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Abstract

Zakat, a compulsory tax on every eligible Muslim, is one of the Islamic social finance mechanisms with a potential to alleviate poverty and inequality. In Malaysia, the collection and distribution systems of zakat are the responsibility of zakat institutions which are under the state's jurisdiction. As an institution that is responsible for managing public capitals, inevitably, it is exposed to public assessment of transparency and accountability. Thus, the institutions need to be sufficiently transparent in disclosure of information. Good reporting practices should cover both financial and non-financial information for all capitals involved in operations, such as zakat, human, structural, social and environmental capital. The main purpose of this study is to assess the current financial and non-financial capital reporting practices of fourteen zakat institutions in Malaysia. All publicly available information and documents such as annual reports and newsletter were retrieved from the respective websites, and a content analysis was performed. The analysis reveals that the disclosures of non-financial capital information are still lacking among them, and most of the non-financial capital indicators are not yet reported. It is suggested that these institutions should adopt an integrated zakat reporting approach to improve the extent of information reported to the stakeholders. The new practice which is in line with the global move toward integrated reporting, will uplift the image of zakat institutions and assist them to gain increased public trust, recognition and consequently financial support. Besides, it is now timely for all zakat institution in Malaysia to fully use the websites as the medium of communication with stakeholders.

Keywords: zakat disclosure, capital disclosure, zakat capital disclosure, human capital, environmental capital, structural capital, social capital.

INTRODUCTION

The importance of zakat for the socio-economic growth of the community, especially the unfortunate is well accepted. Zakat is one of the five fundamental pillars of Islam which has been addressed multiple times in Al-Quran. It is clearly stated that the collected zakat funds should be distributed to the eight eligible groups of recipients by *amil* or in current practice, zakat institutions. As part of religious obligation, each zakat institution must be accountable to Allah and other individuals, especially the intended recipients and the public. This dual accountability relationship places the expectation for zakat institutions to distribute zakat funds and capitals efficiently and effectively.

Nonetheless, past studies have addressed the sufficiency and consistency of information disclosed by zakat institutions (Abidin, Saad, & Mohd Muhaiyuddin, 2014; Ramli & Kamaruddin, 2017). Recently, Masruki, Hanefah, Shafii, Hamid, Laili & Kamaruddin (2017) state that the current reporting practice is often short-sighted since it recognises and reports only financial information while socio-economic and environmental issues are often excluded. In addition, due to the absence of a specific reporting standard, the information disclosed may vary and thus, hinder performance evaluation and comparison. Inconsistent and insufficient information may reduce public trust towards the institution and result in reduce credibility and financial support. Accordingly, Sapingi, Sheikh Obid, & Nelson (2014) suggests that a new reporting approach is needed to ensure the growth and support for zakat institutions.

In the accounting practice, disclosure of financial and non-financial capitals was introduced by the International Integrated Reporting Framework (IIRF) in 2013 to improve the reporting practice. The concept is applicable to non-profit entities such as zakat institutions (Mansor, Jamil, & Bahari, 2017b). In line with the global trend this study examines the current practice of capitals disclosure by zakat institutions in Malaysia. Disclosure of capitals can attract new zakat payers, collaborators and other stakeholders to contribute funds to these institutions and allow them to focus on achieving their social goals more effectively. To date, there is no empirical research on capital reporting of zakat institutions.

LITERATURE REVIEW

In Malaysia, zakat is governed by different State Islamic Religious Councils (SIRC) which contributes to differences in zakat management and reporting systems. Past studies have discussed various issues related to inefficiency and ineffectiveness of zakat management including imbalance amount between total collections and distributions (Lateff, Palil, & Hassan, 2014), unfair distributions to qualified recipients and incomparable reporting (Sapingi et al., 2014), and lack of communities' awareness and knowledge of zakat (Faisol Ibrahim, 2014). These problems could also be attributable to limited central regulations and improper accounting and reporting standards (Sapingi et al., 2014), unreliable reporting due to limited and out dated coverage (Ramli & Kamaruddin, 2017). In addition, the reporting is incomplete and focuses mostly on financial information disclosure (Abidin, Saad & Mohd Muhaiyuddin, 2014).

A zakat institution should be accountable to the public at large, hence, demonstrate their transparency and accountability through various reporting mediums. According to Torres and Pina (2003) disclosure of financial capital alone is insufficient and backwards looking. Thus, it is challenging for the stakeholders to use the annual reports for decision-making (Mansor & Mamat, 2017). Besides, some institutions never publish their reports or share them on their websites (Sulaiman, Adnan, & Nor, 2009).

Improving zakat accounting and reporting system is crucial to the discharge of accountability to the stakeholders (Faisol Ibrahim, 2014; Ramli & Jalil, 2017). The lack of non-financial capital information disclosure in non-profit reporting (Azmi & Hanifa, 2015; Mustaffha & Zainal, 2016) is inconsistent with the objectives of Islamic accounting. Hence, integration of both financial and non-financial capital reporting approach for zakat institutions would serve the information needs of the stakeholders (Mansor, Jamil, & Bahari, 2017a) as it provide a comprehensive picture of the overall value creation process.

Information concerning capitals is increasingly demanded by stakeholders (An, Harun, Hu, & Liu, 2014) as initiated by the International Integrated Reporting Council (IIRC) through its Integrated Reporting Framework (IRF). The activities of zakat operations involve human capital, structural, social and environmental capital, in addition to financial zakat capital. Disclosure of the capital information would provide comprehensive picture for the stakeholders to assess the performance of zakat institutions.

Most of the literature on capital reporting mainly pays less attention to reporting for non-profit and charitable institutions and more on for-profit organizations. The difference in reporting practices and legislative pressure between for-profit and non-profit sector limits the generalizability of prior studies, and thus an analysis on the application of integrated capital reporting concept for improvement of zakat reporting is very timely.

Internet and web-based reporting

Internet and web-based reporting are among the tools to discharge accountability for wider stakeholders. The growth of technology promotes the disclosure of additional information at a very low cost (Salehi & Torabi, 2012). Besides, it also enhances users' access to information. Web-based reporting can portray the adoption of latest technology (Abidin et al., 2014), improve institutional image (Umapathy & Huang, 2015) and enhance the communication channel with the stakeholders (Rodriguez, Perez, & Godoy, 2014).

As zakat institutions rely on public contributions, internet and web-based disclosure is a crucial medium to disseminate information to potential donors. Saxton, Neely, & Guo (2014) report a positive relationship between amount of contributions to web-based reporting. Nevertheless, studies of internet and web-based reporting of zakat institutions is still limited and focus mostly on financial information disclosure (Faisol Ibrahim, 2014; Htay & Salman, 2014; Ramli & Kamaruddin, 2017). Therefore, the present study examines the extent of financial and non-financial capital disclosure of zakat institution through the web.

RESEARCH DESIGN AND METHOD

Sample

In Malaysia, zakat management is complex since zakat is governed by the respective fourteen states' legislative and jurisdiction systems. The management structure can be categorised into three forms: (i) zakat collection and distribution are fully managed by SIRC, (ii) semi-corporatized where zakat collection is managed by a zakat corporation, but its distribution is handled by SIRC; and (iii) fully corporatized the collection and distribution under a corporation.

Table 1. Details of zakat institutions

Zakat Management	Website	Annual Report	Newsletter	Others
Under the SIRC				
• Johor	√		2019	√
• Perak	√	2017	2019	√
• Perlis	√			
• Kelantan	√	2016	2018	√
• Terengganu	√	2015		
• Sabah	√		2016	
Semi-corporatized				
• Wilayah Persekutuan	√	2018	2019	√
• Negeri Sembilan	√		2018	
• Melaka	√		2018	
• Pahang	√		2017	√
Fully corporatized				
• Selangor	√	2016		√
• Pulau Pinang	√		2018	
• Sarawak	√			

Zakat Management	Website	Annual Report	Newsletter	Others
• Kedah	√	2016	2015	

Table 1 shows the fourteen zakat institutions. Six of them are fully under the SIRC, four semi-corporatized and four fully corporatized. From 2015 to 2018 only six institutions uploaded the annual reports, whilst ten of them only produced newsletters. In addition, some of the zakat institutions did upload other documents such as brochures, performance reports and attachments available for public access.

Data collection

Capital reporting index is associated with Pablos (2003) and developed for profit sector. However, the current study applies it by substituting relevant items for zakat institutions following Blankenburg (2018) and Jetty and Beattie (2009). Table 3 provides the complete listing of the items. The recording process used a dummy variable score of 1 for each item disclosed and 0 otherwise. In addition to annual reports all publicly available information and documents published via the websites were also used to allow validation of data and findings (Blankenburg, 2018). To ensure comparability at a single point in time the websites and documents were downloaded between 26 May and 31 May 2019.

RESULTS AND DISCUSSIONS

Table 2 shows the results of capital reporting for zakat institutions. The extent of integrated capital reporting is calculated by the ratio of total scores achieved to the total maximum score (60 indicators). Of the 14 institutions, the lowest score is 30% (Sabah) while the highest is 82% (Wilayah Persekutuan). The average score of the extent of integrated capital reporting is still in moderate level (56%) indicating a wide variability in the integrated capital reporting.

Distribution of the reporting indicators further validates that the total extent of capital reporting is moderate since 79% (11 out of 14) achieved the extent of reporting between 41% and 80%. Of the 14 institutions, only Wilayah Persekutuan scored over 80%. This is a semi-corporatized institution. Sabah (SIRC) and Sarawak (fully-corporatized) scored less than 40%. The table also shows that in descending order, the capitals disclosures were zakat capital (17%), structural and social capital (14% respectively), human capital (9%) and environmental capital (1%).

Table 2. The extent of capital reporting

	SIRC						Semi-corporatised				Fully-corporatised				
Capital reporting	Johor	Perak	Perlis	Kelantan	Terenggan	Sabah	Wilayah	N.	Melaka	Pahang	Selangor	P. Pinang	Sarawak	Kedah	Average
Zakat	20	17	12	22	18	17	22	15	13	20	22	18	15	13	17
Human	3	13	5	15	12	2	20	7	10	12	13	5	2	10	9
Structural	13	22	10	20	13	5	23	10	13	15	17	13	10	17	14
Social	13	17	17	17	17	7	17	10	17	15	17	15	8	13	14
Environmental	0	3	5	0	2	0	0	0	2	0	2	0	0	2	1
Total	50	72	48	73	62	30	82	42	55	62	70	52	35	55	56

Table 3 shows that the top three capitals disclosed are zakat, social and structural capital. All institutions disseminate the zakat capital information on collection, methods of collection, list of collection centres, list of recipients and channels of distribution. However, only 36% disclosed their financial statements even though these statements should be publicly available. All institutions disclosed information on public relation activities and awareness, while 93% disclosed information on relationship with publics and collaborators or partners. In term of structural capital, all institutions disclosed their culture statements and provide description on the use of database, software or technology. Technology use is also reflected through the utilisation of website as a medium to information the public.

On the other hand, most of the indicators of human and environmental capitals were not or least disclosed. These institutions mostly emphasize on the information on career opportunities and competence development plans (71%). Disclosure on competence development plans for employees show compliance with the MS ISO 9001:2008 Quality Excellence Award. Nevertheless, none of them disclosed the information on employee’s academics and employee’s satisfaction index, which may be associated to the issues of materiality and measurement. As for environmental capital, only 21% disclosed information on prevention of environmental damage. None of them disclosed on laws and regulations followed, since there is no environmental laws and regulations imposed on zakat institution thus far.

Table 3. Percentage of disclosure for integrated capital reporting indicators

Capitals	**Disclosure Elements**	**Indicators**	**% disclosed**	**Rank**
Zakat capital information	F. Statements	Financial statements	36	10
	Collection	Strategy on collection	50	8
		Categorization of collection	100	1
		Methods of collection	100	1
		List of collection centres	100	1
		Amount collected	79	4
		Policy on collection and incentives for contribution e.g. tax	86	3
	Distribution	Policies of distribution	71	5
		Criteria to assess beneficiary e.g. gross income, dependent	71	5
		List of recipients	100	1
		Amount of disbursement	79	4
		Channel of distribution e.g. bank transfer, send to home	100	1
		Procedures of zakat application	64	6
Human capital information	Employee profile	Number of employees	57	7
		Number of managers	64	6
		Employees distribution e.g. gender, age	21	12
	Employee turnover	Number of new recruits	36	10
		Number of employees resigned	7	14
		Career opportunities	71	5
	Qualification	Academics	0	15
		Competence development plans e.g. trainings, workshops	71	5
		Career development plans	21	12
		International experience	7	14

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Capitals	**Disclosure Elements**	**Indicators**	**% disclosed**	**Rank**
	Commitment and motivation	Benefit	36	10
		Recognition (award, prizes)	50	8
		Promotion	7	14
		Employee-institution social activity	64	6
		Employee satisfaction index	0	15
		Health and safety	36	10
Structural capital information	Structure	Profile of board of trustees	79	4
		Organizational chart	93	2
	Infrastructure	Physical objects use to produce goods or services e.g. buildings, land	79	4
	Organizational culture	Culture statements (Vision and mission)	100	1
		Strategy descriptions	43	9
	Administrative processes	Description of administrative processes/procedures	79	4
		Average response time for each task	71	5
		No. of task handled per day	21	12
	Technology	Description for the use of database, software or technology	100	1
		IT expenses	14	13
	Innovation, quality and improvements	No. of innovation	36	10
		Investment in product/service development	29	11
		Policies of R&D activities	29	11
		Employee participation in R&D activities	29	11

Capitals	**Disclosure Elements**	**Indicators**	**% disclosed**	**Rank**
		Accreditations, certifications and recognition	64	6
Social capital information	Image and reputation	Public relation activities e.g. events, publications, conferences	100	1
		Awareness	100	1
		Image of the institutions	64	6
	Relationship with stakeholders	Publics	93	2
		Donors	86	3
		Press/media	64	6
		Beneficiaries	86	3
		Politics and officials	86	3
	Co-operations	Collaborators/partners	93	2
		Projects under collaboration	79	4
Environmental capital information	Environmental concern	Environmental policies or concern	14	13
		Pollution from operations	7	14
		Laws and regulations followed	0	15
		Prevention of environmental damage	21	12
	Conservation	Conservation of energy or other resources	14	13
		Recycling initiative	7	14

CONCLUSION

The study shows that financial zakat capital information is highly disclosed while other non-financial capital reporting is still lacking especially human and environmental capital. Human capital disclosure is crucial to allow stakeholders to evaluate the management of knowledge competency, motivation and commitment of the employees (Adnan, Kamaluddin, & Kasim, 2013). Besides, dual accountability concept held zakat institution accountable, not only to human being but also towards preserving nature's gift by Allah. Disclosure of environmental capital could inform the stakeholders on environmental protection (Adinehzadeh et al., 2018) and enhance the public image of the institutions. Meanwhile, disclosure on social and structural capital information is currently at the moderate level. The findings narrow the knowledge gaps and provide new understanding of the current capital reporting by zakat institutions. As for practical implications, the findings suggest that policy makers and regulators should offer standard practice of capital disclosures especially for the non-profit institutions. Guidelines for capital information disclosure would provide standardization and uniformity in reporting practices for zakat institutions.

This study is limited by the descriptive in nature due to the small sample size. Furthermore, the establishment of the checklist items is largely based on prior studies in the for-profit sector. Attempts to adapt the checklist may not cover all relevant information and might represent a general overview of capital reporting at the time of data collection only. Therefore, future research should assess the determinants of capital disclosure.

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