ZAKAT DISCLOSURE BY MALAYSIAN SHARIAH-COMPLIANT COMPANIES

Faidzulaini Binti Muhammad1*
Prof. Dato’ Dr. Mustafa Bin Mohd Hanefah2

1* Tunku Puteri Intan Safinaz School of Accountancy (TISSA-UUM), College of Business, Universiti Utara Malaysia, 06010, Sintok, Kedah.
2 Faculty of Economic and Muamalat, Universiti Sains Islam Malaysia, Bandar Baru Nilai, 71800, Nilai, Negeri Sembilan.
*Corresponding author (Email: faidzulainimuhammad@gmail.com)
Received: 27 August 2019, Processed: 14 October 2019, Published: 1 March 2020

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:
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>
<thead>
<tr>
<th>Industry</th>
<th>No. of company disclosed</th>
<th>Percentage of disclosure (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer products</td>
<td>0</td>
<td>0.00</td>
</tr>
<tr>
<td>Industrial products</td>
<td>0</td>
<td>0.00</td>
</tr>
<tr>
<td>Construction</td>
<td>0</td>
<td>0.00</td>
</tr>
<tr>
<td>Trading/services</td>
<td>0</td>
<td>0.00</td>
</tr>
<tr>
<td>Properties</td>
<td>0</td>
<td>0.00</td>
</tr>
<tr>
<td>Plantation</td>
<td>0</td>
<td>0.00</td>
</tr>
<tr>
<td>Technology</td>
<td>0</td>
<td>0.00</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>0</strong></td>
<td><strong>0.00</strong></td>
</tr>
</tbody>
</table>
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.

**ACKNOWLEDGMENTS**

We would like to thank the Universiti Utara Malaysia and Universiti Sains Islam Malaysia for the research supports.

**REFERENCES**


Che Adam, Noriah and Lode, Nor Asma (2015) “The communication of Islamic information by Shariah-compliant companies in Malaysia”, *Advanced Science Letters*, 21(6), 2081-2084. ISSN 19366612.


