

VALUE CREATION REPORTING FRAMEWORK: A CASE STUDY OF RELIGIOUS COUNCIL

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Abstract: *This paper explores the potential of a Value Creation Reporting Framework (VCRF) for religious councils in Malaysia. Traditionally, financial reporting prioritizes economic gains. However, a VCRF offers a more holistic perspective, encompassing the social and spiritual value religious councils create. This case study explores how these councils, entrusted with safeguarding religious matters and fostering community well-being, can leverage a VCRF to showcase their multifaceted impact. The paper outlines a potential framework specifically designed for Malaysian religious councils. It then analyzes the application of this framework, highlighting both the challenges and benefits associated with its implementation. By adopting a VCRF, religious councils can enhance transparency, improve decision-making, and demonstrate the true breadth of their contributions to Malaysian society. This research aims to contribute valuable insights for religious organizations seeking to go beyond traditional financial reporting and showcase the full spectrum of value they create.*

Background

Malaysia, located in Southeast Asia, is a multicultural and multireligious country. The population of 34.6 million is distributed across 13 states and 3 federal territories. The country has a federal parliamentary democracy and a constitutional monarchy following the Westminster system of the British. The Federal Constitution of Malaysia, established in 1957, proclaims Islam as the official religion of the federation while recognizing the presence and practice of other religions such as Buddhism, Christianity, and Hinduism. According to the latest census by the Department of Statistics Malaysia (DOSM) in 2020, Malaysia's population is comprised of 63.5% Muslims, followed by Buddhists (18.7%), Christians (9.1 %), Hindus (6.1%), and others (2.7%).

Federal Constitution of Malaysia proclaims separation of powers between federal and state governments. The state governments manage local matters such as Islamic law and land, while the federal government handles issues of wider national and international importance such as foreign affairs, defence, education, commerce and health. Both levels of government must work within the constitutional framework, ensuring a balance of power and governance across Malaysia. Table 1 below summarizes the separation of powers between federal and state government in Malaysia based on the Head of State, legislative, executive, and judiciary:



Table 1: Separation of Powers between Federal and State Government in Malaysia

	Federal	State
Head of State	YDP Agong (elected every 5 years from among the 9 Sultans)	Sultan (9) or Governor (4)
Legislative	National & international interest (eg: Foreign affairs, defense, citizenship, education, commerce, health etc.)	Local interest (eg: Islamic law , land, agricultural etc.)
Executive	Power over matters they can legislate on	
Judiciary	Concentrate on more complex legal matters, national disputes, and ensuring adherence to the Federal Constitution	Generally deal with everyday legal issues affecting the local population within a state

The administration of Islamic matters is mentioned in the 9th Schedule of the Federal Constitution. Specifically, the states’ jurisdiction over Islamic matters is confined to personal laws, the creation of offences, inheritance distribution, the establishment and procedures of the Syariah Court, and the determination of matters related to Islamic principles. Although the Federal Constitution grants state the authority to manage Islamic affairs, it does not restrict the Federal government from enacting laws on other Islamic matters, such as banking and Islamic education.

Key federal institutions involved in administering Islamic matters in Malaysia include the Conference of Rulers, the National Council of Islamic Affairs, and the National Fatwa Council. The Department of Islamic Development (JAKIM), under the Prime Minister’s Department, serves as the secretariat for the National Council of Islamic Affairs and the National Fatwa Council. Additionally, the Prime Minister’s Department oversees the Syariah Judiciary Department of Malaysia (JKSM) and the Department of Awqaf, Zakat, and Hajj of Malaysia (JAWHAR). The Attorney General’s Chambers (AGC) also plays a crucial role in drafting legislation related to Islamic matters.

Table 2: Administration of Islamic Matters in Malaysia

Conference of Rulers	
National Council of Islamic Affairs	
National Fatwa Committee	
Federal Islamic Religious Department under the PMO	State Islamic Religious Council (SIRC)
Department of Islamic Development Malaysia (JAKIM)	Islamic Religious Department
Shariah Judiciary Department of Malaysia (JKSM)	Department of Islamic Judiciary
Department of Awqaf, Zakat dan Haj (JAWHAR)	Department of *Mufti

Note: *a Muslim legal expert who is empowered to give rulings on religious matters

As shown in Table 2, the Conference of Rulers sits at the top of the Islamic administration structure, empowered by the Constitution. The Conference of Rulers has established two auxiliary bodies to support its Islamic affairs management: the National Council of Islamic Affairs, comprising Chief Ministers of the states; and the National Fatwa Committee, composed of state Muftis. Both councils include additional members appointed by the Conference of Rulers.

Federal and State Islamic Religious Departments coexist, but Federal Islamic Religious Departments do not possess legal authority over their State counterparts. Although the Federal Islamic Religious Department lacks legislative and executive powers over the states concerning Islamic administration, certain areas necessitate cooperation between the federal and state levels.

Role of State Islamic Religious Councils and Zakat Institutions

There are 14 State Islamic Religious Councils (SIRCs) in Malaysia. These councils are responsible for advising the Head of Islamic Religion in their respective states on all Islamic matters except for Islamic law and the administration of justice, which falls under the jurisdiction of the Shariah courts and muftis. One of the main functions of the SIRCs is to manage Islamic wealth, especially zakat, besides waqf, and other Islamic funds. This ensuring proper collection and distribution of these resources to support the community. Some SIRCs manage zakat funds directly, while others establish separate institutions to handle zakat management on their behalf. Table 3 below provides the list of SIRC and Zakat institutions in Malaysia.

Table 3: List of SIRC and Zakat Institution in Malaysia

No	States	SIRC and Zakat Institutions
1	Kelantan	Majlis Agama Islam dan Adat Istiadat Melayu Kelantan
2	Terengganu	Majlis Agama Islam dan Adat Melayu Terengganu
3	Pahang	Majlis Uagama Islam dan Adat Resam Melayu Pahang Pusat Kutipan Zakat
4	Perlis	Majlis Agama dan Istiadat Melayu Perlis
5	Johor	Majlis Agama Islam Negeri Johor
6	Kedah	Majlis Agama Islam Negeri Kedah Jabatan Zakat Kedah
7	Selangor	Majlis Agama Islam Selangor Lembaga Zakat Selangor
8	Perak	Majlis Agama Islam & Adat Melayu Perak
9	Negeri Sembilan	Majlis Agama Islam Negeri Sembilan Pusat Zakat Negeri Sembilan
10	Melaka	Majlis Agama Islam Melaka Pusat Zakat Melaka
11	Penang	Majlis Agama Islam Negeri Pulau Pinang Pusat Urus Zakat Pulau Pinang
12	Wilayah Persekutuan	Majlis Agama Islam Wilayah Persekutuan Pusat Pungutan Zakat
13	Sabah	Majlis Agama Islam Sabah Pusat Zakat Sabah
14	Sarawak	Majlis Islam Sarawak Tabung Baitulmal Sarawak



Zakat (or Islamic tax) is one of the Five Pillars of Islam, making it a fundamental religious obligation for Muslims. In Malaysia, where Islam is the predominant religion, zakat institutions play a critical role in enabling Muslims to fulfill this duty. By collecting and distributing zakat, these institutions help Muslims adhere to their faith and fulfill their religious obligations.

Zakat institutions in Malaysia are significant due to their multifaceted role in fulfilling religious obligations, alleviating poverty, promoting economic redistribution, supporting community development, empowering recipients, enhancing social cohesion, ensuring accountability, complementing government initiatives, and encouraging philanthropy. Their impact extends beyond financial assistance, contributing to the overall well-being and stability of Malaysian society. Each year, zakat institutions in Malaysia collect more than RM5 billion ringgit zakat (approximately 976 million Euro). This is summarized in Table 4 below:

Table 4: Total Zakat Collection in Malaysia in Ringgit Malaysia (2016-2020)

Year	2020	2019	2018	2017	2016
Johor	300,855,626.51	311,727,367.23	285,784,094.35	260,671,607.01	250,436,479.20
Kedah	217,913,020.82	206,055,559.61	183,556,547.63	170,030,088.00	140,448,128.00
Kelantan	202,654,987.00	195,138,060.00	183,034,916.35	179,303,841.00	162,678,760.00
Melaka	100,720,991.88	98,838,098.55	87,815,011.74	85,598,531.92	70,537,675.73
N.Sembilan	157,160,528.43	141,521,193.35	131,116,487.35	124,495,635.43	104,760,388.36
Pahang	165,260,316.30	167,220,290.72	138,696,397.46	133,655,623.03	122,248,982.33
P.Pinang	130,875,632.57	121,432,704.21	119,734,212.91	101,454,432.72	96,781,464.11
Perak	91,633,580.59	207,187,053.49	176,246,175.19	170,804,837.16	151,181,069.12
Selangor	912,956,543.00	855,137,860.00	793,679,701.00	757,112,779.00	673,736,282.00
Terengganu	185,104,612.29	178,654,905.67	160,718,725.50	137,949,523.03	133,360,064.38
Sabah	101,788,328.22	88,997,519.92	79,661,792.60	88,318,640.61	63,704,056.64
Sarawak	110,374,938.58	105,963,561.49	-	92,301,440.00	72,082,740.00
Wilayah	758,059,087.86	688,405,441.00	657,428,211.00	621,414,431.00	589,296,523.84

Sources: *Jabatan Waqaf, Zakat dan Haji (JAWHAR)*

However, zakat management in Malaysia faces several challenges. These include issues related to the collection of zakat, such as the presence of unofficial agencies, where some individuals prefer to pay zakat directly to people rather than through official channels. There is also a lack of public awareness about the importance of paying zakat through official institutions and a lack of data availability. Moreover, distribution challenges include allocating zakat money to the deserving eight categories of recipients (known as asnaf), managing non-disbursement balances at the end of the year, inefficiencies in disbursement methods, inadequate disclosure, and potential misuse of zakat funds. Additionally, critical issues in the recipient selection process include distinguishing between productive and non-productive recipients and ensuring successful outcomes for recipients. Therefore, this paper proposed the adoption of Value Creation Reporting Framework to enhance the accountability and transparency of zakat management.

Methodology

The study employs content analysis of annual reports and website disclosures from various SIRC's to identify existing reporting practices. This analysis helps pinpoint areas where the VCRF can be integrated to enhance the comprehensiveness and transparency of the reporting process. By examining these documents, the study aims to uncover gaps in current practices and opportunities for improvement.

Interviews with the representatives from the Islamic Religious Councils and experts in zakat management and Islamic finance were also conducted to provide qualitative insights into the current practices and potential enhancements. These interviews help understand the practical challenges faced by the councils and gather expert opinions on the feasibility and effectiveness of the proposed VCRF. Triangulating these findings with content analysis ensures a holistic understanding of the current state of reporting and areas for improvement.

Findings and Discussion

Current Reporting Practices

The content analysis reveals that traditional financial reporting within SIRC's primarily focuses on economic value creation, measured by profit and financial performance. However, there is a growing recognition of the need to include social and environmental impacts in the reporting process. This shift is driven by the understanding that religious councils contribute significantly to societal well-being, and their impact extends beyond mere financial metrics.

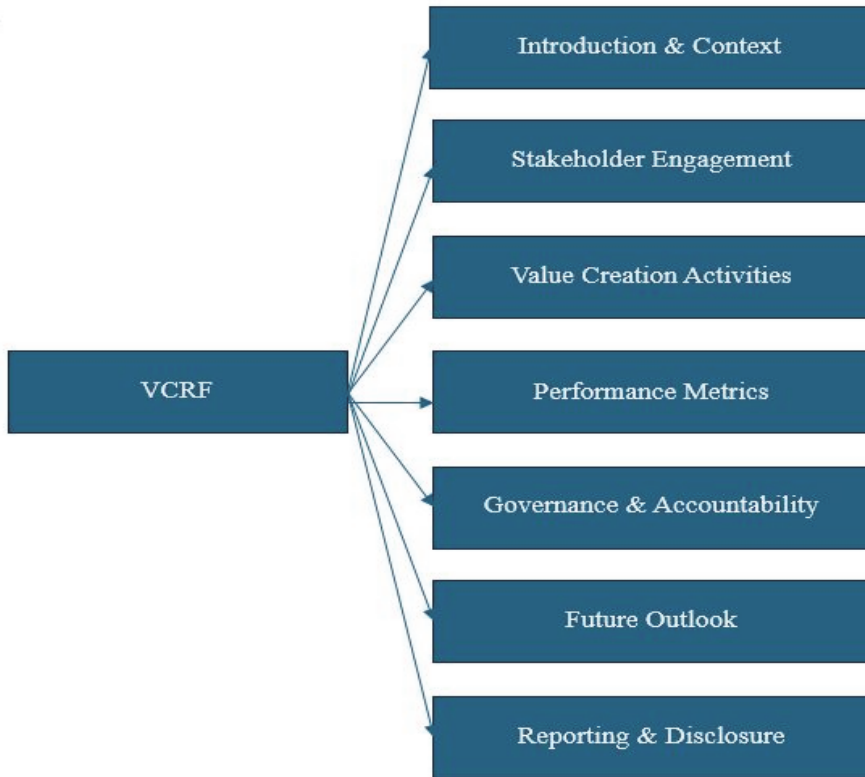
Development of VCRF

The proposed VCRF is designed to capture the broader impact of SIRC's, integrating financial, social, and spiritual value creation into the reporting framework. The framework consists of several components: Introduction and Context, Stakeholder Engagement, Value Creation Activities, Performance Metrics, Governance and Accountability, Reporting and Disclosure, and Future Outlook.. These components ensure a comprehensive approach to reporting, highlighting the various dimensions of value created by the councils.

Effective stakeholder engagement is crucial for the success of the VCRF. Identifying key stakeholders and understanding their needs and expectations are fundamental steps in this process. The VCRF proposes strategies for engaging stakeholders, including regular consultations, feedback mechanisms, and collaborative decision-making processes. This engagement ensures that the reporting framework addresses the concerns of all relevant parties, fostering greater trust and cooperation.

The VCRF includes a set of financial, social, and operational metrics to measure the performance of SIRC's comprehensively. Financial metrics focus on zakat collection and distribution, providing transparency in the management of Islamic funds. Social metrics assess the impact on zakat recipients and community satisfaction, capturing the broader social value created by the councils. Operational metrics measure the efficiency of distribution processes and the effectiveness of community programs, ensuring that resources are utilized optimally.

Value Creation Reporting Framework (VCRF)



Introduction and Context: The VCRF begins with an overview of the IRC's strategic objectives and the concept of value creation, emphasizing the religious, social, and community roles in creating value. This section sets the stage for understanding the broader impact of the councils' activities, highlighting their contributions to societal well-being.

Stakeholder Engagement: Identifying key stakeholders and developing engagement strategies are crucial for the successful implementation of the VCRF. This section details the processes for engaging stakeholders, ensuring their needs and expectations are addressed. Effective stakeholder engagement fosters transparency, trust, and collaboration, essential for the successful adoption of the VCRF.

Value Creation Activities: This section outlines the roles and services provided by the IRC, including social programs, community outreach, and zakat management. By detailing these activities, the VCRF demonstrates how the councils create value beyond financial metrics, contributing to the social and spiritual well-being of the community.

Performance Metrics: The framework proposes a set of financial, social, and operational metrics to measure the IRC's performance effectively. Financial metrics focus on zakat collected, distributed, and administrative costs. Social and religious metrics assess the impact on recipients, community satisfaction, and feedback. Operational metrics measure the efficiency of distribution processes and the number and impact of community programs. These metrics provide a comprehensive view of the IRC's performance, ensuring transparency and accountability.

Governance and Accountability: The governance structure, leadership roles, and accountability mechanisms are discussed in this section to ensure effective decision-making and transparency. This includes detailing the responsibilities of various committees and the processes for regular reporting and feedback. By establishing robust governance and accountability mechanisms, the VCRF ensures that the IRC operates transparently and ethically.

Reporting and Disclosure: The reporting approach, including the frequency and format of reports, is proposed to enhance transparency and access to information. This section outlines the processes for regular reporting and disclosure, ensuring that stakeholders have timely and accurate information about the IRC's activities and performance. Transparent reporting builds trust and facilitates informed decision-making.

Future Outlook: This section discusses the strategic goals, planned initiatives, and potential challenges and opportunities for the IRC. By providing a forward-looking perspective, the VCRF helps the councils plan for future developments and adapt to changing circumstances. This proactive approach ensures that the IRC remains relevant and effective in its role as a steward of religious affairs.

Challenges

Based on the interviews conducted with the experts, it was found that there are a few challenges that might be faced by the zakat institutions to adopt the new proposed framework. First, quantifying social and spiritual value is inherently challenging due to its subjective nature. Metrics for these dimensions might be open to interpretation, requiring the development of robust and standardized methodologies. Despite these challenges, capturing social and spiritual value is crucial for a comprehensive understanding of the IRC's impact.

Moreover, gathering reliable data on social and spiritual impact can be complex. Traditional data collection methods might not be suitable for capturing these aspects of value creation. Innovative data collection techniques and the use of qualitative methods, such as interviews and surveys, can help address these challenges.

In addition, the specific value creation priorities of each council might differ, necessitating a flexible approach to VCRF implementation. A „one-size-fits-all“ framework might not be effective, and the VCRF must be adaptable to the unique contexts of different councils.

Religious councils might be accustomed to traditional financial reporting and hesitant to adopt a new framework. Overcoming this resistance requires demonstrating the benefits of the VCRF, including enhanced transparency, accountability, and the ability to capture a broader range of value creation. Finally, developing and implementing a VCRF might require additional resources for training, data collection, and potentially hiring new personnel with expertise in social impact measurement. The cost of implementation must be balanced against the long-term benefits of enhanced reporting and improved decision-making.

Conclusion and Future Work

The Value Creation Reporting Framework (VCRF) holds immense promise for religious councils in Malaysia by demonstrating their various impacts beyond economic contributions. By adopting this framework, councils can foster greater public trust, improve decision-making, and contribute more effectively to community well-being. Further research is needed to refine the framework and establish robust measurement methodologies, ensuring its successful implementation and sustainability. The VCRF represents a significant step towards more holistic and transparent reporting for religious councils, ultimately strengthening their role as accountable stewards of religious affairs.