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Preliminary Study on Website Disclosures for Sustainability Reporting of Islamic Religious Institutions

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Abstract

Public sector organizations play an essential role in supporting the government's commitment to sustainable development. These organizations are expected to disclose more social and environmental information than private companies due to public contracts. Malaysian State Islamic Religious Councils (SIRCs) is one of the government agencies responsible for distributing and disseminating adequate and accurate information to various stakeholders, especially the public. These SIRCs frequently organize sustainability-related activities as part of their corporate social responsibility agenda and have a vast potential to contribute by disseminating sustainability-related information on their websites. However, the extent of sustainability website reporting by the SIRCs remained largely unaddressed. Drawing from the literature, this preliminary study proposes a website disclosure index for sustainability reporting by the SIRCs in Malaysia. A content analysis on three SIRCs websites representing three regions in Malaysia have been performed. A total of sixty-seven disclosure items were used as indicators during the website content analysis. Key findings indicate that more effort needs to be initiated by SIRCs in supporting a unified digital reporting that promotes accountability and transparency among government agencies. Nevertheless, the proposed website disclosure index may assist in formulating policies to encourage the use of SIRCs' websites to report sustainability information to the public. This study provides valuable input in supporting the government's aspiration to develop future strategies for achieving Sustainability Development Goals (SDGs) and adds to the limited literature on the website sustainability reporting by the public sector. Future research may use a larger sample of SIRCs to validate the disclosure index proposed in this study.

Keywords: Sustainability Reporting, Website Disclosure, Content Analysis, Religious Institutions, Disclosure Index

Introduction

Sustainability reporting issues in the public sector has become a priority for many countries including Malaysia. The 12th Malaysian Plan reform in 2021, among others, focuses on “*strengthening fiscal governance to enhance public finance management*” and “*advancing green growth to enhance environmental sustainability*” (Economic Planning Unit (EPU), Prime Minister’s Department, 2021). Sustainability reporting in the public sector provides the government with an opportunity to show their commitment in addressing the social, economic and environmental challenges ahead (Rahim & Omar, 2017). Public sector organisations play an important role in supporting the government’s commitment towards sustainability development as it is expected to disclose more social and environmental information than private companies due to public contracts (Bilu et al., 2016).

In Malaysia, religious institutions within the public sector play a critical role in formulating strategies and implementing various economic, social and environmental programs in support of the sustainability agenda. In particular, the State Islamic Religious Council (SIRC) is the government agencies responsible for distributing and disseminating adequate and accurate information to various stakeholders including on sustainability-related information. SIRC is established in accordance with respective state legislation within the Islamic context, chaired by State Rulers in each state, as a Ruler is the Islamic religion’s spiritual leader. Pursuant to Article 74 of the Malaysian Federal Constitution, the Ruler of each state is accountable for all Islamic affairs based on Shariah law. Nevertheless, SIRC in each state handle and administer affairs relating to Muslim funds obtained from religious endowments (waqf), alms (zakat), and treasure (mal or inheritance) for societal benefit. Consequently, there is a need from providers of these funds, i.e., the public to access relevant information about the activities and programmes carried out by SIRC, for example the distribution of zakat (Masruki et al., 2018).

In line with the increasing call for government agencies to enhance accountability and transparency to the public, many agencies including the SIRC have resorted to web-based disclosure as a mode of information sharing. Website disclosure is an effective way of communicating sustainability-related information through the internet (Rahim & Omar, 2017). Despite the ease of using websites to disseminate information, little research on public-sector sustainability website reporting has been conducted in Malaysia. While studies such as Corina (2010); Corina et al (2014) examined sustainability website reporting among local authorities in Malaysia, studies on such reporting by SIRC have been largely ignored. Thus, although the role of SIRC in communicating sustainability related information to the public and its contribution to achieve national sustainability agenda is well acknowledged, the nature of information to be disclosed in websites is still unclear. Hence, this study intends to identify the disclosure index for SIRC websites by proposing a framework for a web-based sustainability index for religious institutions. Using a content analysis approach, the findings of this study identified the appropriate disclosure index to be used by the SIRC websites. These findings will provide valuable input in supporting the government’s aspiration to develop future strategies for achieving Sustainability Development Goals (SDGs) and will add to the existing literature on sustainability and the public sector in general.

Literature Review

Stakeholders Theory and Accountability Theory

The theoretical foundation for this study was developed with the support of both the accountability theory and the stakeholder theory. Accountability is “*the offering and*

demanding of reasons for conduct in which persons are compelled to explain and take responsibility for their acts" (Parker & Gould, 1999, p. 116). Based on the general perspective, the idea of accountability is one that was derived from the agency theory, where the agent (the accountant) is the one that is responsible for reporting their actions to the principal (Barton, 2006). As a result, this kind of connection is a sort of stewardship, in which the agent is responsible for supplying the principal with information to fulfil the principal's requirements about that information (Gray & Jenkins, 1993). Since the SIRC's are obligated to report to the public on the management and administration of Muslim wealth, such as waqf and zakat, it is crucial to understand to whom accountability is due and why accountability is required.

In Islam, there are two different kinds of accountability: the main accountability and the second accountability (Masruki et al., 2018). The most important accountability is the one that is owed to Allah, while the accountability that is owed to others, whether they be people or organisations, is the second type of accountability. Public accountability is more difficult to achieve in its most basic form than in the private sector since it involves a more diverse and extensive range of stakeholders (Gaia & Jones, 2017). As a result, the stakeholder theory is the preeminent and most useful theory in describing the practice of sustainability reporting among the public and commercial sectors (Meutia et al., 2019).

In the meantime, the stakeholder theory proposed that corporations have responsibilities toward non-shareholder groups with interests in addition to shareholders in the company (Freeman, 1984). As a result of this decision, the group of stakeholders was split into two categories: internal and external stakeholders. Individuals directly involved in the company's activities are referred to as "internal stakeholders," whereas those outside the organisation are referred to as "external stakeholders." Both groups were essential because they can either affect (internally) or be influenced (externally) by the accomplishment of an organisation's goals (Freeman, 1984). In the context of SIRC's, "internal stakeholders" refers to top officials, management, and support staff. On the other hand, "external stakeholders" refers to overseeing bodies, creditors of SIRC's, and the general public, which includes Malaysian Muslims in general, because the entire Muslim community is subject to the Islamic jurisdictions issued by the SIRC's (Masruki et al., 2018). Nevertheless, this study aims to fulfil the accountability of SIRC's as the sole trustees of Muslims' wealth. Hence the scope of this research focuses exclusively on the external stakeholders, the general public.

Web-based Sustainability Reporting

Reporting on sustainability includes information regarding economic, environmental, social, and governance performance. Specifically, it is a vehicle for evaluating the economic, environmental, and social impacts of an organization's ability to achieve sustainable development goals and manage its societal impacts. (Meutia et al., 2021; Global Reporting Initiative (GRI), 2004). The communication channels for sustainability reporting have transitioned from annual reports to standalone sustainability reports and, most recently, to web-based reporting (Mion & Loza Adauí 2019; Lodia, 2018). The dynamics of reporting are transformed by the use of modern information and communication technologies. Therefore, the web-based disclosure could extend the capabilities of traditional media through its interactive potential, enables communication with stakeholders rather than one directional reporting (Lodia, 2018; Corina, 2010, 2017).

Numerous researches have reported findings on the website sustainability reporting by corporations (Correia et al., 2021) non-profit organizations (Burgess et al., 2021) and governments (Nicolò et al., 2021; Gaia & Jones, 2020; Kassim et al., 2020). Environmental and

social information was disclosed less frequently than economic and customer-related data on the Portuguese mould companies' websites (Correia et al., 2021) while the companies with higher turnover and public listed companies disclose more sustainable development information on their websites (Carvalho et al., 2018). For non-profit organizations such as local sporting clubs, disclosure of sustainability information on their websites increased their values by achieving the clubs' objectives, hence increased their revenues with more sponsorship opportunities (Burgess et al., 2021).

Studies have shown that public sectors provide different information on the website compared to the private sectors, for example stakeholders' engagement and environmental awareness. According to Midin et al (2017) the public sector rarely discloses information about stakeholder engagement compared to the private sectors. The findings revealed that only 30 percent of stakeholder engagement items were disclosed on the websites of Malaysian local authorities, indicating a lack of transparency. On the other hand, environmental-related information become one of the prominent information demanded by the stakeholders. They called for more transparent organizational impacts on the natural environment and sustainability issues such as biodiversity loss, climate change and global warming (Kassim et al., 2020). In the UK, the information disclosed through web-based reporting on local biodiversity is rather fragmentary and does not allow the interested stakeholders to oversee a comprehensive view of the current status of the local biodiversity (Gaia & Jones, 2017). On the contrary, the Malaysian local councils took the initiative to disclose extensive environmental disclosure on their websites even in the absence of relevant statutory laws and regulations (Kassim et al., 2020).

The use of websites provides a strategic opportunity for the private and public sectors to leverage on their potential benefits, thereby expanding the quantity and variety of sustainability information produced. The development of ICT makes the process of preparing, uploading, and disseminating sustainability information more effective, less expensive, and capable of reaching a broader audience.

Web-based Sustainability Disclosure Index

Websites provides a platform for organizations to communicate their sustainable information due to its interactive reporting real-time data and immediate updates of events (Bilu et al., 2016; Darus et al., 2013). Malaysian states government websites have a vision and mission statement to represent organizational direction, purpose and goals, human resource organizational structure and target for each department (Ibrahim et al., 2022). They possess capacity for effective reporting of their activities if support through sufficient exposure and training reporting practices. Therefore, initiatives should be introduced to improve the web-based disclosure practices (Nair et al., 2022). The web-based disclosure which indexed the category of its function through website may ease the stakeholders to quickly access the information and would also increase accountability of the department.

Stakeholders have an interest in information about governmental entities and non-profit organization (Masruki et al., 2018). The disclosure index specifically for the SIRC in relevant to be used to meet the expectation of various stakeholders from the SIRC annual reports by integrating national, international reporting guidelines for SIRC and religious-based organization. The disclosure item categories based on item in financial statement (FS), strategic information (SI), non-financial performance (NFP), financial performance (FP) and corporate information (CI) (Masruki et al., 2016).

Reporting in Islamic Institutions

The Islamic religious institutions were established within the Muslim community for the purposes of managing Muslim's economic, alleviation of poverty, social welfare, education and health care services (Zain et al., 2014). In Malaysia, the Islamic religious affairs are administered by the State Islamic Religious Council (SIRC). The SIRC is responsible to advise the Head of Islamic Religion in all Islamic matters and manage Islamic wealth such as zakat, waqf, baitulmal and other Islamic funds (Mahadi et al., 2018; Zain et al., 2014). To discharge these responsibilities, the SIRC must report and disclose all financial and non-financial information to the relevant stakeholders whether in the financial statements (Abu Bakar et al., 2020) or in other medium such as SIRC's website.

The main objective of Islamic Reporting is to provide information regarding financial activities and performance of the religious institutions for certain period to assist users especially the stakeholders in making decisions (Abu Bakar et al., 2020). From Islamic perspective, there are three important criteria for Islamic reporting, which are: full disclosure; social accountability and transparency (AAOIFI, 2019; Baydon & Willett, 2000). The first criteria are full disclosure which requires Islamic religious institutions to disclose all relevant information which include environmental, economy, and social (GRI, 2021) correctly and fairly to safeguard the Muslim community interest. It is because the Muslim community has the right to know the operations and performance of the Islamic religious institutions (Abu Bakar et al., 2020).

The second criteria of Islamic reporting and disclosure is social accountability (AAOIFI, 2019). It refers to the accountability and responsibility of the Islamic religious institutions to present all financial and non-financial information fairly for the sake of ummah (Zain et al., 2014). The requirement for Muslims to uncover the truth is required to help the community to know the effect of a person or a business on its wellbeing. Muslims are responsible for their actions and must consider this responsibility towards the society because their actions will affect the society (Farook, 2007). The third criteria are transparency which requires the entities to ensure that all financial and non-financial information are presented in faithful representation and understandability (AAOIFI, 2019). The transparency may arise when there is adequate and appropriate disclosure (Abu Bakar et al., 2020). The information disclosed should contain all material information necessary to make them useful to the stakeholders regardless of whether the information is favourable or unfavourable to the image of the Islamic religious institutions (Farook, 2007; Abu Bakar et al., 2020).

Besides the three criteria mentioned above, Abu Bakar et al. (2020) suggested two additional disclosures by the SIRC i.e., statement of shariah compliance and the statement of SIRC's responsibilities towards baitulmal, zakat and waqf to enhance transparency and quality of the reporting.

Conceptual Framework

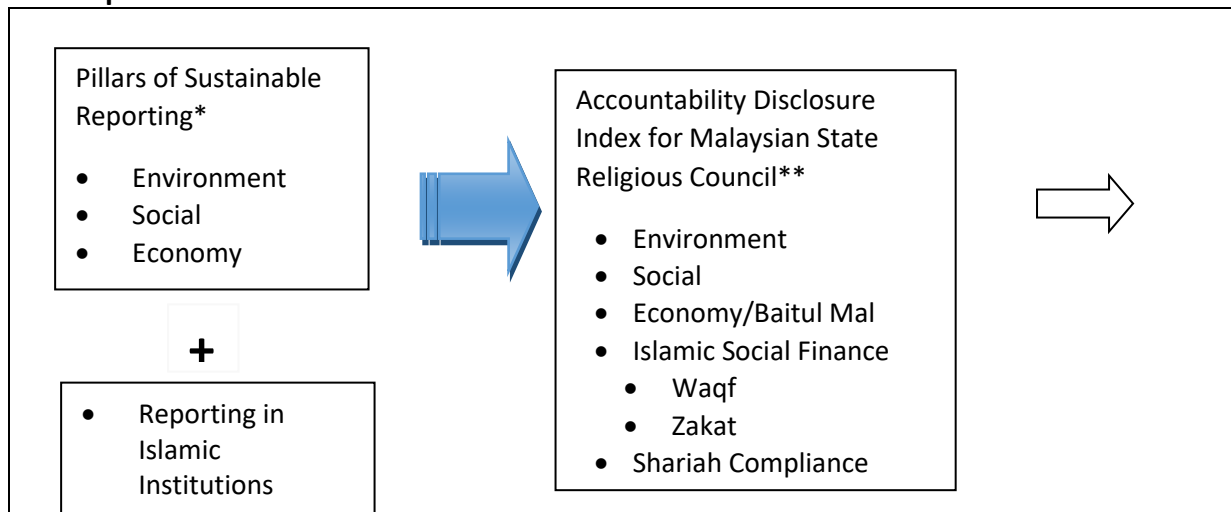


Figure 1: Developing the Islamic Religious Institution web-based Sustainability Reporting Framework

(Source: Adapted from Joseph, 2010* and Masruki, 2018**)

The conceptual framework for this study originated from two main studies; (Joseph, 2010; Masruki et al., 2016). While studies by Joseph (2010) emphasizes on web-based reporting for local authority website, Masruki et al (2018) study focused on reporting in the annual report of the state religious council. Adapting the findings from both studies, we have developed a framework as shown in Figure 1 above.

Methodology

This research is qualitative in nature and uses content analysis method as the main source of information by analysing websites. This method aims to analyse the suitable disclosure index for reporting by the SIRC's websites in Malaysia. The findings show sixty-seven (67) items of disclosure information, which were regarded by stakeholders relevant to be disclosed by the SIRC. Six categories of information disclosed in the website were analysed, namely, environment, economy, social, Islamic finance and shariah compliance disclosure. All these disclosure items should be disclosed in the SIRC websites, so as to meet the expectations of a wide range of stakeholders.

To achieve the objectives of the study, the following phases were conducted.

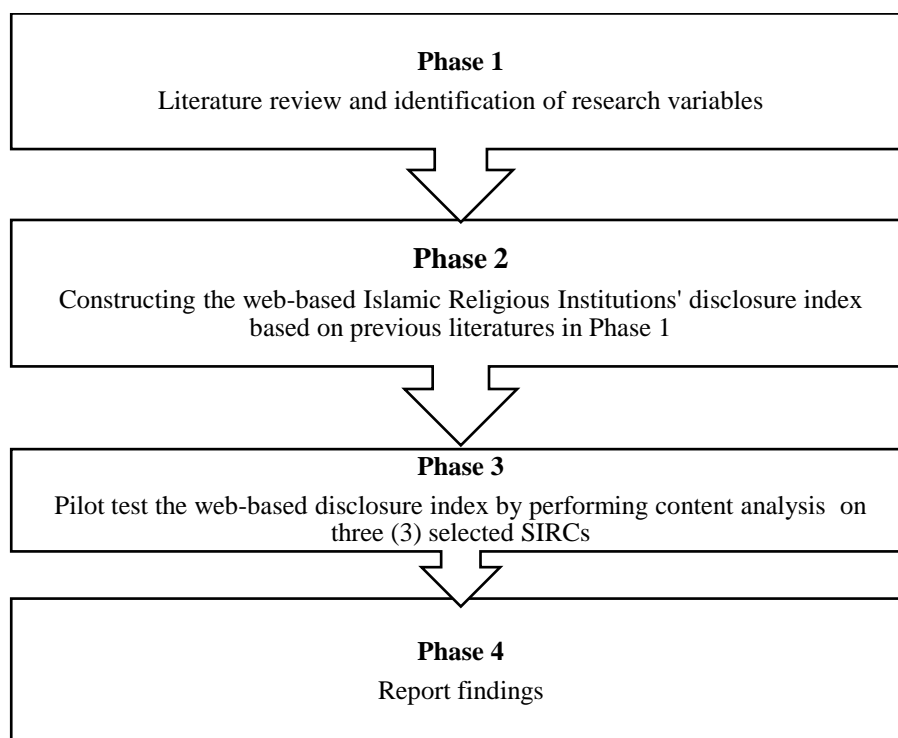


Figure 2: Phases of the research

The study begins with the first phase where we identify research variables through our reading from the prior literatures. In the second phase, items from the respective themes from the pillars of sustainability reporting such as environmental, social and economy are identified. Later, disclosure items for religious institutions particularly under the Islamic social finance theme such as waqf (endowment) and zakat (alm) besides other element of Baitul-mal (added to the Economy element) and Shariah compliant information identified from the literature review are also added to reflect the rigorous disclosure items to be considered as necessary disclosure items for religious institutions. It is in our view that the items can be grouped as shown in Table 1 as the Web-based Disclosure Index for Religious Institutions. In the third phase, a preliminary study was conducted (based on the disclosure index developed in the second phase) by analysing the content of three (3) selected SIRC's websites based on regions in Malaysia. Lastly the findings of the preliminary study are presented in the table below.

Table 1

Proposed Web-based disclosure index for Religious Institutions

THEMES	DISCLOSURE ITEMS	SOURCE
Environmental	<ul style="list-style-type: none"> • general statement • client charter • vision • missions • objective and function of environment. • information regarding environmental target, activities, and services • stakeholder's engagement on environmental issues • financial information • performance indicator • ethical policies • customer satisfaction • productivity • efficiency and effectiveness of the environmental department 	Joseph (2010); Masruki (2016); Joseph, Pilcher & Taplin (2014); Darus (2014)
Social	<ul style="list-style-type: none"> • general statement • client charter • vision, missions • objective, and function of social issues including sadaqah. • social targets • activities, and specific social services • stakeholder's engagement on social issues • financial information • performance indicator • ethical policies • customer satisfaction • productivity • efficiency, and • effectiveness of the social department 	Joseph (2010); Masruki (2016); Joseph, Pilcher & Taplin (2014); Darus (2014)
Economy/ mal	<ul style="list-style-type: none"> • general statement • client charter • vision • missions • objective and function of baitul-mal • baitul-mal's target, activities, and services 	Joseph (2010); Abu Bakar, Derashid, Sawandi, Abdul Wahab, Ku Ismail & Shaari (2020); Masruki (2016); Joseph, Pilcher & Taplin (2014); Darus (2014)

THEMES		DISCLOSURE ITEMS	SOURCE
		<ul style="list-style-type: none"> stakeholder's engagement on baitul-mal issues financial information performance indicator ethical policies customer satisfaction productivity, efficiency, and effectiveness of the baitul-mal department 	
Islamic Social Finance	Zakat	<ul style="list-style-type: none"> general statement client charter vision missions objective and function of zakat zakat's target, activities, and services stakeholder's engagement on zakat issues financial information performance indicator ethical policies customer satisfaction productivity efficiency, and effectiveness of the zakat department 	Joseph (2010); Abu Bakar, Derashid, Sawandi, Abdul Wahab, Ku Ismail & Shaari (2020); Masruki (2016); Joseph, Pilcher & Taplin (2014); Darus (2014)
	Waqf	<ul style="list-style-type: none"> general statement client charter vision missions objective and function of waqf waqf's target, activities, and services stakeholder's engagement on waqf issues financial information performance indicator ethical policies customer satisfaction productivity efficiency, and effectiveness of the waqf department 	Joseph (2010); Abu Bakar, Derashid, Sawandi, Abdul Wahab, Ku Ismail & Shaari (2020); Masruki (2016); Joseph, Pilcher & Taplin (2014); Darus (2014)
Shariah compliance		<ul style="list-style-type: none"> shariah compliance statement 	Joseph (2010); Abu Bakar, Derashid, Sawandi, Abdul

THEMES	DISCLOSURE ITEMS	SOURCE
		Wahab, Ku Ismail & Shaari (2020); Masruki (2016); Joseph, Pilcher & Taplin (2014); Darus (2014)

Findings

Demography of State Islamic Religious Councils (SIRCs)

This study selected three (3) SIRCs to represent each region in Malaysia. These regions consist of northern, central and southern regions denoted as SR1 (southern), SR2 (northern) and SR3 (central).

Presence of Environmental Information

Information about environmental concerns is the least disclosed among SIRCs. Of all three SIRC websites, only one reported on an environmental theme which is SR3 on the award they have received in relation to quality management system 5S practice. This shows that the selected SIRCs do not give much priority to disclosing environmentally related information despite the importance of the environment in achieving sustainability goals.

Presence of Economy Information

Our study views the economy element of sustainability web reporting in the form of Baitulmal. Baitulmal is the sub-entity within each SIRC that is responsible for the management of funds collected and distributed by the SIRCs. Hence, disclosure on economic concerns is being translated into information about Baitulmal activities. SR1's disclosure on economy subcategory was found to be the most extensive whereby SR1 reported 16 items as compared to SR2 and SR3 which reported 12 and 10 items respectively. While there are many similarities between SR1 and SR3 regarding the disclosure of Baitulmal, much less information is provided by SR2. In SR2's website, information on economy is mainly shared in the form of general statement, client charter, Baitulmal activities, services offered and feedback from stakeholders. In contrast, SR1 and SR3 disclose additional information on economy such as their vision, mission, objectives, strategies and targets to their website visitors. Unlike SR1 and SR3, SR2 does not have a Baitulmal department for economy matters. Only one SIRC, i.e., SR3 shares their award for their Baitulmal's operation achievement on their website.

Presence of Social Information

In this study, we segregated the disclosure of social elements into two broad categories. The first category refers to statements on general social issues while the second category focuses on Islamic social finance disclosure. Additionally, the Islamic social finance element is further categorized into waqf (endowment) and zakat (alms). This is because waqf and zakat represent the main social finance mechanism administered by the SIRCs.

Presence of general social elements information

General social activities carried out by SIRCs include financial aid to flood victims, Muslim reverts, orphans and single parents. All three websites are noted to have disclosed seven disclosure items in common on general social activities. These are general statement, strategy

on social issues, social targets, message from the chairman, social activities (such as education, sports recreation, and society contribution), social services and promotion on social issues. Social issues are also being acknowledged on the website by the leader of the SIRC, i.e., the chairman or managing director. Such practice is expected to enhance public trust in the SIRC since it improves the transparency of information disseminated.

Of the three SIRCs examined, only one (SR3) has a dedicated department addressing social issues. Even though SR1 does not have a specific department for social issues, SR1 combined its social department with other departments. For example, SR1 set up “Balai Islam” for Muslim reverts to provide assistance for them. Social disclosure of SR1 is found to be more extensive than the others since it also includes information pertaining to local employment, performance indicators, ethical operational policies, productivity, efficiency and effectiveness measures. This information is part of the client charter achievement disclosed by SR1. SR1 also shares information on their social targets particularly relating to Muslim reverts, customer complaints, property development for social purposes and rehabilitation equipment for the benefit of the Muslim communities.

Presence of Islamic Social Finance

Waqf Information

Findings revealed that SR1 disclosed the most information on waqf among the three SIRCs even though SR1 does not disclose any general statement or policy on waqf and no mention in the chairman’s statement on their website. Out of 19 items on waqf, SR1 reported 15 items whereas SR2 and SR3 reported 11 and 9 items respectively. Common waqf information disclosed on websites includes those mentioned in the client charters, quality management system, waqf department, waqf activities and services, as well as stakeholders’ feedback on waqf issues through forums and feedback channels. Only one SIRC (SR1) included performance targets and measures, both financial and non-financial, on their website. More specifically, SR1 discloses information on financial information, performance indicators, customer satisfaction measures, productivity, efficiency and effectiveness.

Zakat Information

All three websites disclosed information about zakat extensively. Common disclosure items among the three websites includes general statements and website headlines on their homepage. Additional zakat information is highlighted in separate sections of the websites through their client charter, mission, vision, core values, and part of continuous improvement programs within the quality management system. All three SIRCs have a specific zakat department within the organization, with information on zakat activities, services and financial information disclosed. However, not all SIRCs disclose their zakat relates strategies, targets, and performance measures such as output, efficiency and effectiveness. Only one SIRC (SR1) reports on such performance measures relating to zakat while SR2 and SR3 disclose minimal information on their productivity. Although SR3 does not disclose much zakat information in their website, the SIRC provides a link to another website specific for zakat operation.

Presence of Shariah Compliance Statement

Even though all SIRCs are recognized as religious institutions and thereby are obliged to undertake activities, record transactions, mitigate risks and all other matters that follow

Shariah law, there is an absence of clear disclosure of this declaration within two out of three websites examined. Only one SIRC (SR3) publicly announced their commitment to adhere to Shariah principles by way of Shariah Compliance statement on their website.

Discussion of Findings

Web-based reporting has become an innovative tool for the disclosure of sustainability information for the SIRCs. Not only that the web-based disclosure of sustainability information serves as a medium to meet stakeholders' needs of SIRCs, but it also helps promote accountability and transparency. This is consistent with Stefanescu (2021) who suggests that web-page disclosure can be regarded as an instrument of transparency. This evidence also provides support for Islamic institutions to start adopting highly transparent and accountable practices as suggested by (Mahadi et al., 2021). However, there is a clear lack of environmental information being disclosed in the websites of the SIRCs. This finding contradicts with Muhammad and Abd Aziz (2021) which noted that environmental reporting is crucial to be disclosed by Islamic organizations, such as the SIRCs. Given that environment is one of the key dimensions of sustainability, information pertaining to the environment should be given higher priority to be disclosed.

However, interestingly, the findings also revealed that SIRC's websites disclose social-related issues quite extensively. This is consistent with Nicolo et al. (2021) which noted that websites are effective tools in creating insights into the social issues. Apart from that, all SIRC's websites disclose relevant information on Islamic social finance particularly waqf and zakat. This shows attention is devoted by the SIRC's to sharing information on waqf and zakat that meet the expectations of their stakeholders, especially the zakat payers and waqf contributors. These disclosures also supported the notion by Niemann and Hoppe (2018) that sustainability reporting by government related agencies may benefit the management as it allows better communication to the stakeholders through information dissemination of its operation to its stakeholders.

Conclusion

This study aimed to identify the disclosure index for SIRC's websites by proposing a framework for a web-based sustainability index for religious institutions. The framework suggests that a unified web-based sustainability reporting of religious institutions should consist of environment, economy, social, Islamic social finance (waqf and zakat) and shariah compliance. Using a sample of three SIRC websites, this study presented preliminary findings on the nature of web-based disclosure of sustainability related information by the religious institutions. Our findings posit that more effort needs to be initiated by SIRC's in supporting a unified digital reporting that promotes accountability and transparency among government agencies. In particular, disclosure of environmental information which is critical for sustainability reporting is still lacking as shown by the selected SIRC's in this study. As this study is qualitative in nature and involves a small sample size, it lacks generalizability. Therefore, future study may be expanded to include all SIRC's in Malaysia.

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