by asset allocation towards alternative assets, the authors; however, also looked at the risks associated with this asset, as several scholars have recommended diversification as a strategy to mitigate the risks. This study therefore took the initiative to discuss about this in more balanced way by adopting the terms of appropriate investment planning. This is in line with what has been highlighted by Abdul Hamid et al. (2018) in their study. Since this study intended to explore the elements that can contribute to the success of endowment funds in Malaysian public universities, the success elements found by Lerner et al. (2008) were used as the basis of this study. Those elements were not only revisited by this study, but some specific aspects were also added to ensure that the discussion is suitable with the nature of Malaysia. In this regard, it can be considered as one of the contributions of this study in enriching the literature on endowment funds in Malaysia, especially in public universities.

Furthermore, this study had not only focused on the elements discovered by Lerner et al. (2008); other elements were also considered in this study. After the literature review was conducted, this study added the elements of diversity of income sources and effective fundraising since they have the possibility of driving the success of endowment funds. Adding these two elements can be regarded as the paper's added value to existing theory. At the same time, it can provide new ideas for future studies to explore other elements that can drive the success of endowment in HEIs. The theoretical framework of this study is shown through the Figure 1 below.

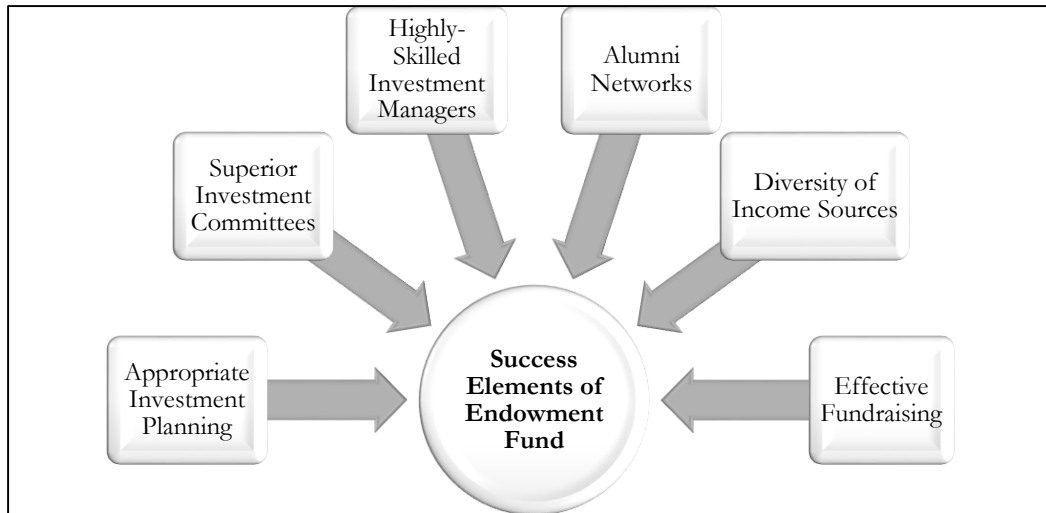


Figure 1: Theoretical Framework of this Study

CONCLUSION

The endowment is one of the important sources of income for the HEIs in many countries, including Malaysia. The elements that contribute to the success of this fund need to be refined so that its role to provide income to an educational institution can be maintained. In this study, there are several elements being discussed which are appropriate investment planning, superior investment committees, highly-skilled investment managers, alumni networks, diversity of income sources, and effective fundraising. By adding of the last two elements, this study believes that it can provide comprehensive platform for further studies in exploring the elements that can drive the success of endowment fund in HEIs, especially in the Malaysian context.

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