



## **Assessing The Extent of Disclosure and Information Asymmetry in Malaysian Zakat Institutions**

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### **ABSTRACT**

The issue of accountability has attracted numerous debates in academic literature across the globe, including Religious Non-Profit Organisations (RNPOs), which in this case are zakat institutions (ZIs). As revealed in previous literature, zakat payers (ZPs) and zakat recipients (ZRs) have discussed the accountability and transparency of zakat institutions (ZIs) in disclosing zakat disbursement information. Since ZIs fall under the jurisdiction of various Malaysian states, this study believes that the issue has emerged due to inconsistencies in disclosure practices among zakat institutions. This study has gained insight into the accountability of zakat institutions (ZIs) when reporting zakat activities via annual reports. It also examined the existence of information asymmetries between agency parties realising such inconsistencies and the limited number of studies in this area. The findings from the semi-structured interviews showed that ZIs' accountability level was still unsatisfactory, as revealed by individual zakat payers (IZPs) and ZRs. Among the issues highlighted were inadequate information and the availability and accessibility of information. It was also found that there was asymmetrical information among agency parties. The study's results have enriched the existing corpus of knowledge on accountability from an Islamic perspective and agency theory in the context of zakat disclosure.

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## INTRODUCTION

In the context of government agencies in Malaysia, one specific part of State Islamic Religious Councils (SIRCS), i.e., zakat institutions (ZIs), has received substantial attention and faced pressure from the public, especially the Muslim community. The Muslim community nowadays demands transparent information concerning how zakat money is spent, as numerous local media reports have criticised ZIs in terms of their accountability in managing their institutions (Masruki et al., 2018; Ghazali et al., 2013; Roslan, 2011; Utusan Malaysia, 2011; Hassan, 2017; Audrey, 2017). ZIs' accountability and transparency when reporting their activities have been questioned further following wide media coverage concerning issues such as the misuse of zakat funds by zakat employees, the incidence of poverty, and failure in preparing financial statements (Mohd Noor et al., 2015; Saad, 2011). Moreover, Wahid et al. (2010) revealed that limited information supplied by ZIs, especially regarding zakat disbursement, had led ZPs to pay disbursements directly to beneficiaries. Ahmad Shahir (2007) also discovered that only 10% to 15% of ZPs in Selangor paid zakat through formal zakat agencies/office(s). Based on Wilayah Persekutuan's 2015 statistics concerning zakat collection and disbursement involving more than 800,000 people in the Muslim community found that only 166,787 of them paid zakat to PPZ-MAIWP (Nurkhamimi et al., 2017). These arguments and discussions have indirectly impaired the image of ZIs, which are supposed to portray high accountability and good governance practices when discharging their duties. This situation has indirectly indicated insufficient dissemination of information to the public and an information gap among users. This study assumed that the issue has arisen due to inconsistencies in disclosure practices among the institutions. Hence, accountability and its relation with reporting zakat information must be explored further (Taha et al., 2015).

Previous literature concerning zakat in Malaysia has highlighted various issues regarding zakat administration, such as; zakat collection, disbursement, governance and human resources mechanisms. However, some empirical studies have also discussed the area of reporting accountability, specifically in disclosure practices. It is important to examine the contents of their annual reports to ensure ZIs' accountability in reporting their activities (Masruki et al., 2018). Hence, the present study assessed ZIs' accountability in reporting their activities, which was achieved by exploring the opinions of agency parties [zakat managers (ZMs), ZPs, and ZRs] on the extent of accountability disclosure practices in Malaysian ZIs' annual reports. This study also examined the existence of any information asymmetry between agency parties.

The history of the zakat administration system has had long-term implications on the current reporting practices of Malaysian ZIs. ZIs' independence in designing their state enactments led to variations in practices between the three different structures of ZIs, which has inevitably contributed to multiple management weaknesses. Moreover, the enactment of zakat in Malaysia is governed by state councils, which results in different enforcement policies for each state (Mokhtar et al., 2018). Hazali (2016) suggested that ZIs should be classified into three organisational structures. However, these structures have created difficulties in categorising ZIs in Malaysia, as they are religious institutions with their own specified ZPs and ZRs/*asnaf* and non-profit-making motives.

This study believed exploring these aspects was essential to better understanding the ZIs disclosure field. Most importantly, it has contributed to the existing corpus of knowledge on ZIs' accountability disclosure practices by considering agency parties' opinions and ZI structures.

## LITERATURE REVIEW

Alias (2008) pointed out that even though ZIs have been around for the past 70 years, their total collections did not indicate encouraging results until the early 1990s. Initiatives, such as institutionalising bodies acting as SIRCS' subsidiaries for performing zakat collection, were undertaken, starting with Pusat Pungutan Zakat Wilayah Persekutuan (1991), Lembaga Zakat Selangor (1994), Pusat Urus Zakat Pulau Pinang (1994), Pusat Kutipan Zakat Pahang (1995), Pusat Zakat Negeri Sembilan (1998), and Pusat Zakat Melaka (2001) (Alias, 2008; Nordin, 2008; Ab Rahman et al., 2012). In addition, the government's action on the tax rebate issue received the full support of the Fatwa Council (Nordin, 2008) when the Fatwa Committee adopted the application of tax rebates in zakat payments according to the Income Tax Act 1967. Even though the collection of zakat payments has improved, several significant issues have arisen. As explained by Alias (2008), the past

performance of ZIs was unsatisfactory, especially in managing their activities, until the early 1990s, when actions were taken to; coordinate, upgrade, improve, and modernise the zakat collection management system. The weak performance was believed to have been due to the ineffective collection and disbursement system. These weaknesses have indirectly caused doubts and distrust regarding ZIs' accountability in managing zakat activities. Even though these issues were raised in previous literature, discussions about reporting are still lacking. Hence, several issues about the collection system concerning reporting have been discussed, such as data availability, unofficial agencies<sup>1</sup>, and human resource management.

First, Nik Hassan (1987) presented information on zakat collections, which is not always available from ZIs. Although some ZIs disclose it, it is still ambiguous and incomplete. Similarly, Taha et al. (2017a) revealed that disclosure of zakat collection and disbursement information in annual reports was limited and inconsistent; in fact, some states do not provide such information for public viewing.

Meanwhile, the issue of zakat payments via unofficial agencies was highlighted by several studies, such as; Ghazali et al. (1990), Wahid et al. (2009), and Wahid et al. (2010). Ghazali et al. (1990) found that the *zakat-ul-Fitr* collection was always higher than *zakat-ul-Maal*, especially in; Perlis, Pahang, Negeri Sembilan, Johor, and Selangor. Several reasons have led to this preference: dissatisfaction and doubts concerning the capability of the SIRC's in administering zakat disbursement, SIRC's inefficiency in collection efforts and the inconvenience of paying zakat at SIRC's. Hence, Ahmad Razimi et al. (2016) asserted that ZIs should be creative by introducing new approaches so that zakat can be collected with minimum effort.

In addition, issues such as the lack of staffing and expertise are important factors to be considered (see Ghazali et al., 1990; Nordin, 2008; Alias, 2008; Ahmad, 2008; Sheikh Obid et al., 2011; Ahmad Razimi et al., 2016; Masruki and Azizan, 2017). It has been believed that there has been; a lack of training in special areas, a shortage of qualified professional organisational leadership, and a shortage of senior ZMs in planning and organising administrative matters. Furthermore, leaders have lacked the necessary competencies to manage institutions since most are graduates of religious-based studies; who are familiar with religious matters but lack expertise in actual practice in the administration of; trade, business, and zakat issues. From the reporting and disclosure perspective, there has been a shortage of qualified and trained personnel in the accounting field, i.e., accounting officers, to manage financial matters more systematically (Ahmad, 1990).

In the past, money has often remained idle and not invested (Ghazali et al., 1990). Wahid et al. (2010) revealed that, on average, about 26% of zakat money was undistributed yearly. Taha, Zulkifli, Embong and Mohd Nor (2017c) explained that many ZRs were dissatisfied with the current disbursement system, especially regarding excess zakat collection. They revealed that in 2007 and 2008, one ZI recorded excesses or surpluses of RM84.62 million and RM54.01 million, respectively (Taha et al., 2017a). The reasons for the large amounts in the account were not explained or disclosed. A further problem noted by Nordin (2008) was the disagreement among states and the lack of clear decisions regarding whether non-disbursed money could be invested. In reality, this issue depended on the individual state's fatwa decisions to ensure that the zakat money accruing to the eight groups of recipients was disbursed as soon as possible. This situation follows Prophet Muhammad's (SAW) practice, where only a small amount of money should be left in the public treasury as a precautionary reserve (Kahf, 1999). To ensure their accountability has been discharged and to avoid any misunderstanding among the public, ZIs must report and disclose the balance of zakat money in their annual reports.

Moreover, Ab Rahman et al. (2012), Ahmad Razimi et al. (2016), and Ahmad (2008) addressed the issue of inefficiency in the disbursement of zakat money. Zakat money is disbursed to eligible recipients based on certain criteria set by the authorities<sup>2</sup>. However, institutions have received complaints since they have not disclosed details of the money reaching the targeted group of recipients to the public. Hence, to ensure that the information is disseminated and that they are accountable for their duties, ZIs must be transparent by disclosing and publicising their transactions. One way of communicating this information is via reporting it in ZIs' annual reports.

Regarding the dissatisfied performance of ZIs, Wahid et al. (2009) revealed that most ZPs were dissatisfied with the current zakat disbursement system, including those that have corporatised their operations. Although there are encouraging signs of improvement in certain aspects, inefficient disbursement methods and the lack of information regarding zakat disbursement have affected the decision of ZPs when paying zakat (Wahid et al., 2010). Wahid et al. (2010) further stated that the respective institutions had not disbursed money

<sup>1</sup> Other channels not provided by the State Islamic religious councils (SIRC's).

<sup>2</sup> Each state *fatwa* council.

fairly to all ZRs, including the; *Ar-Riqaab*, *Ibnus-Sabeel*, and *Al-Gharimeen*. This outcome was supported by Nik Hassan (1987), who affirmed that certain states did not even allocate zakat money for certain *asnaf*, such as the *Ar-Riqaab*. In fact, Ahmad Razimi et al. (2016) and Johari et al. (2015) noted that the increase in poverty level, as highlighted in other literature, indicated the inefficiency of the zakat disbursement process. This result was due to the issue of bureaucracy in zakat application procedures that have prolonged the zakat disbursement process. The present study realised that previous literature had discussed the perceptions of ZPs and ZRs on ZIs' performance. However, little attention has been given to exploring the opinions of agency parties concerning the accountability of ZIs in disclosing their zakat activities and examining the existence of information gaps between agency parties.

Underpinning theories describing disclosure studies have been widely discussed in much accounting literature. This study realised that these well-known theories are surrounded by the conventional environment (western perspective). One of which is agency theory and for the corporate sector, studies such as (Ismail et al., 2022; Ni et al., 2018) have employed agency theory. Concerning ZIs, the accountability issue and the existence of asymmetric information in ZIs motivated the present study to choose an appropriate theory best suited to zakat disclosure.

Hence, their applicability in the present study would probably be questioned and debated. As the objective of zakat is to attain socioeconomic justice, compounded with the absence of literature on the disclosure of zakat, careful investigations ensured that the framework could explain the whole concept of the study. Thus, the accountability concept from an Islamic perspective concerning zakat disclosure and agency theory from the zakat perspective was considered.

Mohamed Ibrahim (2000) explained that the Islamic view offered a dual worldview concerning the trusteeship of Allah's resources and accountability in this world and the afterlife. In the absence of these values, the western view encompasses the core values of a materialistic worldview comprising elements of; secularism, democratic consumerism, and utilitarianism. Nevertheless, Muslim scholars have started to examine and discuss the areas of reporting and disclosure when exploring the accountability of religious institutions, together with the theories and concepts used, especially by SIRC and ZIs. Examples have included; the Accountability concept applied by Mohd Zain (2005), the Stewardship theory, Islamic accountability theory, and Stakeholders theory applied by Htay and Salman (2014), Stakeholders theory and accountability concept applied by Shafie (2015) and Accountability from an Islamic perspective and Stakeholders theory applied by Masruki et al. (2016). Similarly, this study applied accountability from an Islamic perspective to provide a further understanding of the accountability of ZIs when disclosing zakat information.

The Islamic Accountability concept proposed by Mohamed Ibrahim (2000) further discussed dual accountability from ZIs' (represented by ZMs) perspective. As far as ZIs are concerned, eligible payers and rightful recipients of zakat funds are mentioned in verses 267 of Surah al-Baqarah and 60 of Surah at-Taubah. These verses order ZMs to collect and disburse zakat funds according to the relevant Islamic teachings. Concerning this study, *amil* (collectors/zakat managers) have been appointed by the government as intermediaries between ZPs and ZRs. Since the obligation to pay and disburse, zakat has been ordained by Allah (s.w.t) as well as based on the practices by the Prophet (s.a.w), ZMs are accountable to Allah (s.w.t) when managing the funds accordingly, i.e., to discharge their primary onus of accountability towards Allah (s.w.t).

Furthermore, secondary accountability creates a contract between the *amil*/ZMs and the ZPs and ZRs. In the case of ZIs, ZMs are responsible for collecting zakat from ZPs and then disbursing it to ZRs. Even though the present study agreed with the dual concept, as Mohamed Ibrahim (2000) suggested, there was a slight change concerning ZIs regarding the contracting parties involved and how these parties were accountable to each other.

Figure 1 shows how the current study applied the accountability concept. (A) describes the primary accountability of ZIs (represented by ZMs), who are ultimately accountable to Allah (s.w.t). Since this is not perceivable by senses, a dotted line with an upward arrow was used to reflect the flow of the idea. Accountability of ZIs towards ZPs and ZRs was classified under secondary accountability (B). These were then further explained by the two solid lines of downward arrows (C and D). During the reign of the Prophet (s.a.w), the collection and disbursement of zakat were administered by state-appointed agents (workers) (Kahf, 1999; Ahmad Nadzri et al., 2012; Saad and Abdullah, 2013). Thus, in this context, ZIs, as appointed agents (by the government), were accountable for collecting zakat on behalf of ZPs (trustees). They must also search and find qualified ZRs and disburse the prescribed amounts to them (payers have entrusted them to distribute funds to

qualified recipients). As such, accountability can be observed and is perceptible by the senses. Thus, two solid lines (C and D) were drawn.

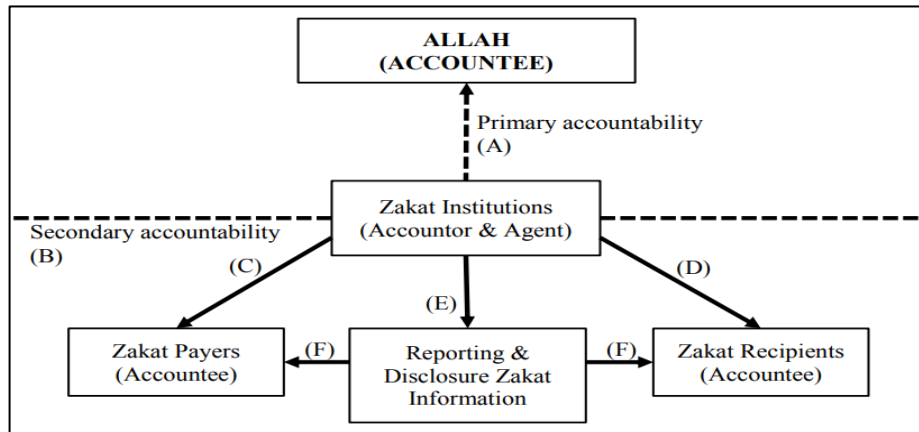


Figure 1 Islamic Accountability Concept in the context of Zakat Institutions

In discharging their accountability, ZIs must prepare a report concerning their zakat activities, represented by a solid line with a downward arrow (E). Finally, ZIs must disclose information by reporting to ZPs and ZRs, and the secondary accountability cycle is then complete. The two solid lines reflect this with rightward and leftward arrows (F). Nevertheless, only secondary accountability was within the scope of the present study, as the study agreed with the assertion by Mohamed Ibrahim (2000), i.e., the accountability relationship with Allah (s.w.t) or primary accountability was imperceptible or transcendent. Thus, it provided a limit and framed the discussion on only the secondary accountability of ZIs.

Despite the issue of discussing ZIs' accountability, other issues raised by the public and local media, as evidenced by past studies, have indicated agency problems. Such issues included; non-disbursement of zakat balances or surpluses, trust, deficiency in zakat information, and other related management issues. Thus, this study considered agency theory to explain these issues since it highlights agency problems and provides control and monitoring mechanisms required for solving them.

An Agency relationship exists when one party (the principal) hires another (agent) to perform a task (Subramaniam, 2006, p.55). Contracts are written between these contracting parties to mitigate agency costs resulting from the separation of control and ownership between the agent (managers) and principal (owners). The present study admits that agency theory has contributed significantly to providing a better understanding of contractual relationships, how such relationships eventually create agency problems and ways to minimise and control conflicts between the contracting parties (Shamsuddin and Ismail, 2013). Nevertheless, they highlighted that it lacked practical relevance to other various organisations. Given this loophole, recent attempts to examine agency theory concerning the principal-agent relationship from an Islamic perspective have been initiated, principally concerning Islamic financial institutions (see Safieddine, 2009; Shamsuddin and Ismail, 2013; Zulkifli, 2010; Anggraeni, 2016). Such discussions have not only been within the purview of Islamic financial institutions. They have also caught the attention of Muslim scholars, such as: Syawaluddin (2017) and Syawaluddin et al. (2016), who reviewed how this theory could explain agency problems in the zakat field, especially regarding ZIs' efficiency and governance.

Despite that, this study observed that discussions on agency theory from the zakat disclosure perspective had been seldom exposed and debated. This study assumed this was due to different motives since the objective of zakat is to attain socioeconomic justice compounded with the assumptions/conflicts in agency relationships that arise from the conventional view. The suitability of this theory in the zakat environment could be further argued. Therefore, this study has identified four important contentious areas that need to be critically examined when discussing the suitability of agency theory in the zakat disclosure context. The areas were: the assumptions underlying agency theory itself (conflicts), the role of ZIs both as *amil* (one of the ZRs) and administrators of the zakat affairs (agent), the classification of ZPs and ZRs as principal in the zakat disclosure context, and the capability of ZRs to utilise ZIs' annual reports.

Firstly, the assumptions underlying the agency theory have led to three conflicts from an agency relationship perspective: conflicts of goals, behavioural issues, and information asymmetries. Based on these conflicts, it has been assumed that the contracting parties have; self-interest or intend to maximise their utility towards achieving their goals, the agent has opportunistic behaviour, and the principals face problems with asymmetrical information. From an Islamic perspective, the agency relationship is not built based on self-interest per se but with care and love that continuously rewards; material usefulness, sharing, and meaning of life (Anggraeni, 2016). In explaining the term 'self-interest' from an Islamic view, this study noticed that Furqani (2015) had provided a valuable contribution. The author gave new insight and proposed key concepts and terminologies that explained an individual's relationship with other beings, according to the Islamic worldview (Qur'an, past literature from mainstream economics and Islam), including self-interest (*huquq*). Furqani (2015) stated that the concept of self-interest (*huquq*) was based on a holistic and integrated self-view, which concerned individual interests and the interests of society, which was in line with the objective of zakat. In applying this in the zakat context, the role of ZIs (represented by ZMs), ZPs, and ZRs as contracting parties were further examined. The authors critically examined the key terms of self-interest (conventional) compared with the new key concept of '*huquq*' (Islamic terminology). For ZIs with dual roles, their obligation as agents is to collect as much zakat money as possible (in the total amount collected and the number of payers). To fulfil society's rights, they must also disburse as much as possible (in the amount disbursed and the number of recipients).

Conversely, as a principal, ZIs have a self-right over one-eighth of the zakat money (as one of the ZRs/*asnaf*) and have to use the money righteously in financing zakat operations. Whereas ZPs are obliged to pay zakat (to receive rewards and Allah's blessings in this world and the afterlife) and have the right to know whether the money has been channelled to and received by qualified *asnaf*. Finally, ZRs have the right to receive money from ZIs (as appointed agents) and have to spend the money righteously to meet society's interests. Overall, all these groups have their own self-rights/obligations and society's rights that must be fulfilled to ensure that socioeconomic justice is achieved. Thus, in this context, Islam has introduced a dual entity in the form of holistic and integrated self-views to ensure the rights and obligations to others/society are fulfilled.

Another assumption that underlies agency theory is the agent's opportunistic behaviours. In the zakat context, the suitability of this assumption has been debatable. As this is a religious obligation framed according to the Qur'an and hadith, details of eligible ZPs, the eight categories of *asnaf*, and the disbursement allocation (one-eighth) have been stated and accompanied by clear guidance. In other words, the opportunity for ZMs to prioritise decisions regarding zakat activities has been less applicable. This situation is because the decisions made by them as agents to collect and disburse zakat to the eight eligible ZRs have been mentioned in the Qur'an and hadith and approved by the State Fatwa Council or Majlis Fatwa Negeri.

In discharging their accountability, ZIs are responsible for providing information to both ZPs and ZRs regarding their decisions. However, another issue has come to light regarding the lack of information disclosure to both parties, which causes asymmetric information between the parties involved. Previous studies' findings have provided evidence of information asymmetry conflicts between contracting parties, such as; insufficient information being published relating to disbursement information, the overall content of ZIs' annual reports, and the level of disclosure practices being below a satisfactory level. Indeed, it has caused ambiguity and confusion to principals on whether ZIs are the party having an information advantage and having done their best to achieve the objectives of zakat.

The second critical area that should be further analysed is the role of ZIs as *amil* and Administrators. Concerning this study, ZIs in Malaysia are considered agents for ZPs and ZRs (principals), who allow institutions to act on their behalf. This result means that ZPs entrust ZIs to collect from them as ZIs are regarded as the *amil* (the collector) appointed by the government. Simultaneously, ZIs are also responsible for disbursing zakat money to the eight categories of *asnaf*. ZRs give their consent to ZIs as having the authority to manage the money and make decisions related to the disbursement of zakat to the eight groups of recipients, which include ZIs themselves as the *amil* (collector). This study believes that even though ZIs are considered one of the ZRs/*asnaf*, by being the *amil*, they act on behalf of the ZPs and the ZRs when administering zakat money. The portion of the zakat money allocated for the *amil* is meant to finance operations that ensure that zakat money is available to other groups of ZRs, mainly determined by the ZIs (via the State Fatwa Council or Majlis Fatwa Negeri). In this case, it shows that ZIs act as agents and principals. In certain agency models, there can be multiple agents and/or principals; in fact, some agents can be both a principal and an agent (Lambert, 2001). With this in mind, the present study advocated that agency theory was suitable and applicable to this research

The third area was the classification of ZPs and ZRs as principals. agency theory states that a pure agency relationship is between shareholders (owner), i.e., the principal, and the managers, i.e., the agent (Jensen and Meckling, 1976). Lambert (2001, p.6) further mentioned that the principal is the party that is expected to; supply or raise the capital, bear the risks, and construct incentives, whereas the agent is required to; complete tasks, make decisions on behalf of the principal, and bear risks. As alluded to at the beginning of this section, this research has regarded both ZPs and ZRs as principals. This situation shows that ZPs are the party that pays zakat through ZIs, which indirectly indicates that it contributes/supplies money to institutions and bears the risks from any actions or decisions made by ZMs.

Meanwhile, even though ZRs do not supply any form of money/capital, they bear risks, which means that ZRs can also be affected by any decisions made by ZIs. Most importantly, this is a revelation from Allah (s.w.t). Therefore, the rights of the *asnaf* should be handled with *amanah* and trust by ZIs, as any decision they make will affect ZRs directly or indirectly in the short or long term. To achieve the objectives of zakat, the main actors, namely; the ZPs and, most importantly, the ZRs in this context, play essential roles. Hence, they are also regarded as principals. Based on these premises, this study concluded that ZPs and ZRs were the principals in this agency relationship.

Lastly is the issue of annual reports prepared by ZIs. To examine the performance, actions, and inactions of ZIs, the annual reports of ZIs act as the vehicle that delivers the necessary information. Such reports are considered a monitoring mechanism to ensure that the money has been managed righteously by the ZIs. Nevertheless, regarding annual reports, the credibility of both principals, ZPs and ZRs, in understanding the information published by ZIs shall not be underestimated, especially the ZRs. The public perceives ZRs, especially extremely poor Muslims (al-Masakeen) and the poor (Fuqara') categories, as extremely poor in every sense, not only in wealth but also in education. Nevertheless, in the current economic scenario in Malaysia, the poor are no longer classified as poor in wealth, but according to today's reality, they are rich in other types of wealth, such as knowledge, and some are even highly educated. This situation has been evidenced by the reports in mass media, where those who live in big cities suffer from higher living costs<sup>3</sup> and are known as "*Miskin Bandar*"<sup>4</sup>.

Nevertheless, this problem has not only been faced by the lower-income group but also the middle-class group, for instance, those who have just graduated from higher institutions of learning<sup>5</sup>. The above statistics from a local newspaper indirectly portrayed the current scenario prevalent in the social life of the ummah, which requires a new resolution to avail the community and reduce the poverty level, especially among those living in cities. Figure 2 describes how the agency relationship between agents and principals has been translated into the zakat context, which is discussed next.

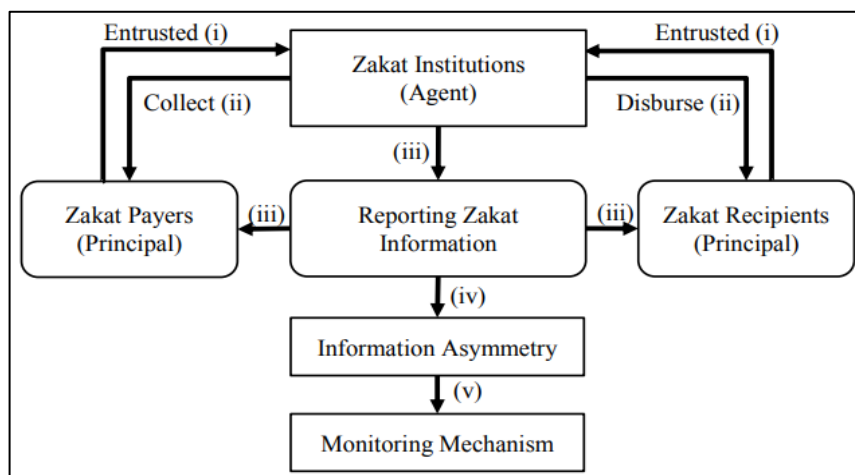


Figure 2 Agency Theory in the context of Zakat Institutions and its monitoring mechanisms

<sup>3</sup> Currently in Malaysia, those who are living in big cities, especially in Kuala Lumpur and Pulau Pinang face a dilemma to survive, as the cost of living is becoming higher and household income is not enough to cover their living costs (Rohami, 2013).

<sup>4</sup> It is clearly evident from the statistics released by the Economic Planning Unit (EPU). Four years ago, it portrayed that the gross monthly income of households in urban areas soared to RM4,705 from RM3,357 in the previous ten years (Murshid, 2014).

<sup>5</sup> For example, the young graduates are burdened with the loan known as Perbadanan Tabung Pendidikan Tinggi Nasional (PTPTN) or the National Higher Education Money Corporation. Starting a new life and struggling to live in big cities, such burden cannot be avoided. How would it be in next ten years? This category of people, also known as "*miskin bandar*" or urban poor need to be taken into consideration.

Figure 2 depicts agency theory applied in the zakat disclosure context. The two solid lines or upward arrows with tips going rightward and leftward, represented by (i), indicate the responsibilities of ZIs. ZPs and ZRs entrust them to perform their duties. It continues with (ii), which describes ZIs' initiatives for collecting zakat from ZPs and then disbursing the money to ZRs. These information flows are represented by the two solid lines of rightward and leftward arrows that corner downwards. Next, zakat information regarding ZIs' activities must be reported to both groups. However, the public has raised the lack of zakat information, which has led to the problem of information asymmetry in this agency relationship (represented by iii and iv). Therefore, it was suggested that reporting zakat information via disclosures should be used as a monitoring mechanism to control the agency problem, represented by (v).

Based on Figures 1 and 2 above, the accountability issue and information asymmetries raised earlier directed the present study to employ Islamic Accountability and Agency Theory as its theoretical foundation.

## RESEARCH METHODOLOGY

Previous studies have provided evidence for deciding on appropriate research methods. In this context, the reasons for limited studies, coupled with the absence of theories concerning zakat disclosure areas, have raised the need for a study to explore the reality of the current phenomenon offered by qualitative research design. Thus, the basic interpretive qualitative research mode was employed, involving semi-structured interviews, as it offered freedom for the researcher to probe and explore within a predetermined research area, as Hoepfl (1997) described. The purposive sampling method was chosen since it allowed the collection of information from members of the sample population who were conveniently available to provide the desired information and also considered specific target groups (Sekaran, 2000). The participants involved consisted of three groups, namely ZPs (represented by corporate and individual payers), ZMs (represented by zakat managers/officers), and ZRs (those who have received zakat from ZIs). Participants were selected based on certain criteria. For instance, corporate zakat payers (CZPs) comprised companies that paid zakat in the Klang Valley area. Meanwhile, individual zakat payers (IZPs) paid zakat, knew accounting and zakat studies. ZMs comprised zakat officers with vast experience in the zakat and accounting fields and were involved in preparing the internal and external financial reports of ZIs. The last group was the ZRs, which consisted of individuals, including NGOs involved in ZRs activities. Based on these criteria, this study believed that these groups could convey information related to disclosure practices in ZIs' annual reports. The summary of the details of the participants is shown in Table 1 below.

Table 1 Summary of Participants' Details

Panel Group	Panel Description/Position	Approach\Number of interviewees	of
Corporate zakat payers (CZPs)	<ul style="list-style-type: none"> <li>Involved in the decision making process</li> <li>Position: <i>Both are Group Chief Financial Officer of Malaysian listed companies</i></li> </ul>	Face-to-face interview: 2 participants	
Zakat payers: Individual zakat payers (Academic scholars)	<ul style="list-style-type: none"> <li>Scholars in; Islamic accounting, zakat accounting, and auditing</li> <li>Scholars in religious organisations, zakat studies, disclosure by Non-Profit Organisations (NPOs) and auditing.</li> <li><u>Position:</u> <ul style="list-style-type: none"> <li><i>Professor (1 participant)</i></li> <li><i>Associate Professor (1 participant)</i></li> <li><i>Assistant Professor (2 participants)</i></li> </ul> </li> </ul>	Face-to-face interviews: 4 participants	
Zakat officers	<ul style="list-style-type: none"> <li>Responsible for and experienced in ZIs' decision-making process (from the three structures of ZIs).</li> <li>Top management level Positions: <ul style="list-style-type: none"> <li><i>Chief Executive Officer (1 participant)</i></li> <li><i>Chief Finance Officer (1 participant)</i></li> <li><i>Senior Accountant (1 participant)</i></li> </ul> </li> </ul>	Face-to-face interviews: 3 participants	
Zakat recipients	Recommended by the SIRC/zakat institutions (from the three structures of ZIs). One of the ZRs was an NGO's representative. He had working experience in the banking sector and was active in zakat activities.	Face-to-face interviews: 3 participants.	
<b>Total</b>			<b>12</b>



Kvale (1996) suggested that interview research should involve approximately 5 to 25 interviews carried out by a researcher. In addition, Guest et al. (2006) suggested that the saturation concept played a role when determining sample sizes using the purposive sampling method. This suggestion meant that "sufficient data to account for all aspects of the phenomenon had been obtained" (Morse et al., 2002, p.18). This point was achieved when it was no longer possible to create a new code for the data (Guest et al., 2006). As far as the present study was concerned, before selecting the participants, there were 40 and 10 potential participants, each from corporate and individual ZPs, respectively, fourteen from ZMs, and six from ZRs. Twelve participants agreed to participate in interview sessions, comprising six ZPs, three ZMs and three ZRs.

Before the interviews were carried out, a pilot interview was conducted, and an academic staff member experienced in the research field agreed to participate. Further comments and suggestions were considered, whereby some questions needed to be rephrased and rearranged according to the disclosure issue being discussed before it was ready. Then, the face-to-face interviews were conducted individually with each participant, and no follow-up interviews were conducted after this session. In ensuring the trustworthiness of the qualitative research findings, a rigorous approach in carrying out this study was a vital element (Merriam, 2009). It must be valid, reliable, and conducted ethically to make the findings worth applying and generalising (Merriam, 2002). Thus, a peer review or debriefing was conducted. This outcome ensured that the study resonated with people other than the researcher alone (Creswell, 2009; Lincoln and Guba, 1985). An academic familiar with the given topic and experienced in qualitative research agreed to participate. Any questions raised were then discussed, and suggestions from the reviewer were considered to enhance the study's credibility.

Concerning the reliability of the study, Creswell (2009) proposed inter-coder agreement as one of the procedures for ensuring that research findings reach a decent level of reliability. Hence, this study appointed a coder, an academic researcher who was proficient in qualitative research and had a basic background in the field of zakat. A list of themes and codes was given, and a comparison was made. A high degree of agreement was achieved, indicating that the data coding was reliable. The context of generalisability refers to the ability of a study to generalise findings across different settings. However, in a qualitative study, the research approach is based on different assumptions and worldviews, and in a limited sense, it intends to understand phenomena in context-specific settings and not generalise the findings to; individuals, sites, or places outside of those being studied (Hoepfl, 1997; Creswell, 2009; Merriam, 2009). The present study employed peer review checking procedures and inter-coder agreements. These procedures ensured that issues regarding; reliability, validity, and generalisability would be minimised, whereby the findings could be applied to a greater range of; readers, researchers or other interested parties in this research.

Even though the procedures for establishing; reliability, validity, and generalisability were adhered to, the researcher's values and ethics are paramount (Merriam, 2009). A few strategies were implemented to ensure that the research was conducted ethically, such as; providing a consent form, requesting permission to audio-record the interviews, and promising not to disclose the names and organisations represented in the research report. After all the procedures were conducted, data from the interviews were analysed using the content analysis method.

## RESULTS

Twenty-three codes were identified, eleven sub-themes were formed, and six themes were established to examine the disclosure and accountability of ZIs' annual reports.

### **Theme One: Inadequate Information**

The analysis of the interview data led to the emergence of the first theme, inadequate information, based on two identified sub-themes, namely, 'minimal information' and 'issues in reporting'.

### **Minimal information**

As far as the disclosures were concerned, the participants indicated shortcomings in ZIs' annual reports, as highlighted by one of the participants below:

*“...people like me get involved in research activities, and I realise and notice the issues discussed in the zakat area. Nevertheless, from a public point of view, not many people are aware and know about it. Do they know how much zakat money has been collected and disbursed? Besides, at month or year-end, do they know the balance or excess of zakat money that has not been disbursed?”*

(IZP-04)

Taha et al. (2017a) also highlighted similar findings, whereby insufficient information disclosure by ZIs compounded with the issue of secrecy and confidentiality in disclosing zakat information had resulted in limited zakat information being disclosed for public viewing.

### **Issues in reporting**

Apart from claiming that zakat information is still lacking, another participant raised her opinion that the way the information was reported warranted further attention as this led to the issue of reporting. Likewise, Masruki and Azizan (2017) and Taha et al. (2017a) revealed that the lack of reporting guidelines and difficulties faced in preparing annual reports were the causes of this issue.

### **Theme Two: Adequate Information**

ZMs and CZPs mostly raised the second theme from the identified codes. The sub-themes identified were ‘detailed information has been disclosed’ and ‘the trust issue’.

### **Detailed information has been disclosed**

Under this theme, participants represented by the ZMs viewed information disclosed in the annual reports as satisfactory. For instance, one ZM remarked:

*“Quite detailed, especially on recipients/asnaf information, we generally keep pace/updating it in terms of information” (ZM-01). Another ZM supported this view by saying, “I think...the information disclosed in the annual report is adequate; however, I believe there is room for improvement.”*

(ZM-03)

Taha et al. (2017a) shared this view and stated that ZMs generally perceived the public were satisfied with their services in providing the zakat information.

### **Trust**

The next sub-theme established based on the opinion of CZPs gave a slightly different view from the IZPs:

*“I never paid much attention to ZIs. From my standpoint, money had left/ gone out the door; our goal is to ensure we fulfil our corporate responsibility of paying zakat. Once we pay zakat, we have fulfilled our obligation... How the ZIs disbursed the money... we put trust in the institution, ...”*

(CZP-02)

This study observed that such findings came to light due to the three-eighths portion of the zakat payment payable to ZIs. The ZIs usually conduct a yearly meeting to report and discuss zakat information, especially on collection and disbursement. In other words, this creates trust and understanding among the CZPs regarding the activities, programmes, and other related matters conducted by ZIs.

### **Theme Three: Dissemination of Zakat Information**

In understanding the idea of accountability regarding current disclosure practices, constraints such as: accessibility and availability were vital.

#### **Accessibility and Availability of Zakat Information**

The sub-theme ‘accessibility’ was created due to IZPs' concerns about this issue, as only certain states published annual reports on their websites.

*“I noticed not much effort by ZIs to disclose zakat information to the public. Therefore, I would like to suggest looking through the issue of accessibility. Thus, then disclosure practices can be further improved...”*

(IZP-04)

In addition, since not all ZIs' annual reports are prepared and made publicly available, the ZPs brought up the issue of the availability of zakat information during the interviews:

*“Generally, my concern is more towards financial instead of non-financial information. However, it would be good if the annual reports covered financial and non-financial information that should be systematically available online with a priority on financial information with the amount and some disclosure information.”*

(IZP-01)

Moreover, the ZMs expressed a similar view on this issue, for instance:

*“...we admit that not everyone can access the annual reports. In the case of our ZI, we publish it on the website, but the problem...it is always delayed...The report is not published as soon as possible... it is a bit late. If you checked our website, the latest annual reports published were for 2013.”*

(ZM-01)

Ab Rahman et al. (2012), Ahmad (2008), and Muhammad Faris et al. (2015) highlighted a similar issue concerning the difficulties faced by the public in gaining access to zakat information. In short, the findings indicated that not all ZIs were committed to publishing their annual reports, and the present study assumed that this occurred due to the different structures of ZIs that eventually affected reporting and disclosure practices.

### **Theme Four: Organisational Structure of Zakat Institutions**

Under this theme, the related sub-themes were relevant to the ‘background of ZIs’ and ‘political involvement in ZIs' operations’.

### ***Background of the ZIs***

This theme revealed how structures influenced ZI's disclosure practices. As explained by one of the ZMs, "It depends on the way ZIs were established, and I perceive that the disclosure practices are adequate according to the structure of each state" (ZM-01). As a result, the information disclosed by ZIs has not been standardised in all states. There is no specific guideline or monitoring body to standardise the information disclosed by ZIs. This outcome was in line with Taha et al. (2015), who explained the reason for not issuing annual reports was due to ZIs' different practices since all matters about zakat fall under each state's jurisdiction.

### **Political Involvement**

ZIs, fall under state jurisdiction, which indirectly means that ZIs are not free from political influence, which has affected their reporting practices.

*"...about board composition, they must have clear guidelines and procedures concerning their board composition. What sort of educational background that ZIs need, but ...sorry to say sometimes too many politicians on boards will not reflect good outcomes, well... ZIs can at least have one political person, maybe [it] is good to have [a] political view as well but not so many. ZIs must have counter views representing the public, and most importantly, zakat as being Syariah matters. Hence, the chair should come from somebody that understand[s] Syariah's requirements."*

(CZP-02)

Similarly, Masruki and Azizan (2017) also mentioned that top management consisted of corporate personnel, state *mufti*, *fatwa* scholars, and top state government officials. The political agenda tended to affect reporting practices, especially when there was a politically affiliated member in the top management team.

### **Theme Five: Demand for Detailed Zakat Information**

Most of the ZPs and ZRs raised the same issue, especially regarding 'detailed information concerning disbursements' and 'the outcome of activities carried out by ZIs'.

### **Detailed information**

Regarding disbursement information, the participants suggested that ZIs should be more transparent when reporting such information.

*"... concerning information on zakat collection, I believe the information is sufficient. However, as for the disbursement part, the programme designed for the asnaf should be clearly stated and detail[ed] out in the report. Thus, the public will know and understand [the] types of expenses and details regarding activities ... especially the amount that ZIs have used."*

(ZR-02)

One ZP shared a similar view by stating:

*"... how much the amil keeps? ... how they use that portion to carry out their duties. Furthermore, it would be better if detailed information is disclosed in the annual report ..."*

(IZP-01)

This result was consistent with Taha et al. (2015), Taha et al. (2017c), Taha et al. (2017b), and Taha et al. (2017a), who found that surplus zakat collection was not disclosed in ZIs' annual reports, especially the *amil's* portion. Taha et al. (2017a) further revealed the absence of disclosure regarding the justifications for surplus zakat collection and the inability of ZIs to disburse at the end of the year.

### **Outcome of the Programmes**

Most ZPs were of the view that the programmes conducted for ZRs and, most importantly, the outcome of the zakat activities should be reported, as stated by one ZP:

*“I prefer to have detailed information on the non-financial information aspect ... This situation is because contributors/payers would be more interested to know the result of their contributions. The money has already [been] spent, right? ... but for what purpose? What are the list[s] of activities that have [been] carried out by [the] ZIs. These examples leave doubt concerning [the] reporting of zakat activities. Where the money goes to, and how is it being used? How effectively [are] ZIs using the money to disburse to ZRs.”*

(IZP-02)

Other than these, the issue of surplus funds from the zakat collection has been debated in past literature. The result of the interviews concerning this issue was explored further.

### **Theme Six: Issues Related to Non-Disbursement of Surplus Zakat Funds**

The ZIs collect millions of ringgit, especially in December, and they have to disburse to the ZRs as soon as possible. This study noted that most participants were aware of this issue during the discussions, and they suggested that ZIs should address the ‘timeliness issue’.

#### **Timeliness Issue**

ZIs, receive a large amount of zakat collection at the end of the year due to the tax rebates offered by the Inland Revenue Department (IRD) to IZPs. One ZP clarified, *“It is important, especially when it involves the collection of zakat money, that the ZIs should be more transparent in December since this is the period where ZPs pay zakat to enjoy the tax rebate ...”* (IZP-02). An IZP further discussed this issue:

The issue of surplus zakat money indicates that ZIs have limitations in handling this situation, as explained by one of the ZMs:

*“... through my experience, there is a process of audit that ZIs have to follow in term[s] of [the] documentation process etc., and on top of that, people prefer to pay at the end of the year to gain tax rebates and simultaneously for ZIs the excess money is to be used in case of an emergency like economic downfall and so forth ...”*

(ZM-03)

This view concurred with Taha et al. (2017a), who found that ZIs had to comply with an audit and certification process, affecting disbursing surplus zakat. It is recognised that the public needed concise and accurate information on this matter so that the issue would not be prolonged.

## **DISCUSSION**

As far as ZIs accountability was concerned, this study considered the results discouraging. This outcome was evidenced when most of the ZPs and ZRs, especially the IZPs, expressed their concerns that the information disclosed in the annual reports was still inadequate. They further expressed that the information was partial, and some vital issues concerning reporting required ZIs to take further action (refer to Theme One). They also raised the issues of the availability and accessibility of information (refer to Theme Three) and the structures of ZIs (refer to Theme Four). On the other hand, CZPs and ZMs had different opinions, as they were satisfied with the information provided by ZIs and trusted ZIs' management in managing their institutions (see Theme Two).

Similarly, ZMs opined that the zakat information disclosed in the annual reports fulfilled what the public wanted, albeit requiring periodical improvements (see Theme Two).

Concerning disbursement information, this study found that inadequate information was provided. Both ZPs and ZRs demanded ZIs to be more transparent in their reporting, particularly regarding disbursement in areas concerning activities and programmes for the ZRS/*asnaf*, where the disclosure of detailed information was requested (refer to Theme Five). This outcome was consistent with Taha et al. (2015), who revealed the need for ZIs to be transparent in providing information, including how the zakat money collected is spent and the percentage of each eligible *asnaf*, including the *amil's* portion. In addition, the issue concerning non-disbursement of the balance of zakat received a lot of comments since ZIs collect huge amounts of zakat every year. The concerns raised and poor disclosure concerning the justification for surplus zakat money were compounded by the absence of information on plans and strategies for utilising the available balance (refer to Theme Six). Given the criticisms made by ZPs and ZRs, this study found certain factors that ZIs need to clarify to the public. For example, since the ZMs highlighted that the ZIs must comply with audit and ISO certification requirements, ZIs must ensure that all the processes are documented and adhered to properly, which is time-consuming (refer to Theme Six). After all, this study believed that the difficulties faced by ZIs in ensuring that the surplus zakat money was disbursed righteously should be communicated to the public, especially to ZPs and ZRs. Henceforth, both parties, especially the ZPs and ZRs, will have a clearer idea concerning the actions taken and to be taken by ZIs.

Concerning asymmetrical information, this study found differences in opinions between ZMs, ZPs and ZRs. The results indicated that most of them, especially the IZPs, did not share the same understanding in explaining the current disclosure practices in ZIs' annual reports. It was evident from the above discussion that information asymmetry existed, as there were contradicting views when explaining ZIs' disclosure practices. Conversely, ZMs perceived that the zakat information disclosed in the annual reports was sufficient and met public expectations. Interestingly, the CZPs had a slightly different opinion. Unlike the IZPs, they did not regard ZIs' disclosure in their annual reports as a serious issue since trust had already been built.

Nevertheless, this study believed such a predicament existed due to the agreement between the CZPs and ZIs. The agreement is that the CZPs receive three-eighths of the zakat amount paid to the ZIs, which grants them (the companies that pay zakat) a right to disburse to their employees (who are eligible ZRs). On top of that, ZIs conduct yearly meetings with companies (CZPs) to report the total zakat collection and the amount disbursed. In other words, this study concluded that these companies were agents of ZIs, and information and activities were discussed openly between them, eventually creating trust.

However, such arrangements have been quite difficult to apply to IZPs. Thus, regarding the accountability and transparency of ZIs' annual reports, the present study believed that IZPs' opinions were more appropriate when discussing the information asymmetry issue between agency parties (ZMs and ZPs). Nevertheless, such differing opinions have resulted from several factors. First, not all states prepare annual reports, and those committed to preparing them provided only limited information. This situation has created doubts among ZPs and ZRs when trying to understand zakat information in the annual reports, which have not been standardised among the states. This finding was similar to that of Taha et al. (2015) and Taha et al. (2017a). Second, based on the structures of ZIs and zakat being a state matter, different structures have led to different ways of managing ZIs, and finally, different mindsets view the importance of issuing annual reports differently.

Consequently, not all states have prepared annual reports, as supported by Taha et al. (2015). Hence, it is fair to conclude that some ZIs have succeeded, and some have failed to demonstrate accountability and transparency in disclosing zakat information via their annual reports. These obstacles have indirectly influenced ZIs' disclosure practices. However, further debate is needed. Although these obstacles have restrained ZIs from progressing, efforts such as corporatisation by some states have resulted in new personnel being hired, especially from within industry, to join as board members/trustees or management team members. Many fresh ideas have been adduced, and new programmes and activities have been outlined consistent with new management styles. Such efforts might play a significant role in influencing disclosure practices.

Regarding the accountability concept from an Islamic perspective, this study believed that ZIs' accountability, concerning disclosures in annual reports, was still lacking and needed further improvement. Initiatives are required to fulfil the expectations of ZPs and ZRs to ensure that accountability is satisfactory. This is supported by a study conducted by Ghazali et al. (2013) who found a lack of accountability in the

reporting aspect of the ZIs. Therefore, it was concluded that ZIs still encountered accountability issues in reporting, which require attention and action by the relevant authorities.

Agency theory discusses problems created by agency relationships and the approaches to minimise and control problems between contracting parties. In this context, the agency parties are the ZMs (agent), ZPs (principal), and ZRs (principal). The information advantage held by one party (agent - ZMs) over other parties (ZPs and ZRs) leads to the agency problem, which is information asymmetry. In agency theory, results indicate that information asymmetry exists between agency parties. Referring to Theme One, most ZPs clearly stated that information disclosure in annual reports was insufficient and limited, in addition to issues related to reporting aspects.

Meanwhile, the ZRs' concerns were focused on disbursement, as details about it, especially the *amil's* portion and related activities, were not in the reports (refer to Theme Five). On the other hand, ZMs opined that the annual reports were adequate and the information disclosed satisfied the public's needs, although they agreed that some improvements were required, and this idea was discussed under Theme Two. It indicated contradictory opinions between the various contracting parties, such as the agents (ZMs) and principals (ZPs and ZRs), as described in agency theory. Thus, a monitoring mechanism is required to narrow the gap between these parties through disclosure. These findings were consistent with Htay and Salman (2014), who proposed that ZIs needed guidelines on financial information disclosures.

## CONCLUSION

It can be concluded that the accountability of ZIs in disclosing zakat information via their annual reports remains lacking and at a primitive stage, which does not demonstrate accountability. The findings revealed the existence of information asymmetry between the agency parties of ZIs. This result has enriched agency theory by explaining ZIs' disclosure practices in their annual reports. Upon reviewing the whole discussion, this research observed that the discussions suggested the need for further investigation into factors that could affect ZIs' reporting practices concerning their annual reports. The study also recommended the disclosure of other types of sources of information, such as; ZIs' websites, other reports such as; internal reports, pamphlets, and other independent reports published by ZIs, as the study only considered the annual reports and bulletins released by ZIs. The discharge of accountability through these mechanisms could provide additional evidence concerning the institution's reporting practices. Hence, to improve disclosure practices and discharge accountability, this study recommends that ZIs be centralised under one government body responsible solely for zakat matters and establish a monitoring body responsible for standardising ZI's reporting practices. It would ultimately provide a better understanding and clearer ideas on ZI's current disclosure practices.

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