

ZAKAT DISCLOSURE BY MALAYSIAN *SHARIAH*-COMPLIANT COMPANIES

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Abstract: *This paper focuses on the zakat disclosure practices of Islamic business organizations in Malaysia. Accordingly, this paper aims to examine the level of zakat disclosure among Malaysian Shariah-compliant companies. Sample data was selectively gathered from the annual reports of 82 Shariah-compliant companies in Malaysia for the year 2011. Descriptive analysis is used to examine the level of zakat disclosure of these companies. The result shows that Shariah-compliant companies have not disclose the zakat information as required by Islamic law (Shariah). This finding indicates the critical needs for Securities Commission and Malaysian government to focus on this issue since Shariah-compliant companies are accountable to disclose their zakat information as to perform their accountability to Allah SWT and to portray their Islamic image to the entire ummah as well. This paper concludes by suggesting recommendation that government, regulators and the policy makers have to take urgent action in order to encourage the Shariah-compliant companies to disclose the zakat information to the public.*

Keywords: Zakat, Shariah-Compliant Companies, Islamic Law (Shariah).

INTRODUCTION

Islamic accounting principles relate not only to measurement and valuation, but also recording, interpreting, presentation and disclosure of accounting information. Hence, Islam has more influence in accounting at the level of disclosure (financial reporting) rather than measurement, as the basic accounting measurement techniques are fundamentally similar to the conventional system (Baydoun & Willett, 1997). With the resurgence of Islam, Muslim decision-makers were expecting Islamic business organizations to disclose more information that would help them fulfil their spiritual needs. Since *zakat* is the third pillars of Islam which come after *shahadah* and *solat*, therefore, this current study motivated to examine to what extent the *Shariah*-compliant companies had disclosed *zakat* information in their annual reports. *Shariah*-compliant companies can be described as the companies that conduct activities which are not contrary to the Islamic principles. *Shariah*-compliant securities list was first introduced in June 1997 by the *Shariah* Advisory Council (SAC) of the Securities Commission (SC). The list is updated twice a year, in May and November for every year. Until now, as at 27 May 2019 list

released by SC, there are about 689 *Shariah*-compliant securities which are currently listed on Bursa Malaysia. This figure is expected to be increased in future due to rapid growth in Islamic Capital Market (ICM) development in Malaysia.

LITERATURE REVIEW

Accountability and full disclosure

In Islam, disclosure practices comprises of two general requirements: (1) full disclosure; and, (2) social accountability (Othman *et. al.*, 2009). The objective of disclosure practices in Islam is to serve the public interest. Hence, the Islamic social accountability is related to the principle of full disclosure – where the public has the right to know whether the business organization was compliant with Islamic principles (Baydoun & Willett, 1997); to show how the operations of the business organization had affected the public; and, to help Muslims to perform their religious duties (Maali *et. al.*, 2006).

It is the fact that the financial reporting based on Islamic perspective was more detailed than the conventional disclosure requirements. With the fast growth in ICM, the Islamic business organization such as *Shariah*-compliant companies were expected to present a religious dimension to their financial statement disclosures for the benefit of Muslim stakeholders. In discussing this issue, Haniffa & Hudaib (2001) once have emphasized that Islamic business organizations should fully disclose how it was performing its duties and obligations according to the *Shariah*. One of the example is to disclose *zakat* information to the public. Meaning that the Islamic business organizations were expected to disclose any *zakat* obligations they ought to pay and have already paid as well as their social responsibility role, among others. According to Othman & Thani (2010), this *zakat* information disclosure is one of the important items in Islamic Social Reporting index.

Zakat information disclosure

Many past studies have been conducted to discuss on *zakat*. However, a large amount of these literature focus on *zakat* discussion in term of managing the collection, distributions expect and overall management of *zakat* fund (Taha, *et al.*, 2016). While, lack of studies examine the level of voluntary disclosure of *zakat* information to the public.

Before examine in depth on the *zakat* disclosure practices, it is important to understand the meaning and the concept of *zakat*. Literally, *zakat* can be defined as “a levy on Muslims whose wealth exceeds a certain specified minimum” (Sulaiman, 1998, p. 28). However, Bowen, (1993) further described *zakat* as an act of worship to *Allah SWT* which assists Muslim in the process of purifying wealth, cleansing their soul and mind as well as benefits themselves to others which also being highlighted as a good Muslim. Therefore, Muslims learn the beauty of sharing concept where the rich shares their wealth with the poor thus reduced the wealth inequality through *zakat* practices (Abu Bakar, 2007).

Although *zakat* is a religious obligation for all Muslims, however, there is a debate in the literature as to whether Islamic business organizations should pay it (Maali *et al.*, 2006). In this context, the Islamic Fiqh Academy has concluded that Islamic business organizations are not required to pay *zakat*, except when there is a requirement made by law or agreed by the shareholders of the company itself (Maali *et al.*, 2006). In the case of *Shariah*-compliant companies, there is no mandatory requirement by law for companies to pay *zakat*. However,

as the Islamic business organizations, *Shariah*-compliant companies should fully disclose the information in order to discharge their social accountability. Nevertheless, most of available literature focus only on *zakat* discussion in term of managing the collection, distributions aspect and overall management of *zakat* fund (Taha, *et al.*, 2016). While, lack of studies measure the level of voluntary disclosure of *zakat* information to the public. Hence, this current study aims to close this gap as to contribute to the field of the study.

Therefore, it is the purpose of this current study to measure the level of *zakat* disclosure by *Shariah*-compliant companies since as the Islamic business entities, these companies should fully disclose the Islamic value informations (like *zakat*), in order to discharge their social accountability to *Allah SWT* and to the public (*ummah*). Besides, the disclosure of Islamic information (*zakat*) is important since lack of this information will result in impairing in the judgment of Muslim decision makers and affecting their spiritual being adversely (Haniffa, 2002) and as the Islamic business organizations, these companies must prove that they are operating under *Shariah* law and principles.

METHODOLOGY

Research Design

To measure the extent of *zakat* disclosure, the content analysis method was used to measure the Islamic information disclosed in the annual reports of *Shariah*-compliant companies for the year 2011. Content analysis was chosen since it was claimed as the most commonly used method to examine the written material contained in the annual reports (Gray *et al.*, 1995; Harahap, 2003; Nik Ahmad *et al.*, 2003; Ousama & Fatima, 2006; Thompson & Zakaria, 2004). Whereby, the annual reports were chosen as the data sources since they are the most commonly used medium by companies to convey information to external users (Nuragheni, 2011).

Consistent with most previous disclosure studies (for example, Cooke, 1989; Azhar, 2001; Mohd Shatari *et al.*, 2004), this current study, however, used the approach of “scoring the items”, whereby the nominal score was used to record the absence (represented by “0”) or the presence (represented by “1”) of *zakat* item; including the existence of any related to *zakat* information such as method used to distribute the *zakat*, amount of *zakat* or beneficiaries of *zakat* distribution.

Sample

This current study used the disproportionate stratified random sampling procedure in order to identify 82 *Shariah*-compliant companies listed on the Main Market of Bursa Malaysia for 2011 as the sample size. A review of the annual reports of these companies was done as to examine the presence of the *zakat* disclosure items. The industry type for these companies is shown in Table 1:

Table 1. Background of the Companies (N = 82)

	Frequency (n)	Percentage (%)
Industry		
Consumer products	17	20.73
Industrial products	27	32.93
Construction	4	4.88
Trading/services	15	18.29
Properties	12	14.63
Plantation	5	6.10
Technology	2	2.44
Total	82	100.00

Data in Table 1 shows that those 82 *Shariah*-compliant companies were selected from six (6) various industries: (1) Consumer products; (2) Industrial products; (3) Construction; (4) Trading/services; (5) Properties; (6) Plantation; and, (7) Technology. Majority (32.93%) of the samples are from industrial products industry. Followed by consumer products and trading/services companies with 20.73% and 18.29% respectively. Properties companies is 14.63% of the whole. While least companies are come from plantation (6.10%), construction (4.88%) and technology (2.44%).

FINDINGS AND DISCUSSION

Descriptive statistics through content analysis was used to describe the presence or absence of the *zakat* items in the annual reports of *Shariah*-compliant companies for the year 2011. A dichotomous procedure is used whereby a code of “1” is assigned if the *zakat* item is reported, with a code of “0” assigned if the item is not disclosed. This method has been widely employed by previous researchers when examining items contained within annual reports (Al-Shammari, 2011; Othman & Thani, 2010; Ousama & Fatima, 2010).

To ensure the relevance of the measure, the annual report was first read carefully in its entirety prior to scoring the *zakat* disclosure. This enabled the scorer to gain a better understanding of the *Shariah*-compliant company’s operations and environment before concluding whether or not unreported items clearly applied to the company. Results found have been illustrated as in Table 2.

Table 2. Level of Zakat Disclosure in the Annual Reports of *Shariah*-Compliant Companies

	No. of company disclosed	Percentage of disclosure (%)
Industry		
Consumer products	0	0.00
Industrial products	0	0.00
Construction	0	0.00
Trading/services	0	0.00
Properties	0	0.00
Plantation	0	0.00
Technology	0	0.00
Total	0	0.00

As shown in Table 2, this current study found that there were absent disclosure of any *zakat* related information in the *Shariah*-compliant companies' annual reports for the year 2011. Meaning that, from 82 *Shariah*-compliant companies, none of them was disclosed *zakat* related information in their 2011 annual reports. This was indicative of a critical lack of transparency in terms of disclosure with respect to Islamic values for *zakat* item. This result is similar to Che Adam & Lode (2015) and Abdul Rahman (2002) which demonstrated a lack of providing information about *zakat* practices which is the users of annual reports need.

There are several factors which may contribute to this finding, such as:

1. The Islamic information is a voluntary disclosure in nature. Hence, low awareness among *Shariah*-compliant companies management to disclose *zakat* information; less disclosure, less publication cost.
2. Most of the board members are non-muslim, hence, may contribute to the low awareness towards *zakat* disclosure practices.
3. Poor development and regulatory pressure since only CSR information (including: community, workplace, employee, environment) has been made as mandatory by the Malaysian government with effect from December 31, 2007, while Islamic information disclosure remains as voluntary.
4. The Islamic information disclosure has been found insignificant in Malaysia business organizations since Islamic social disclosure is not considered as strategic to fulfill the national and international requirements (Mamun, Shaikh & Easmin, 2017).

CONCLUSION

The main objective of this study was to examine the extent of *zakat* information disclosure in the annual reports by *Shariah*-compliant companies listed in Bursa Malaysia for the year 2011. Based on the descriptive statistics, it could be concluded that the extent of *zakat* information was zero, thus indicating an absent of transparency in the disclosure with respect to Islamic values (which is linked to *zakat*) despite the fact that the concept of social accountability under Islam is related to the principle of full disclosure. The concept of social accountability which is closely related to the principle of full disclosure has not been practiced by Malaysian *Shariah*-compliant companies. Hence, the objectives of social justice, equitability and maintenance of welfare, which are the primary characteristics of a Muslim society in this country will continue remaining as a dream. Findings of this current study confirmed the results found by Che Azmi, *et al.* (2016) and Ousama & Fatima (2010) which have reported a low level of voluntary disclosure practices among Malaysian *Shariah*-compliant companies.

RECOMMENDATIONS

The finding of this current study served as the wake-up call for the government, regulators and the policy makers to take urgent actions in order to encourage the *Shariah*-compliant companies to disclose the *zakat* information to the public. This is not only because *zakat* has become an important part in Muslim economy, but also because as the Islamic business organizations, *Shariah*-compliant companies are expected to operate in line with Islamic law and principles (Aman, 2016; Haniffa & Hudaib, 2002). Therefore, this current study suggests that the policy makers should make the Islamic information (including *zakat*) as a mandatory

information which need to be disclosed by *Shariah*-compliant companies particularly in their annual reports.

FUTURE RESEARCH

This study had focused on the annual reports to measure the extent *zakat* information disclosure practices by the selected *Shariah*-compliant companies. Future research could be extended to include other forms of disclosure such as interim reports, press releases, stock market announcements and internet financial reporting.

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