

## Evaluating Corporate Reporting on the Internet: The Case of Zakat Institutions in Malaysia

*(Penilaian Pelaporan Korporat di Internet: Kes Institusi Zakat di Malaysia)*

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### ABSTRACT

*The purpose of this study is to document the extent of financial and non-financial reporting practices through the internet by zakat institutions and to identify the type of information reported. Using a checklist adapted from similar studies in the commercial sector, the study suggests that the disclosures of financial and non-financial information such as information on social responsibility are uncommon. While most of the zakat institutions focus on providing information regarding zakat collection and distribution, none has included financial statements. However, these institutions have gained reasonable score in terms of information timeliness with majority of them update their website on regular basis. The findings suggest that zakat institution in Malaysia should fully utilise the use internet as a main medium of communication, especially in order to gain more public trust and recognition.*

*Keywords: Zakat; Islamic taxation; financial reporting; internet*

### ABSTRAK

*Tujuan kajian ini adalah untuk mendokumenkan amalan pelaporan kewangan dan bukan kewangan melalui internet oleh institusi zakat dan mengenalpasti jenis maklumat yang dilaporkan. Menggunakan senarai semak yang diadaptasi daripada kajian sama dalam sektor komersial, hasil kajian menunjukkan bahawa pendedahan maklumat kewangan dan juga maklumat bukan kewangan seperti maklumat berkenaan tanggungjawab sosial adalah sesuatu yang jarang. Walaupun kebanyakan institusi zakat memberi tumpuan kepada penyediaan maklumat berkenaan kutipan dan pengagihan zakat, tiada sebuah pun institusi ini yang memaparkan penyata kewangan. Walau bagaimanapun, institusi ini menunjukkan skor yang baik dari segi ketepatan masa maklumat, yang mana majoriti daripada mereka mengemaskini laman web secara berkala. Hasil kajian mencadangkan institusi zakat di Malaysia perlu menggunakan sepenuhnya internet sebagai medium utama komunikasi, terutamanya bagi mendapatkan kepercayaan dan pengiktirafan yang lebih tinggi dari orang ramai.*

*Kata kunci: Zakat; pencukaian Islam; pelaporan kewangan; internet*

### INTRODUCTION

Corporate reporting has undergone a rapid evolution and has become increasingly important amongst public entities worldwide. Consistent with the rapid development of information and communications technology (ICT), the World Wide Web (i.e. internet) has emerged as the preferred communication platform for the dissemination of information among corporate companies since the 1990s and to date, this trend is still growing. Nowadays, internet reporting is common. This is especially true among companies listed on the exchange (Lymer et al. 1999) and thus, the existence of the company's website has become an important medium of communication for corporate purposes.

There are several benefits of internet reporting. For instance, companies can deliver corporate information to investors and potential investors throughout the world in a faster way (Abdelsalam & Street 2007). In addition,

internet reporting is very cost effective as compared to the printed version. In short, internet has been used for faster information delivery at any time and from anywhere (Al Arussi et al. 2009). More importantly, internet promotes reporting transparency and increases investors' awareness.

In line with the growing use of internet, many studies have been undertaken to explain the practice of financial reporting by public and private organisations through the internet (e.g. Lymer et al. 1999; Ali Khan et al. 2007). While many of these studies focus on the developed market (e.g. Marston & Polei 2004; Pirchegger & Wagenhofer 1999), some have investigated similar issues in developing markets, such as Malaysia. As with the studies in more advanced markets, studies of financial reporting via the internet in Malaysia also focus on issues, such as the type of information reported (Ismail & Tayib 2000), the determinants of financial and environmental reporting on the internet by listed companies (Al Arussi et

al. 2009) as well as type of investor relation information disclosed (Abdul Hamid 2005).

While a good deal of research on the internet financial reporting has focused on listed companies, there has to date been little research on this issue in other settings, especially where the rules, regulations and practices are still at preliminary stages. Unlike previous studies which mainly concentrated on internet reporting practices of public listed companies, this present study has shifted its focus by offering evidence of internet reporting by the zakat institutions in Malaysia.

Many studies also refer to zakat or '*alms giving*' as '*Islamic tax*' (e.g. Saad & Haniffa 2014). The zakat is religiously compulsory on every eligible Muslim (Islamic believers) and it serves principally as a contribution mainly to the poor and deprived Muslims. In Malaysia, the collection of zakat is administered by institutions of zakat which are under the state's jurisdiction (Abu Bakar 2007). These institutions are authorised bodies for managing and administering the zakat collection and distribution systems. Their main function is to collect and distribute zakat funds to eligible recipients.

However, unlike the conventional tax, which is enacted by the Income Tax Act, 1967, the collection or payment of zakat is statutorily voluntary (though it is religiously compulsory) for Muslims. While some states have mandated zakat payment through several Acts, there is almost no enforcement in cases of non-compliance due to several factors. Thus, the zakat payment literally remains voluntary to date.

Several reports have shown that despite large size of Muslim community in Malaysia, the zakat collection is still low. For example, as of 2010, it has been reported that there are approximately 17.4 million Muslims that represents 61 percent of total population in Malaysia (Department of Statistic of Malaysia 2010). However, zakat report in 2009 showed that only RM1.19 billion has been collected from zakat payers annually (Pusat Pungutan Zakat Wilayah Persekutuan 2010). Thus, despite showing significant improvement from year 2005 collection, this amount is deemed very low compared to its expected actual capability. As a consequence, many of the poor and deprived Muslim community in Malaysia are still living in the status quo of below poverty line.

Given the voluntary nature of zakat payment from the legal aspect, the role played by the zakat institutions could determine the amount of zakat collection. As an organisation that is responsible for managing public funds, inevitably, it is exposed to public evaluation of institutional transparency and integrity. Lack of information transparency might have deterred potential zakat payers from contributing. Evidences from microfinance institutions show that disclosure of financial and social information offers enormous benefits (Tucker 2001). For instance, the study asserts that transparency can multiply the numbers of donors, who provide the majority of microfinance institutional funds. On the other hand, it is reported elsewhere that over 300,000 charities in China are

having difficulties to raise funds because of their apparent lack of transparency (Jing-Ping 2010).

Given the importance of disclosure and transparency issues, this study aims to examine the extent of corporate reporting practices on the internet by zakat institutions in Malaysia. This study also highlights how the institutions utilise technology in the context of their reporting practices.

Academic research into non-profit organisations in Malaysia is still scarce. As far as we are aware, to date, there is no study that has been conducted to study internet reporting by zakat institutions. Zakat institutions are chosen, since they are non-profit organisations operating to administer voluntary zakat collection. While it is voluntary from the statutory point of view, many Muslims view zakat payment as mandatory because it is related to order from Allah SWT (Yusuf 1988). Lack of transparency will drive Muslims away from these legitimate organisations and many will resort to pay the zakat to their preferred organisations or individuals. This will further raise an issue of the validity of these institutions as well as possible misuse of funds by collectors. Thus, the findings from this study could offer some insight into the institutions' online reporting practices. In addition, the fact that the internet penetration rate in Malaysia is the highest among Muslim countries (59 percent in April 2010 at 24<sup>th</sup> place) – as reported by the Internet World Stats Database (Internet World Stats 2010), zakat institutions in Malaysia provide a unique setting for this study to be undertaken.

As for practical aspects, in view of the fact that corporate reporting through the internet is largely voluntary in nature and the institutions are operating within a less regulated environment, the findings of this study can be compared to the practices of commercial companies operating in a more regulated environment. It is hoped that this study can provide evidence to guide policy makers and regulators of accounting standards relating to the current practices of financial and non-financial reporting through the internet, especially for the non-profit organisations. Findings from this study can be used by several stakeholders, such as governments, professional accounting and accounting standard bodies to determine the design of a set of guidelines, rules and accounting policies that can be adopted for financial and non-financial reporting via the internet to meet the needs of users of zakat institution corporate reports. With uniformity and standardisation of corporate reporting through the internet, more systematic and effective quality reports can be developed. These guidelines can be used by the public to identify the usefulness and reliability of financial and non-financial information transmitted via the internet.

This study is divided into five sections. The following section overviews zakat administration in Malaysia and discusses the background of internet financial reporting practices. This is followed by a discussion on prior related studies. Section 3 outlines research designs and methods,

while the discussion on results of this study is in Section 4. Section 5 provides a summary and concludes the study.

## BACKGROUND AND PRIOR STUDIES

### ZAKAT ADMINISTRATION IN MALAYSIA

The importance of zakat for the development of the community, especially the poor is undeniable. Zakat not only serves to help the poor but also to improve the social and economic status of Muslims as a whole. In Malaysia, zakat laws were enacted under the Laws of Islamic Governance for States and for the Federal Territories, it is under the Administration of Islamic Law (Federal Territories) Act 1993 (Act 505) (Mahmood 2003). Typically, the enforcement of the law is under the responsibility of the State's Islamic Affairs Department (JHEIN). Baitul Mal or the zakat department that was established under JHEIN, are given authority to manage and administer the zakat system. Among the powers of Baitul Mal or the zakat department are assessment work, collection and distribution of zakat. Since the laws of each zakat state are formulated by State Islamic Religious Council (Majlis Agama Islam Negeri or SIRC), then each state has its own laws. For example, *Zakat Kedah* is run by the Kedah state's Department of Zakat (Bakar 1998) which is coordinated by the zakat committee of the state. The committee is responsible for issuing the verdict (fatwa) on zakat to be gazetted and enforced.

At present, there are also states that have privatised their Baitul Mal units to set up a Zakat Governance Center in their respective states (Mahmood 2003). The aim is to ensure the management and administration of zakat is exercised in a more professional and effective

way. Among them are the Zakat Collection Center of the Federal Territory Islamic Religious Council, Pahang Zakat Collection Center of the Islamic Religious Council of Pahang, Zakat Governance Center of the Penang Islamic Religious Council and others. For the state of Selangor, the duties and responsibilities are placed under the administration of the Zakat Board of Selangor under the Selangor Islamic Religious Council.

One of the accomplishments of the zakat management is the significant increase of zakat collection. Table 1 shows the statistics of zakat collection and distribution for the states in Malaysia for year 2005 and 2009. Overall, the collection of zakat in the country saw an increase of 52 percent from RM573 million in 2005 to over RM1 billion in 2009. For the state of Selangor, for example, zakat collection has increased by 53 percent, from RM133 million in 2005 to RM283 million in 2009. For the state of Kedah, zakat collection has increased about RM37 million in 2009 as compared to 2005. In Sarawak, the zakat collection has increased by 59 percent during the same period. The significant increase in the amount of zakat collection occurred in all state institutions of zakat in Malaysia.

In terms of distribution, a sum of more than RM401 million has been distributed to target groups in 2005 and this number increased to RM603 million in 2009. The highest amount of zakat distribution was recorded in the state of Selangor with RM101 million being distributed in 2005 and this which increased to RM276 million in 2009. For the state of Kedah, a total of RM20 million of zakat funds was distributed in the year 2005. The amount has increased by more than 50 percent in 2009 when the total of zakat funds being distributed is RM40 million. In Sarawak, there was an increase of 72 percent in zakat distribution for 2009, compared to 2005.

TABLE 1. Zakat collection and distribution (2005 and 2009)

State	Zakat Collection			Zakat Distribution		
	2009 (RM)	2005 (RM)	Chg. (%)	2009 (RM)	2005 (RM)	Chg.(%)
Selangor	283,648,722	133,121,829	113.1	276,622,582	101,536,521	172.4
W. Persekutuan	248,803,798	130,141,210	91.2	174,986,013	99,519,005	75.8
Johor	109,231,255	49,357,154	121.3	97,419,660	37,472,093	160.0
Terengganu	73,524,193	40,365,591	82.1	52,578,585	28,052,565	87.4
Kelantan	66,522,450	29,372,551	126.5	56,478,842	20,207,372	179.5
Pahang	71,868,303	31,032,234	131.6	46,753,309	no info	-
Perak	67,189,291	27,543,535	143.9	59,965,762	21,542,089	178.4
Kedah	67,578,342	30,185,661	123.9	56,000,796	20,207,372	177.1
P. Pinang	47,952,153	28,000,426	71.3	51,816,561	21,340,846	142.8
N. Sembilan	42,275,136	23,098,181	83.0	41,211,752	22,254,228	85.2
Sarawak	36,915,095	15,299,300	141.3	23,640,627	6,540,236	261.5
Melaka	30,721,955	17,692,094	73.6	32,157,485	13,821,996	132.7
Sabah	25,388,089	11,314,074	124.4	24,365,651	8,986,022	171.2
Perlis	25,253,015	6,564,465	284.7	26,754,491	not available	-
Total	1,196,871,799	573,088,306	108.8	1,020,752,117	401,480,345	154.2

Source: Zakat Collection Center, Majlis Agama Islam Wilayah Persekutuan (MAIWP)

Interestingly, Table 1 show the imbalance amount between total funds collected and distributed. For 2005, a total amount of zakat collection is RM573 millions whereas a total distribution amounts is only RM401 millions. This means that more than RM172 millions of surplus of zakat funds in 2005. The surplus of funds increased in 2009 amounted to RM176 millions.

#### INTERNET CORPORATE REPORTING

Studies, have in general, viewed corporate internet reporting as part of corporate voluntary disclosure (Abu Ghazaleh et al. 2012), especially in explaining the practices in countries where the internet infrastructure is well established. To companies, the availability of websites can be considered as a status symbol – i.e. to claim that the company has adopted the latest technology. From this point of view, the corporate website is also viewed as a tool to signal corporate image (White & Ramon 2000). They assert that there is also a possibility that website is constructed in order to improve a company's communication channel with its shareholders in a more cost effective manner.

Meanwhile, from a financial disclosure perspective, Gowthorpe (2004) asserts that the construction of websites can be the result of mimicking the online practices of competitors. Studies also report that some companies disseminate financial information using internet simply because it has become something that is expected of them (Xiao et al. 2002).

According Bonson and Escobar (2006), the rapid development of information and communication technology (ICT) has changed the way companies communicate information to users of financial statements such as shareholders, customers and suppliers. Since 1990, the Internet has emerged as the preferred communication platform for the dissemination of information among corporations. Now, the existence of company's website has become an important medium for the purpose of corporate reporting (Trabelsi et al. 2004).

Previous researches documented several reasons on why companies use the Internet to report financial and non-financial information. First, Internet corporate reporting has been used as media advertising, marketing, sales, financial reporting, corporate image and financial reporting and the environment (Lymer 1997; Al Arussi et al. 2009). Selection of the internet as a medium of reporting is because of the advantages of web content which is dynamic and unique (Khadaroo 2005a). Climb (2006) explains that the use of the internet has become routine in the life of mankind. Corporate reporting through the Internet has several advantages such as low cost, wider reach, higher frequency and speed (Debreceeny et al. 2002). Hence, financial reporting through the internet allows the presentation of accounting information in a quick and flexible (Lymer 1997) manner.

Furthermore, reporting via the Internet is more powerful than traditional reporting using paper (Debreceeny et al. 2002). The number of companies using websites as a medium of communication with shareholders is increasing, and this shows that the Internet is an emerging mechanism for the delivery of corporate information (Khan 2006). For instance, Ismail and Tayib (2000) report 237 or 31.6 percent of companies listed in Bursa Malaysia is using website for reporting purposes.

In countries with large capital markets, most large companies have websites and the majority of them include some form of financial reporting. Over the last decade, users of financial statements rely on a printed copy of the annual report for financial information. However, access to the annual report is limited because it is only available from the library or analysts. Thus, the use of the Internet allows anyone to get information and annual reports at anytime and from anywhere.

#### PRIOR STUDIES ON INTERNET REPORTING

According to the Financial Accounting and Standards Board (FASB 2000), the use of the web for business purposes only started in 1994. This is due to the rapid growth in the number of companies around the world which created their websites at that time. There are various terms for internet reporting used among researchers. Among them are corporate disclosure via the internet, corporate internet reporting system, online corporate reporting, digital reporting, online reporting and electronic web-corporate based reporting. Hanifa and Abd. Rashid (2005) define internet financial reporting as a firm or company's latest annual report that provides a link to the Bursa Malaysia's website. Thus, internet reporting refers to the use of the company's website to disseminate information of a company's financial and non-financial performance (Hanifa & Abd. Rashid 2005).

Momany and Al-Shorman (2006) classify financial information via the internet into three groups, (i) a comprehensive set of annual reports, (ii) a financial statement or summary of the financial statements; and (iii) the financial statements. Meanwhile, Oyelere et al. (2003) explain that the practice of internet reporting includes- (1) the reported financial statements as a whole, including the footnotes, (2) a part of the financial statements; and / or (3) financial information as a summary of the financial statements of the company's website.

Interest and research on site-based reporting have clearly increased (Marston & Polei 2004; Bonson & Escobar 2006), and has become a very interesting research topic to be studied (Kelton & Yang 2005). However, most of the studies have been conducted in developed countries such as the US, the UK, Sweden, Australia and Ireland. For instance, studies on the early 1990's reported that 69 percent of the top 150 companies in the US disclosed information on the company's website (Petraevick & Gillett 1996) and 90 percent of Finland's listed companies have websites (Lymer & Tallberg 1997). Similarly, Brennan and

Hourigan (1998) reports that 46 percent of the Irish listed companies used website as a medium of communication. Post year 2000's studies, in general, report that more companies turn to internet to get connected with their investors or potential investors. For example, Venter (2002) reports that 85 percent of companies in South Africa have a website. The results are in line with the findings of a study by Barac (2004) who finds that an increase of 2 percent in the number of listed companies in South Africa reported financial information through the internet. Chatterjee and Hawkes (2008) reveals that all New Zealand's listed companies and more than 90 percent of Indian listed companies provide updates on the company's website.

Meanwhile, the study of reporting information via the internet in Malaysia is still at the preliminary stage (e.g. Hanifa & Abd. Rashid 2005; Al Arussi et al. 2009). Prior research in this area focusses on issues of website reporting (Hassan et al. 1999), qualitative aspect of internet reporting (Nik Salleh & Mohamed 2000), type of information reported (Ismail & Tayib 2000), web development (Keliwon & Aziz 2005), impact of web technology (Khadaroo 2005a), auditing (Khadaroo 2005b), determinants of internet reporting (Hanifa & Abd. Rashid 2005), practice of internet reporting in government agency's websites (Abdul Talib & Sulaiman 2006) and practice of internet reporting in state statutory bodies (Ahmad et al. 2004). While many studies have focused their effort on commercial sectors, none seems to explore similar issues in the context of zakat institutions.

## RESEARCH DESIGN AND METHOD

### SAMPLE

As at 31 March 2011, there are 14 zakat institutions in Malaysia, established in 14 states. However, as these institutions are governed by the respective states' jurisdiction, zakat administration in Malaysia is not a straight-forward issue. These institutions come in three forms – (i) fully-corporatised zakat management entities, (ii) semi-corporatised zakat management entities, and (iii) part of the SIRC. In particular, there are three, four and seven entities incorporated as fully-corporatised, semi-corporatised and under SIRC, respectively (see Table 2 for states' zakat institution and category of zakat management).

The semi-corporatised zakat management is defined as the institutions in which the collection of zakat is managed by a zakat management company but the distribution of zakat is still managed by SIRC. There are four institutions of zakat in this category, namely zakat institutions of Wilayah Persekutuan, Melaka, Negeri Sembilan and Pahang. The third category of zakat institutions, i.e. those fully managed by SIRC is where all management and administration of the zakat, including managing the collection and distribution, are placed under the SIRC. There are seven institutions of zakat in this category, namely zakat institutions of Perlis, Johor, Terengganu, Sabah, Kedah, Perak and Kelantan. The present study includes all 14 entities as the subject of analysis.

TABLE 2. Zakat institutions and category of zakat management

Zakat Institutions	Category of Zakat Management		
	Fully-corporatised	Semi-corporatised	Part of the SIRC
Pulau Pinang	√		
Selangor	√		
Sarawak	√		
Wilayah Persekutuan		√	
Melaka		√	
Negeri Sembilan		√	
Pahang		√	
Perlis			√
Johor			√
Sabah			√
Kedah			√
Perak			√
Kelantan			√
Terengganu			√

### DATA COLLECTION

In order to provide answers to the research questions, this study adapts a list of criteria developed by Marston and Polei (2004) and Pirchegger and Wagenhofer (1999).

However, given that the original checklist is meant for commercial entities, some items which are not relevant to zakat institutions were removed or substituted with more relevant items. Among the items removed are return on asset, return on profit and comprehensive income and these

items were substituted with items about zakat collection and zakat distribution. In order to identify the items, we sought the opinion of experts in zakat reporting. For this purpose, personal communications were conducted between researcher and one zakat manager and three academicians who are experts in the field of financial and non-financial reporting. In addition, a review of zakat institutions' web pages was performed in order to identify relevant items to be included or discarded. For example, items such as type of zakat, *haul* (completion of one full Islamic year i.e. 354.5 days based on the lunar year and nisab (amount exceeds the minimum of market price of 85 grams of gold) have been included in the list. Once the new list had been established, an independent reviewer who is expert in the zakat field was assigned to check the validity of the checklist.

The final list contains a series of comprehensive criteria specifically to examine disclosure of information on the web by zakat institutions. The checklist is divided into two main sections, i.e. *content* and *presentation*. This study does not only examine the kind of information disclosed or disseminated on the web but also on how this information is presented. In particular, the checklist is divided into seven sections based on specific characteristics such as content and presentation features. Four sections deal with the content aspect, while the other three sections deal with the presentation aspect. All items are measured on a simple dichotomous (i.e. 'yes' or 'no') basis (refer to Table 2)

Sections A, B, C and D of Part 1 identify the content that relates to *Accounting & Financial Information*, *Corporate Governance*, *Contact Details Information*, and *Social Responsibility Disclosure*. Sections A, B and C of Part 2 focus on the presentation aspect pertinent to *Timeliness of Information*, *Technological Features* and *Convenience & Usability of websites*, respectively.

All of the information required was obtained through the respective zakat institutions' websites. In general, all the institutions have their own websites. In order to identify the websites, the search began with the visit to the websites of respective states' SIRC. Generally, these websites direct visitors to appropriate zakat institution's webpage.

## RESULTS

As at the time of data collection, all of 14 zakat institutions were found to have their websites ready in different ways. However, the webpage of one zakat institution of one southern state (Johor) was reported as 'under construction' at the date of data collection, and hence was excluded from the analysis.

The results suggest that all of the corporatized zakat institutions (whether incorporated in whole or in part) have their own websites (see Table 3). Meanwhile, for the zakat institutions under the management of SIRC, it is found that only two institutions have their own websites, while four other zakat institutions that only have links with the SIRC's website.

TABLE 3. Zakat institution website

Category of Zakat Management	Own Website	Link from SIRC's Website
Full Corporatized Zakat Management		
• Pulau Pinang	Yes	-
• Selangor	Yes	-
• Sarawak	Yes	-
Semi-corporatized zakat management		
• Wilayah Persekutuan	Yes	-
• Melaka	Yes	-
• Negeri Sembilan	Yes	-
• Pahang	Yes	-
Under SIRC		
• Perlis	-	Yes
• Johor	-	Under construction
• Terengganu	-	Yes
• Sabah	Yes	-
• Kedah	Yes	-
• Perak	-	Yes
• Kelantan	-	Yes

## TYPE OF CONTENTS REPORTED

The checklist was applied to all thirteen zakat institutions. As mentioned earlier, the checklist is divided into two sections, i.e. content and presentation.

*Content – Accounting and Financial Information* The present study finds that all of the zakat institutions disseminate their zakat collection and zakat distribution information on their website for the most current month. However, the summary of zakat collection and distribution on yearly basis, as shown on Panel A of Table 4, is only available for 77 percent of the institutions. None of them has any financial information to report beyond zakat collection and distribution.

Financial information can be viewed as a summary of the institution's performance or capacity in raising, handling and using public funds or money. It goes hand in hand with accountability. It helps the institutions to deliver messages to the public, reflect their financial success and compliance of the funds. Thus, these zakat institutions should make an effort to allow their balance sheet, income statement, cash flow or fund flow statement, management report analysis and annual report for the past three years to be available online. This is important to convince the public that the information disclosed is consistent and transparent. The current year of auditor report also will benefit the institutions and the public with regards to accountability.

TABLE 4. Contents of internet reporting by zakat institutions

No	Items	Perlis	Kedah	Penang	Perak	Selangor	WP	N. Sembilan	Melaka	Pahang	Terengganu	Kelantan	Sarawak	Sabah	%
Panel A: Accounting and Financial Information															
A1	Balance Sheet	-	-	-	-	-	-	-	-	-	-	-	-	-	0
A2	Income Statement	-	-	-	-	-	-	-	-	-	-	-	-	-	0
A3	Cash Flow or fund flow statement	-	-	-	-	-	-	-	-	-	-	-	-	-	0
A4	Notes to the account	-	-	-	-	-	-	-	-	-	-	-	-	-	0
A5	Management report analysis	-	-	-	-	-	-	-	-	-	-	-	-	-	0
A6	Auditor report - current year	-	-	-	-	-	-	-	-	-	-	-	-	-	0
A7	Annual report for the past 3 years	-	-	-	-	-	-	-	-	-	-	-	-	-	0
A8	Current zakat collection & zakat distribution	√	√	√	√	√	√	√	√	√	√	√	√	√	100
A9	Yearly summary of zakat collection	-	-	√	√	√	√	√	√	√	√	-	√	√	77
A10	Yearly summary of zakat distribution	-	-	√	√	√	√	√	√	√	√	-	√	√	77
Panel B: Corporate Governance Information															
B1	Code of Ethics	-	-	-	-	-	-	-	-	-	-	-	-	-	0
B2	CV of the members of management team	-	-	-	-	-	-	-	-	-	-	-	-	-	0
B3	Collection Forecast	-	-	√	√	√	-	-	-	-	-	√	-	-	31
B4	Documentation of press and analyst conference	-	√	√	-	√	√	√	-	√	-	-	√	-	54
B5	Organizational Structure	-	√	√	-	√	-	√	√	√	-	-	√	√	62
Panel C: Contact Details and Others Information															
C1	Email to Zakat Collection Body	√	√	√	√	√	√	√	√	√	√	√	√	√	100
C2	Phone number to Zakat Collection Body	√	√	√	√	√	√	√	√	√	√	√	√	√	100
C3	Postal address to Zakat Collection Body	√	√	√	√	√	√	√	√	√	√	√	√	√	100
C4	English version homepage	-	-	-	-	-	-	-	-	-	-	-	-	-	0
C5	Frequently Asked Question	√	√	√	√	√	√	√	√	√	√	√	√	√	100
Panel D: Social Responsibility Disclosure															
D1	Environmental report or special pages	-	-	-	-	√	-	-	-	-	-	-	-	-	8
D2	Employee social safety or health report	-	-	-	-	-	√	-	-	-	-	-	-	-	8
D3	Commercial sponsoring	-	-	-	-	√	√	√	-	-	-	-	-	-	23
D4	Non-commercial community involvement	-	-	-	-	-	-	-	-	-	-	-	-	-	0
D5	Corporate responsibility report	-	-	-	-	-	√	√	-	-	-	-	-	-	15

*Content – Corporate Governance Information* Corporate governance information plays an important role to determine the efficiency of the zakat institutions' management team. Since the zakat collection is from the public, it must be properly managed. Perception of good corporate governance is an important factor in upkeeping the image of zakat institutions. It enhances the reputation of these institutions to the public. It has been an integral part of an institution's ability to grow while providing assurance to public that business is being run with diligence and without abuse. This study uses five parameters to assess the disclosure of corporate governance information. These are – (i) the availability of institutional code of ethics, (ii) the availability of curriculum vitae of the members of the management team, (iii) collection forecast, and (iv) the documentation of media and analyst conference and (v) organizational structure.

With reference to Panel B of Table 4, the study finds that only 31 percent of these zakat institutions report their collection forecast and 54 percent have documentation of their media and analyst conference made available. However, none of these zakat institutions mentions their code of ethics<sup>1</sup> or has curriculum vitae of their management team members accessible on the webpage. Such disclosure may indicate to the public that the institution's leadership is serious about running a thriving and law abiding business. These will help in ensuring top executives follow the same ethical guidelines, so do other employees. Only 62 percent of the zakat institutions make available their organisational structure.

*Content – Contact Details and Other Information* As shown in Panel C of Table 4, the study finds that none of the websites has an English version homepage. Even though majority of the Muslim community in Malaysia are Malays, consideration should also be made of the minority group of Muslims who are not using Bahasa Malaysia as their first language. This is especially important when these zakat institution websites are used as sources of reference.

All of these zakat institutions do display their email information, phone number and postal address which are useful for the public. These zakat institutions also have frequently asked questions (FAQs) page to facilitate the public to raise common queries and problems.

*Content – Social Responsibility Disclosure* Social responsibility disclosure is now becoming popular and, in corporate sector, has gained acceptance as a tool for the public to analyse the role of the companies in relation to society. Previous studies on social responsibility disclosure have indicated that community involvement, human resource management, product or service quality and environment have dominated various types of disclosures made by the companies (Deegan & Gordon 1996). The social responsibility reporting is the only means for broad groups of users to ascertain that their interest is being taken care of.

This study analysed five factors as listed in Panel D of Table 4. It is unfortunate to see that none of these zakat institutions gives evidence of their non-commercial community involvement on the website. The results indicate that only 23 percent of the zakat institutions state information about their commercial sponsoring and only a mere 15 percent report on their corporate responsibility. Meanwhile, eight percent, or only one of the zakat institutions, has pages on environment.

#### PRESENTATION ASPECTS OF INTERNET REPORTING

*Presentation – Timeliness of information* 'Timeliness' is defined as appropriate or adapt to the times or the occasion. Currency of information is important for institutions using online application as their medium of communication, as some information may remain valid over time.

As shown on Panel A of Table 5, the study finds that all these zakat institutions have their news updated and display the current value of *nisab* which is important in helping the public to manage their zakat. However, 15 percent of them do not update the *haul* on their website whereas the information is crucial in determining the amount and eligibility of zakat payment.

However, all but one zakat institution indicate the date of latest update of their websites. Calendar year is only available for 31 percent of the websites. Meanwhile, data on monthly or weekly zakat collection can only be retrieved from 54 percent of the institutions. Given the importance of information timeliness, these institutions should be more responsive to disclose information on a timely basis. This is because the timeliness of information is an important factor in determining whether their websites are relevant for public reference.

*Presentation – Technological Features* A website should be impressive with user-friendly features. It should be simple and easy for visitors to access information that would help them to make decisions. Portable document format (in pdf format) preserves all text, graphics and images can be created easily and effortlessly. It also provides an easy and secure approach for data transmission and sharing. HTML format allows creation of more impressive presentation as well as effective layout for user viewing.

However, Panel F of Table 5 reveals that none of the institutions has their annual report available either in *pdf* or *html* format. In addition, none of the disclosed financial data is available in processable format. In terms of retrieval speed, only 15 percent of the websites can be downloaded within 10 seconds. The rest took longer time to access. Flashes and video files are available in 23 percent of the webpages whilst sound file is available only in 15 percent of the webpages. Meanwhile, 69 percent of these webpage do have graphic images available and 31 percent of them have only text made available.

*Presentation – Convenience and Usability* Website aesthetics are important but not as important as website



TABLE 5. Presentation aspects of internet reporting by the zakat institutions

No	Items	Perlis	Kedah	Penang	Perak	Selangor	WP	N. Sembilan	Melaka	Pahang	Terengganu	Kelantan	Sarawak	Sabah	%
Panel E: Timeliness of Information															
A1	Current media release or news	√	√	√	√	√	√	√	√	√	√	√	√	√	100
A2	Haul	√	√	√	-	-	√	√	√	√	√	√	√	√	85
A3	Current Nisab (Gold price)	√	√	√	√	√	√	√	√	√	√	√	√	√	100
A4	Financial Calendar	-	-	-	√	√	√	√	-	-	-	-	-	-	31
A5	Pages indicate the latest update	√	√	√	√	√	√	√	√	√	√	-	√	√	92
A6	Monthly or weekly zakat collection	-	-	√	√	√	√	√	-	-	-	√	-	√	54
Panel F: Technological Features															
B1	Web loading time – 10 seconds	-	-	-	-	√	√	-	-	-	-	-	-	-	15
B2	Text only alternative available	√	-	-	√	-	-	√	-	-	-	√	-	-	31
B3	Hyperlink inside the annual report	-	-	-	-	-	-	-	-	-	-	-	-	-	0
B4	Financial data in processable format	-	-	-	-	-	-	-	-	-	-	-	-	-	0
B5	Annual report in pdf format	-	-	-	-	-	-	-	-	-	-	-	-	-	0
B6	Annual report in HTML format	-	-	-	-	-	-	-	-	-	-	-	-	-	0
B7	Graphic images	-	√	√	-	√	√	-	√	√	√	-	√	√	69
B8	Flashes	-	-	-	-	√	-	-	-	-	-	-	√	√	23
B9	Sound files	-	-	-	-	-	-	-	-	-	-	-	√	√	15
B10	Video files	-	-	-	-	√	-	-	-	-	-	-	√	√	23
Panel G: Convenience and Usability															
C1	Help Site	√	√	√	-	√	√	√	-	√	√	√	√	√	85
C2	Table of Content Site Map	-	√	√	-	-	-	-	-	-	-	-	-	-	15
C3	Pull down menu#	√	√	√	-	√	√	√	√	√	√	√	√	√	92
C4	Mouse hover trigger*	-	-	-	-	-	√	√	√	-	√	-	-	√	38
C5	Internal search engine	-	-	-	-	√	√	-	-	-	-	-	-	√	23
C6	Next previous buttons to navigate sequentially	-	√	-	-	√	-	√	-	√	√	-	√	√	54
C7	Direct email hyperlink	-	-	-	-	-	√	√	√	√	-	√	√	√	54
C8	Online investors information order service	-	-	-	-	-	-	√	√	-	-	-	-	-	15

Note: # Also called a drop-down menu, a menu of commands or options that appears when you select an item with a mouse.

\* A mouse hover triggers an event when a user places a mouse over a designated area, causes events such as pop-up windows or description boxes.

convenience and usability. User-friendly websites capture attention and provide readers with helpful information and convert browsers into customers. A webpage that looks pretty but lacks substance is a waste of time. Users tend to focus more on the content provided.

Using the parameter listed in Panel G of Table 5, the data shows that 85 percent of these websites have Help Site and 92 percent of them have pull down menu available. However, only 15 percent show their table of contents. Mouse hoover menu is available in 38 percent of them. A slight majority (i.e. 53 percent) allow direct email hyperlink to their customer relation office to facilitate visitors. "Next" and "Previous" buttons are also available in 54 percent of the sites. Meanwhile, internal search engine is only available in 23 percent and online investor information can be accessed in only 15 percent of these zakat institutions.

## SUMMARY AND CONCLUSIONS

The purpose of this study is to document the extent of financial and non-financial reporting practices by zakat institutions in Malaysia and to identify the types of information reported by these institutions through the internet as well as their presentation aspects. Using a checklist adapted from similar studies in commercial sectors, this study records that all the 14 zakat institutions in Malaysia do have their websites available, although one of them is under construction thus inaccessible. These websites are available as standalone website for fully-corporatised and semi-corporatised zakat management groups, while for those under SIRC management, their websites can be accessed via a link from the SIRC's website.

In terms of content, all of the institutions provide information regarding zakat collection and distribution

and disclose current press release and *nisab* information on their webpages. Other types of reporting, however, are still relatively less accessible. Financial information and social responsibility disclosure need to be made available to the public especially to those who are interested in observing these zakat institutions' performances as they are dealing with public money and funds. Efforts and attention are also needed in giving information with regards to corporate governance. Their code of ethics and other relevant information need to be disclosed to gain public trust and to enhance their reputation. It is good to observe that these zakat institutions gained reasonable score in terms of timeliness of their information. However, few institutions still need to look seriously into this matter.

Presentation wise, these zakat institutions' websites should be more user-friendly and apply more technological features available to make them easily accessible, allowing them to transmit data more securely, with shorter time to download. Besides, technology can help the websites to appear more attractive and informative.

Overall, the findings of the study have offered some implications towards theory and practice. For the theoretical aspects, this study contributes in terms of research to fill knowledge gaps and add to body of knowledge of reporting through the Internet by non-profit organisations. The results of this study provide a preliminary understanding about internet reporting through the websites of zakat institutions, and to the researcher's knowledge, until now, there is still no study that has been conducted on this issue for these institutions.

As for practical implications, in relation to voluntary internet reporting, until now there is still no legislation or guidelines that govern financial reporting via the Internet. Thus, it is hope that the findings would provide basic evidence for policy makers and regulators to generate a standard relating to the current practices of financial reporting through Internet especially for the non-profit organisations. The findings from this study offer information for stakeholders such as governments, professional accounting bodies and accounting standards institutions in determining the design of a set of guidelines, rules and accounting policies of the internet which can be adopted to meet the needs of users of financial reports. It seeks to create uniformity in internet reporting practices over the Internet.

Like other studies, this study is not without limitations. First, the analyses are only descriptive in nature due to the small sample size. Thus, the relationship of factors involved, if any, cannot be established. Second, the establishment of the checklist items is largely based on prior studies investigating the similar issue in the commercial sector. Attempts to adapt the checklist may not cover all relevant information. Due to the dynamic nature of internet reporting, the checklist might represent a general overview of internet reporting by zakat institutions at the time of data collection only, and thus, should not be taken as conclusive evidence.

In view of the above limitations, future research should focus on the establishment of checklist items that are relevant to the zakat reporting and non-profit organisations. Meanwhile, some statistical tests can be performed in order to assess if the level of reporting among zakat institutions is different statistically. Interviews can also be undertaken to identify the perception of management and users on the importance of internet reporting by zakat institutions.

#### ENDNOTE

- <sup>1</sup> Ethical considerations are important elements that top leadership should keep a close eye on.

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