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Accounting Practices and Charitable Giving: Integrating Maqasid al-Shariah Framework for Tabung Masjid in Malaysia

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ABSTRACT

Purpose : Mosques play a vital role in strengthening Islamic values among community members through programs and activities. An appropriate amount of funding is required to carry out such activities. This paper focuses on the ability of appropriate accounting practices in ensuring increased donations that will enable mosques to practice the Maslahah principles of Maqasid, *i.e.* ensuring public interest.

Methodology : This paper proposed a conceptual model to analyse the impact of accounting practices on donations by stewardship and resource-based theory. The sample of 287 respondents consists of key personnel of Tabung Masjid in Malaysia. Structural equation modelling was used to test the validity of the proposed model.

Findings : The main findings of this paper show that governance mechanisms influence reporting and individual donations. Reporting practices do not have a mediating effect, but indirectly affect the relationships between governance mechanisms and individual donations in Tabung Masjids. A negative association between governance mechanisms and donations indicates that higher level of internal auditing reduces public trust in mosques which results in decreased donations. Transparent reporting practices, on the other hand, have a positive influence on donations.

Research Limitations : This study has focused only on one aspect of governance mechanism (auditing), but several other internal governance mechanisms could provide better estimates.

Practical Implications : The results indicate the significance of external auditing and reporting that may increase individual donations in mosques. Thus, from a policy perspective, bodies that regulate mosques in Malaysia should consider implementing appropriate governance and disclosure mechanisms in order to increase the ability of mosques in serving public interests.

Originality : To date, this is the first research that has been conducted to analyse the impact of governance mechanisms on reporting and donations in the context of mosques in Malaysia. The study also validates the applicability of stewardship theory in studying Islamic Religious Charitable Institutions.

Keywords: Maqasid al-Shariah Maslahah, Public Interest, Mosque, Governance, Reporting, Donation.

1. INTRODUCTION

Mosques are a vital infrastructure in any Muslim country, not only as a place for congregational prayer but also for being significant in educating and transforming the Ummah through various programs. Establishment and maintenance of mosques depend on donations, and effective utilisation of such donations increases its efficiency in serving the public interest. Donations are collected on various occasions through different mechanisms, but the recording and utilisation of funds have attracted researchers' attention. Zain, Samsudin and Osman (*n.d.*) embarked on a case study to address the issues relating to accounting practices among mosques in Federal territory, Malaysia. Their study concluded that accounting is regarded as pivotal to exhibit accountability of the mosques, but large variations exist in accounting practices among the mosques studied.

Prior studies on accounting practices among Islamic Religious Institutions (IRI) are dominated by Waqf institutions (Abdul-Rahman & Goddard, 2003; Hamdan, Mohd Ramli, Jalil, & Haris, 2013; Ihsan & Adnan, 2011; Ihsan & Ibrahim, 2007; Sulaiman, Mohd Akhyar Adnan, Putri Nor Suad, & Nor, 2009; Masruki & Shafii, 2013), but very little is known about mosques. While Abdul-Rahman and Goddard (2003) found that accounting procedures and financial reports are not an important element among selected IRIs in Malaysia, Ihsan and Adnan (2011) have identified improvement in those practices and advocated for uniform accounting practices among these institutions.

Management control system is important for financial management practices in the mosque to ensure efficient and proper financial management practices. Research interest on fund management efficiency of mosques has also grown (Adil, Mohd-Sanusi, Jaafar, Khalid, & Aziz, 2013; Adnan, 2013; Mohamed, Masrek, Mohd, Arshad, & Omar, n.d.). Although the majority of the studies have drawn evidence from Malaysian context, Indonesian evidence on mosque fund management practices is also available. Some criticisms of the mosque management are identified by Adil et al. (2013), including lack of accountability for managing the accounting system, less budget preparation, improper recording and reporting of income, and effective way to find sources of income. On a Waqf institution, Sulaiman et al. (2009) have identified that lack of accountability and commitment to accounting have resulted in fund embezzlement incidents.

The importance of an effective accounting system has already been found to increase donations among charitable institution in developed countries (Saxton, Neely, & Guo, 2014; Trussel & Parsons, 2007). Ruhaya Ayan, Saunah Zainon, and Yap Bee Wah (2012) have provided some insight into a similar scenario in the context of a developing country. Therefore, the importance of transparent reporting cannot be ignored for a charitable institution to earn public trust.

The present study aims to integrate the *Maslahah* principle in the light of *Maqasid-Al-Shariah* that focuses on public interest because mosques have the ability to serve a bigger purpose of transforming the Muslim Ummah through educational and religious activities which require steady donations. As a result, this study is conducted primarily to provide evidence that accounting practices among mosques can result in increased individual donations.

There are four segments of this paper. First, relevant literature is critically reviewed to prove the relevance and importance of the current study. In the second segment, theoretical perspectives about accounting practices and charity donations are elaborated. Third, a conceptual framework is discussed along with hypotheses of the study for empirical analysis. Fourth, methodological issues are discussed followed by results and discussions from statistical analysis. Finally, the paper ends with concluding remarks and directions for future research.

2. LITERATURE REVIEW

2.1. Fund Utilisation Practices among Islamic Charitable Institutions

The fund generated by YWM *waqf* institution is used for socio-economic wellbeing of Malaysian societies. Furthermore, the application of funds also covers the development of *waqf* projects in Malaysia, in collaboration with respective State Islamic Religious Councils (SIRCs); assistance to the needy and investment of the charitable funds (Maybank Waqf Services, 2012). Also, funds generated by *waqf* institutions, including investment income, are channelled towards the financing of *waqf* activities and management of *waqf* assets such as commercial building properties and rental shops on *waqf* land (Hanefah, 2007). Further to this, funds generated, including those by MAIS, are used to develop new *waqf* properties in the state of Selangor, Malaysia as well as for investment (Nor & Mohammed, 2009).

Furthermore, the funds generated by *waqf* foundation like IIUMWF are used for the purpose of helping the university students for the duration of their studies in the higher institution, for commission to the agent and also for investment (Sulaiman, Mohd Akhyar Adnan, Putri Nor Suad, & Nor, 2009). Though the study of Sulaiman et al. (2009) and others revealed that *waqf* funds were used for education, for payment of agent commission and also for investment (revenue expenditure), WWF uses its funds for establishment of *waqf* institutions, support for *waqf* institutions by providing them expertise, provision of scholarship in any area beneficial to the *Ummah*, and to establish and support educational, health and social institutions and programs. Similarly, it is also maintained that funds raised by *waqf* management are used for Muslim economic emancipation, education, social and spiritual purposes and investment (Isa, Ali, & Harun, 2011).

2.2. Accounting Practices of Islamic Religious Institutions

Islam promotes relevant disclosure for all types of entities. Several studies have focused on accounting practices of Islamic charitable institutions and the majority of them are in the context of Malaysia. Abdul Rahim and Goddard (1998) initiated a study to examine the use of accounting practices by SIRCs through a case study approach. Primary data were gathered from two SIRCs through observations, semi-structured and unstructured interviews. Secondary data were also used in the study, including annual reports, documents and minutes. The study found out that staff members are having an active role in the decision-making process but lack the appropriate level of knowledge and training in accounting related matters. Both SIRCs consider financial reports as an important document, but the existence of power elite in one of the SIRC limits the potential role of accounting technology and marginalised accounting as a profession. The case study approach undertaken by the study provides a good understanding on an emerging issue of Waqf accounting and reporting practices but lacks the ability of generalisation.

A different approach was undertaken to study the issue of Waqf reporting practices by Zain (2005) in Malaysia. Her study applied proportionate stratified sampling technique and included all 14 SIRCs. Later, a self-administered questionnaire was administered to ten respondents of each stratum to gather primary data on Waqf reporting practices among those SIRCs. Zain (2005) found half of the SIRCs with out-dated annual reports. In determining the extent of disclosure in the annual reports, the author used a dichotomous scale and gave a score of 1 if an item was disclosed and 0 otherwise. The results of the content analysis show that the SIRCs that produced the latest annual reports show a high level of disclosure in their financial reports ranging from 8.9 to 21.7.

Zain (2005) then moved toward identifying the extent of Waqf disclosure in the financial reports of SIRC's using the same index. Except for two SIRC's (Pulau Pinang and Selangor), all other SIRC's were found to have low-level disclosure on the Waqf financial reports. Perlis, Pahang and Negeri Sembilan did not disclose Waqf related information at all in their financial statements. The rationale behind low level of disclosure is tied to the non-existence of specific standard or guideline that could be followed by all SIRC's. Since there was no mandatory disclosure item for the SIRC, it is up to the organisation to disclose Waqf items or vice versa (Zain, 2005: 73).

The rationale behind low level of Waqf disclosure provided by Zain's (2005) study was further explored by Yaacob (2006). The exploratory nature of the study adopts a case study approach to understanding the Waqf accounting practice of only Federal Territory SIRC in line with the Statement of Recommended Practice (SORP) used among the charities in the UK for financial reporting purpose. The main objective of the study included the identification of problem areas related to Waqf accounting practices, comparison between SORP and existing Waqf financial and accounting practices with the possibility of policy recommendation.

The case study approach and the selection of only Federal Territory SIRC by Yaacob (2006) limit the possibility of generalising the findings for other SIRC's in Malaysia. However, both Yaacob (2006) and Zain (2005) provide similar findings of the low level of Waqf disclosure through the financial reports among SIRC's. The negligence of Waqf and its management by the relevant authority in Malaysia led to an empirical investigation into accounting, accountability and effectiveness of Waqf Management in SIRC's by Siraj (2012). The study revealed conspicuous discrepancies in the financial reporting practices of the studied SIRC's which was linked to the absence of any specific accounting framework, the same as prior studies on the similar issue (Rokyah, 2005; Yaacob, 2006). The study also revealed that there was lack of accountability dimension in the financial reporting, existence of financial inadequacy and shortage of workforce.

2.3. Corporate Governance and Reporting Practices among Charitable Organization

Corporate Governance mechanisms are involved in monitoring and determining a firm's overall information disclosure policy (Kelton & Yang, 2008). Adoption of appropriate governance mechanism can increase internal control of a firm, which in turn could result in decrease of information asymmetry between managers and stakeholders.

The extent of corporate voluntary disclosure have been found to be significantly associated with various corporate governance factors such as Board size (Al-Janadi, Rahman, & Haj Omar, 2013), Board Composition (Eng & Mak, 2003), CEO duality (Ferdinand A. Gul & Leung, 2004), Audit Committee (Ho & Shun Wong, 2001). However, the difference in accounting practices and regulatory pressure between corporate and non-profit sector limits the generalizability of prior findings and thus a detailed analysis on the impact of corporate governance mechanisms on the extent of disclosure practice of non-profit sector have been intimated around the world.

A series of studies that focus on the impact of governance factors on the extent of disclosure by charitable organisations has been found in Malaysia. Ayan, Zainon and Wah (2012) investigated the association between specific attributes of organisations, such as board size, board composition, the existence of external audit, organisational age, and organisational size of charitable organisations on the extent of disclosure of information. The low level of disclosure was backed by the rationale of the possibility of information disclosure outside of their annual returns.

The study provides some basic ideas relating to the impact of corporate governance on the extent of disclosure among charitable organisations in Malaysia. Arshad et al. (2013) employed a much larger sample to study the influence of organisational characteristics on the extent of disclosures in the annual reports of non-profit organisations (NPOs) in Malaysia. The study included 213 NPOs registered under ROS up to 2010 and used content analysis to extract primary data from the annual reports of the selected NPOs for the financial year of 2010. The results indicate that the overall extent of disclosure is very low, which supports the findings of Zainon et al. (2012). The regression analysis revealed organisational size and funds generated by NPOs as significant predictors of the extent of disclosure.

Most recent study on the determination of information disclosure of Malaysian non-profit organisations is conducted by Zainon et al. (2014). This study identified information items that NPOs need to disclose by developing an index, and tested the validity of the developed index by conducting an online survey. The final index was used to determine the extent of disclosure by studying annual returns of 101 Malaysian NPOs for the year 2009. Overall, the score for the weighted index shows a very low level of disclosure (Zainon et al. 2014: 44). The results from hierarchical regression show that the presence of external auditors promotes better reporting practices. Financial performance and government support regarding grants were also found significantly affecting the extent of NPO disclosure.

The 101 NPOs used for the study were taken from the states of Selangor and Kuala Lumpur out of a total population of 1292 registered NPOs under ROS. This limits the generalizability of the results to other NPOs, the authors indeed indicate that inclusion of other types of NPOs could improve the findings of the study. However, compared to the studies of Zainon et al. (2012) and Arshad et al. (2013), this study is different because the disclosure index developed and used in the study incorporates both financial and non-financial information which was absent in prior studies.

2.4. Maqasid-Al-Shariah: Integrating the Maslahah Principle

The very objective of Shariah is to promote the welfare of the people, including faith, life, intellect, posterity and wealth. Anything that protects or promotes these is considered as serving the *maslahah* and hence desirable (Chapra, 1992). Ibn al-Qayyim al-Jawziyyah supports the view of Al-Ghazzali to serve greater public interest through Shari'ah, which is also promoted by Abu Ishaq al-Shatibi as he contends that the Shari'ah aims at the welfare of the people in this life and the life hereafter by protecting its objectives. Thus, *Maqasid-al-Shari'ah* is classified into three distinct categories including *Daruriyyaat* (necessities), *Hajjiyyaat* (requirements) and *Tabsiniyyaat* (beautification). Islamic financial institutions are failing to promote such objectives of *Shari'ah* through their corporate social responsibility schemes (Cebeci, 2012) and this creates a need to explore alternatives. Mosques have the ability to play a vital role in ensuring the *maslahah* principle of *Maqasid* since they have the infrastructure, but sometimes lack the funding required to make significant social and economic impacts.

Daruriyyah has objectives which are a must and basic for the establishment of people's welfare in this world and the hereafter. This falls under the necessities for every Muslim and relates to five crucial matters: faith, life, posterity, property and reason. Mosques can shape young minds by educating them about the rules of Islam. Islam is a way of life and the success in understanding the role of Muslims as stewards of Allah can make a significant change in personal lives and contribute toward making a better community. Deficiency in daruriyyah brings deficiency in *hajjiyyah* and *tabsiniyyah*, but not the other way around (Khan & Ghifari, 1992).

In developing countries, mosques provide education to students from low-income families by maintaining *Madrasha* built on Waqf. Funds provided by Muslims after daily and weekly congregational prayers are used to take care of the operational expenses covering mosque-based training programs initiated on different occasions based on the purpose. Increased donations in mosques can increase mosques' ability to beautify the mind of individuals through proper Islamic knowledge, relating to the tahsiniyyah principle. The renowned Muslim economist, M. Umer Chapra states:

Without injecting the dimension of faith into all human decisions, it may not be possible to realise efficiency and equality in the allocation of distribution of resources, to minimise macroeconomic imbalances and economic instability, or to overcome crime, strife, tensions and the different symptoms of anomie. (Chapra, 1992)

This statement of Chapra (1992) alone establishes the need for mosques to take the bigger role of educating the Ummah with an inherent goal of beautifying Muslims through basic Islamic knowledge. The struggle to survive in the economy, particularly by those in the lower strata, may cause them to resort to corruption and crime. Mosques' ability to help these needy people depends somewhat on the amount of public funding they receive which is again linked with the transparency of reporting and efficiency of fund utilisation. The nature of this institution has a deep psychological impact on a Muslim's mind as this is the house of worship of Allah. Still, the management committee of mosques should realise the need to implement better governance and reporting mechanisms in order to maintain transparency that will benefit a wider Muslim community.

Mosques can provide moral education through Islamic programs and activities that will strengthen Islamic values among community members. However, the sustainability of mosques and their ability in serving the Ummah and fulfilling the *Maqasid* of *Shari'ah* depend on their ability to attract donations through efficient financial management. The funds generated by mosques are not uniform in nature and purposes, and thus serious attention is required for better utilisation of these funds.

Muslim economists have focused on the utilisation of human capital generated by mosques and searched for the validity of investing this fund in financing various Islamic projects. Focusing on the issues of Zakat, *Shari'ah* permits investment of Zakat in *Maslahah* purpose. However, controversies relating to investing Zakat fund have shifted the discussion toward the possibilities of investing those funds in ways that are grounded in Waqf perspectives. All five components of Daruriyyaat under *Maqasidal- Shari'ah* can be catered for with the effective manager of Tabung Masjid and thus will make an effective contribution toward the Maslahah at large.

3. THEORETICAL PERSPECTIVE

Stewardship theory is an alternative to the agency theory that is based on the assumption that managers will act responsibly toward managing the assets under their control if left on their own. While the concept of stewardship has assumed different meanings throughout the course of history, contemporary usage focuses on stewardship as "a protective restraint, a taking care of resources through nurturing and thrifty management of their use" (Leopold, 1998). Stewardship involves a duty of care and conservation about property (Newton, 1997).

Stewardship theory looks into the relationship between principal and steward, and suggests that stewards will behave toward achieving the interest of the principal and thus the organisation (Davis, Schoorman, & Donaldson, 1997). One of the desired outcomes of stewardship perspective is the maximisation of firm performance (Davis et al., 1997; Tosi, Brownlee, Silva, & Katz, 2003) which becomes a possibility when both parties, principal and steward, choose to behave as stewards.

According to Donaldson and Davis (1991), the underlying assumption of stewardship theory is based on the humanistic model of men which assumes that individuals are motivated by higher order needs fulfilment. This assumption leads to the belief that the behaviours of managers are aligned with the interest of the principal and the conflict of interest is non-existent. This inherent assumption of stewardship theory facilitates identification of a structure that allows effective coordination between the principal and stewards.

A steward perceives that the utility gained from interest alignment and collaborative behaviour with the principal is higher than the utility that can be gained through individualistic, self-serving behaviour (Davis et al., 1997). As opposed to agents, stewards place greater value on collective rather than individual goals, understanding the success of the company as his achievement (Pastoriza & Arino, 2008). At the end of the day, motivation creates the difference in the two theories that focus primarily on understanding the relationships between the principal and managers. While agents are motivated by extrinsic factors such as profit maximisation, stewards are motivated by intrinsic factors such as achievement and duty.

There are two separate dimensions of stewardship, *i.e.*, secular and conventional. The secular dimension goes in line with the conventional concept of agency theory by reflecting the accountability of corporate managers toward the stakeholders. In the spiritual perspective, stewardship involves preservation of and care for all that God has created, thereby limiting human freedom to exploit the world and imposing a restraint on the profit motive (Newton, 1997).

The differences in outcome from the application of agency and stewardship theory are presented in the figure below. The core belief in agency theory is that managers will behave opportunistically if given the opportunity. Thus, an increase in governance will allow the stakeholders to monitor and restrict such behaviour to a minimum that will result in an increase in performance. Stewardship theory, on the other hand, theorises that performance increases when the organisation is characterised by fewer monitoring and control mechanisms (Madison, 2014).

Resource Dependence Theory (RBT) can be defined as an explanation of how the external resources of an organisation affect the behaviour of the said organisation. Resource dependence was originally developed to provide an alternative perspective to economic theories of mergers and board interlocks and to understand precisely the type of inter-organisational relations (Pfeffer, 2003). The importance of this study toward resource allocation has led to its utilisation in the charity literature (Mustafa, Mohamad, & Adnan, 2013). Organisations must acquire resources to survive (Pfeffer, J., & Salancik, 1978) and thus RBT can provide insights for a charity organisation.

Resource dependence theory has its focus on the flow and exchange of resources between organisations, those dependence and power differentials created as a result of unequal resource exchange, the constraining effects such dependence has on organisational actions and the efforts of organisations leaders to manage dependence. This study is focused on individual donations collected by mosques and its link with accounting practices. As mentioned earlier, management has a significant role to play in managing the donation dependence of mosques by implementing a transparent reporting system.

4. RESEARCH MODEL AND HYPOTHESIS

The conceptual model provided in Figure 1 is developed by integrating propositions of stewardship and resource-based theory. Mosques depend on donations to manage their operations expenditure and perform religious duties toward the public. The extent of donations, both individual and corporate, can be explained by various macro (social, political, economic, cultural) and micro (organisation, psychological) level stimulus. This study has concentrated on the organisation perspective, and more specifically, focused on investigating the link between governance and reporting practices on individual donations to mosques.

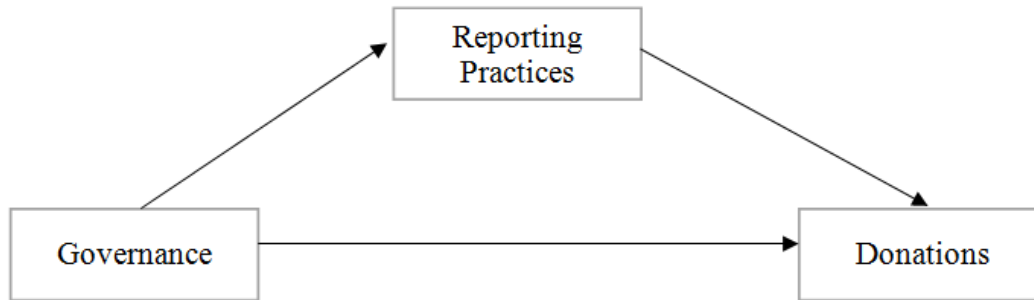


Figure 1: Conceptual framework of the study

A total number of 65 charitable organisations out of a population of 1,262 were chosen for the study. The extent of information disclosure was calculated through the use of a self-developed disclosure index on the annual reports of the selected charitable organisations for 2009. The low level of disclosure was backed by the rationale of the possibility of information disclosure outside of their annual returns. Multiple regression results revealed a statistically significant model with an R^2 value of 31.5%. Among the variables, only financial performance, the existence of an independent audit and organisation size were found significant at .01 level.

The study provides some basic idea relating to the impact of corporate governance on the extent of disclosure among charitable organisations in Malaysia but is not free of limitations. Firstly, the sampling process does not mention a solid basis of selecting 65 charitable organisation and indicate toward convenience sampling thus limits the ability of generalizability. Secondly, the disclosure index does not separate between mandatory and voluntary items. Finally, the study focuses on private NPOs registered under Registry of Societies (ROS) and excludes governmental, non-profit organisations.

Carcello and Neal (1997) find a negative relationship between the percentage of executive and grey director members on the audit committee and the likelihood of receiving an unqualified opinion. Williams (2002) found a positive association between the proportion of independent directors and firm's discretionary decisions to increase the level of independence on the audit committee above the suggested minimum. Voluntary disclosure is found to have a significant association with the existence of an audit committee among listed companies in Hong Kong (Ho & Shun Wong, 2001). The functions of an audit committee is to ensure the quality of financial accounting and control system (Collier, 1993).

It has also been argued that the use of large external auditors motivates voluntary disclosure among listed companies (Healy & Palepu, 1993). Larger audit firms have a stronger incentive to maintain their independence as their reputation is in line which could result in more stringent and extensive disclosure standards (DeAngelo, 1981; Malone, Fries, & Jones, 1993). Positive association between large audit firms and disclosure have been empirically established by Inchausti (1997). However, Xiao, Yang, and Chow (2004) found no significant influence of large audit firms in involuntary Internet-based disclosure by listed Chinese companies, which are similar to the findings of Gul and Leung (2002). Thus, the following hypotheses are formulated:

H_{1a}: Method of auditor appointment has a positive impact on reporting practices.

H_{1b}: Type of auditor applied by mosques has a positive impact on reporting practices.

H_{1c}: Existence of an audit committee has a positive impact on reporting practices.

Studies have found a positive relationship between the quality of governance and non-profit organisational effectiveness (Preston & Brown, 2004). Poor reporting practices are solely driven by corporate donations to charities affiliated with audit committee members, especially when the committee chair's charities or multiple committee members' charities receive the company's charitable contribution (Cai, Xu, & Yang, 2016). Kitching (2009) reports that charity reputation and the choice of the auditor are substitute mechanisms for signalling the credibility of financial reports, but the effect of the quality of auditor dissipates with the size of the charity. Drawing from the propulsions of stewardship theory, the study hypothesises that mosques' reputation will be affected by increased application of governance mechanisms which will have a negative impact on individual donations. However, mosques with structured governance practices are hypothesised as transparent and efficient which has a positive impact on donation (Ayan et al., 2012). This study thus formulated the following hypotheses to find out the balance of governance practices appropriate for mosques:

H₂: Governance mechanisms applied by mosques have a negative impact on individual donations.

H_{2a}: Method of auditor appointment has a positive impact on individual donations.

H_{2b}: Type of auditor applied by mosques has a negative impact on individual donations.

H_{2c}: Existence of an audit committee has a positive impact on individual donations.

Financial and non-financial information available to donors is among the factors that influence a charitable donation decision making (Saunah Zainon, Atan, Wah, & Theng Nam, 2011) and enhance the confidence of shareholders (Lee, 2004). Trussel and Parsons (2007) assert that some donors who have made donations in the past have used the financial accounting information when making a donation decision. The study of Ayan et al. (2012) has found a positive impact of financial information on charity donations. However, Baba and Ishida (2012), in their study of individual donors of a Japanese non-profit organisation, have identified an inconsistency regarding donor's preferences for financial data when deciding to donate. Hyndman (1990) found that donors are interested in non-financial information such as organisational goals, activities, outcomes, and prefer a summary rather than detailed financial reports. Also, Buchheit and Parsons (2006) have reported that non-financial information did not translate into increased actual giving to charity organisations. Lack of accountability to manage accounting system, less budget participation and improper recording and reporting practices of financial information are some examples of criticisms in mosque management in Malaysia. Thus, the following hypothesis is formulated to investigate the ability of current reporting practices in attracting individual donations:

H₃: Reporting practices of mosques have a positive impact on donations.

5. METHODOLOGY

We have used a survey research method for studying the impact of accounting practices on individual donations to mosques in Malaysia. The results were analysed using structural equation modelling (SEM) in AMOS 22.

5.1. Sample Selection

A paper-based survey was administered to explore the relationship between accounting practices and individual donations. Participants in the study were responsible for managing mosque funds generated through individual donations on various occasions. This population was chosen since they had relevant

knowledge regarding various accounting practices, frequency and method of donation collection and fund management practices among mosques in different states of Malaysia. Participants were conveniently chosen for the study. The initial survey included 390 respondents in nine states of Malaysia covering all four regions. Among them, 287 respondents provided complete responses. Thus, the sample size of the study becomes 287 with a response rate of 73.59 per cent. Each participant was personally contacted by the members of the survey team. A brief description of the sample on state and type of Tabung Masjid is provided in Table 1.

Table 1
Sample characteristics

	<i>State</i>		<i>Tabung Masjid Type</i>		
	<i>Frequency</i>	<i>Cumulative Percent</i>	<i>Frequency</i>	<i>Cumulative Percent</i>	
Selangor	50	17.4	District	49	17.1
Terengganu	40	31.4	Qariah	147	68.3
Kelantan	37	44.3	State	16	73.9
Melaka	60	65.2	Upgraded	9	77.0
Negeri Sembilan	59	85.7	Federal	15	82.2
Sabah	20	92.7	Private	25	90.9
Pahang	1	93.0	Surau	7	93.4
Perak	12	97.2	Others	19	100.0
Kuala Lumpur	8	100.0			

5.2. Operational Definition of Variables

The study has three distinct sets of variables. The dependent variable, donations, is investigated with three questions including frequency of individual donations, average daily donations and surplus of saving among mosques in 2015. Governance mechanisms applied by mosques are positioned as the independent variable and include three constructs covering the existence of audit committee, type of auditors appointed and method of appointment. Finally, the mediating influence of reporting practices is explored by examining the method, format and preparation of financial reports by mosques.

Table 2
Variable Definitions

<i>Variables</i>	<i>Abbreviation</i>	<i>Definition</i>
<i>Dependent Variables – Donations</i>		
Frequency of Individual Donation	IND_D	The frequency of donation is determined by specifying four close ended options.
Average Daily Collection	AVD_D_D	Average daily collections can have a value less than RM 100 to above RM 3000.
Surplus of TM in 2015	SURPLUS_2015	The surplus of Tabung represents the balance saved in the bank account in 2015 having lower value less than RM 10,000 to higher value more than RM 200,000.

<i>Variables</i>	<i>Abbreviation</i>	<i>Definition</i>
Mediator – Accounting Practices		
Method of Report	METHOD	The method of reporting collection includes both formal and informal reporting practices to the stakeholder.
Preparation of Report	PREPARATION	Reports can be prepared in the form of financial reports, weekly and monthly meetings and newsletter.
Report Format	FORMAT	1 if the mosque follows a specific format, 0 otherwise.
Independent Variables – Governance		
Existence of Audit Committee	AC	1 if audit committee exists, 2 otherwise.
Type of Audit Committee	TYPE_AC	1 for external audit and 2 for an internal auditor.
Appointment Method	AC_APP_METH	The method of appointment includes committee meeting, elections, appointment by authorities and monthly meetings.

5.3. Data Analysis

Data gathered through survey was analysed through structural equation modelling (SEM) approach. SEM provides a powerful tool for assessing both structural and measurement model due to the minimal demands of measurement scales, sample size and residual distributions (Chin, 1998). SEM is capable of handling both formative as a reflective indicator and thus is useful not only for theory confirmation but also for indicating significant relationships between constructs. Statistical analysis including path analysis, confirmatory factor analysis and linear regression are combined to understand the theoretical causal model. The study does not rely on Likert scale format of the questionnaire, but tries to capture actual information rather than respondents' perceptions on the measurement constructs. Thus, exploratory factor analysis is not performed, and model validity is determined through confirmatory factor analysis. Several mechanisms are applied to determine the validity of the data gathered through questionnaire survey including Cronbach's alpha and correlation analysis. Detailed analysis of the results is provided in the next section of the paper.

6. RESULTS AND DISCUSSIONS

6.1. Descriptive Statistics

Means, standard deviations and ranges for the variables are reported in Table 3. Reporting practices are measured using the method, preparation and format constructs. The method of reporting has a mean score of 4.45 with a high standard deviation. Thus, the weekly meeting is identified as the most popular method of communicating financial information to stakeholders by mosques of various states. Similarly, the newsletter is frequently used as a mode of report preparation following a specified format.

Governance mechanisms applied by mosques are measured using the existence of internal audit committee, the type of auditor appointed and method used for an appointment. It was identified from the mean and standard deviation scores provided in Table 1 that majority of the mosques have an audit committee. The low standard deviation score obtained for this construct provides such indication. Internal auditors are utilised by mosques and are appointed by the authority responsible for such duties.

Mosques sometimes receive individual donations, and the amount of average daily donations ranges from less than RM 100 to more than RM 3000. On the average, mosques collect around RM 100 to RM 500 from individual donations. Survey results indicate that mosques surplus donations saved by banks in both conventional and Islamic banks range from RM 10,000 to RM 50,000.

Table 3
Mean, standard deviation and ranges

	<i>Min.</i>	<i>Max.</i>	<i>Mean</i>	<i>SD</i>
Reporting Practices				
Method	1.00	7.00	4.45	2.27
Preparation	1.00	6.00	2.75	1.99
Format	1.00	2.00	1.18	0.38
Governance Mechanism				
Existence	1.00	2.00	1.40	0.49
Type	1.00	4.00	2.77	0.97
Appointment	1.00	6.00	1.88	1.34
Donations				
Individual Donations	1.00	5.00	2.35	0.73
Average Daily Donations	1.00	7.00	1.87	1.06
Surplus Donations	1.00	6.00	2.05	1.07

6.2. Measurement Model

Convergent and discriminate validity of the scales are tested with confirmatory factor analysis. Based on the recommendations of Anderson and Gerbing (1988), the convergent validity of the model was measured using standardised loadings, composite reliability and average variance explained and provided in Table 4. Standardised factor loadings are indicative of the degree of association between scale items are single latent variable. While considering the first latent factor, governance mechanism, type and existence of audit committee were found highly significant. In the case of reporting practices, *preparation* and *format* were found highly significant. Finally, all three constructs of donations were found to have a highly significant association with the latent construct.

Inter-item consistency reliability of items was measured by the Cronbach's alpha value provided in Table 4. An alpha value above 0.70 is acceptable (Cronbach, 1951; Tavakol & Dennick, 2011). Thus, the reliability of measurement items in the questionnaire is validated as the total and item wise alpha value has exceeded the acceptable limit. Composite reliability, similar to Cronbach's alpha, ranges from .647 to .739. While CR score for donations has exceeded the minimum limit of 0.70, the score is very close to

the acceptable limit for other two constructs. Average variance extracted are measures of the variations explained by the latent variable to random measurement error (Netemeyer, Johnston, & Burton, 1990), and ranged from .135 to .517. It is noticed that governance mechanisms and donations could not exceed the recommended lower limit of 0.50 and thus affecting the convergent validity of the measurement model.

Table 4
Results of Confirmatory Factor Analysis

<i>Construct Items</i>	<i>Std. Loadings</i>	<i>Cronbach's Alpha</i>	<i>Comp. Reliability</i>	<i>AVE</i>
Governance		.740	.647	.517
Appointment	-.066			
Type	.937			
Existence	.818			
Reporting Practices		.700	.697	.135
Method	-.269			
Preparation	.179			
Format	.548			
Donation		.799	.739	.365
Individual Donations	.406			
Average Daily Donations	.550			
Surplus Donations	.794			

6.3. Structural Model Testing

Two distinct sets of structural models were tested through AMOS 22. The first model uses the second order approach. Governance, reporting practices and donations were measured through their latent constructs. In the second model, three constructs of governance mechanisms were separately tested with reporting and donations. The overall fit indices for both models are provided in Table 5.

The test of overall model fit resulted in a chi-square value of 55.39 and 47.164 with 24 and 20 degrees of freedom for model 1 and 2 respectively. Probability values for both structural models are of less than 0.001. A higher X^2 and non-significant p-value are recommended to ensure the absolute fitness of a structural model (Chin & Todd, 1995; Gefen, Straub, & Boudreau, 2000). The sensitivity of chi-square value with the sample size and nonnormality have influenced the investigation of normed chi-square value which is a better measure of fit. It is measured by dividing X^2 with the degrees of freedom. The value for both models in the study is within the suggested range for 1 to 3 bracket (Chin & Todd, 1995).

In an attempt to determine the superiority of a specific model to a baseline model, several descriptive fit statistics are reported by researchers using the SEM approach. Based on the suggestions of Jaccard and Wan (1996), at least three fit tests are implemented in the study. We report goodness-of-fit index (GFI), the adjusted goodness-of-fit (AGFI) (for sample size), the Tucker-Lewis index (TLI) and the comparative fit index (CFI). All of these indexes compare the absolute fit of a specified model to the absolute fit of the independent model. Also, root means square error of approximation (RMSEA) is reported to measure the discrepancy per degree of freedom (Steiger & Lind, 1980).

It is recommended that the GFI and CFI should be at or above 0.90 (Hoyle, 1995) and AGFI should be above 0.80 (Chin & Todd, 1995). TLI requires a value higher than 0.95 due to its restrictive nature (Hu & Bentler, 1995). A score below 0.10 is acceptable for RMSEA, but scores below 0.08 represent a very good fit. Results provided in Table 5 ensure relative adequacy of model's fit. The absolute fit indices are better for model 1 with a higher X² value while several of the descriptive fit indices are found better for model 2. As the relative adequacy of the conceptual model is established, the next phase is to test the hypothesised relationships through individual path coefficient corresponding to the hypotheses. Adjusted R² reported in Table 5 indicates that model 1 and 2 explain 63 and 60.4 percent of the variances in individual donations for mosques in Malaysia.

Table 5
Model fit summary from the proposed conceptual model

<i>Fit index</i>	<i>Model</i>	<i>Model 2</i>	<i>Recommendation</i>
X ²	55.281	47.164	N/A
Df	24	20	N/A
P	.000	.001	Not significant
X ² / df	2.303	2.358	<3.00
GFI	.960	.966	>.90
AGFI	.925	.923	>.90
Comparative fit index (CFI)	.935	.943	>.90
Tucker-Lewis index (TLI)	.902	.898	>.95
Root mean square error of appropriate (RMSEA)	.068	.069	<.10
Adjusted R ²	.630	.604	

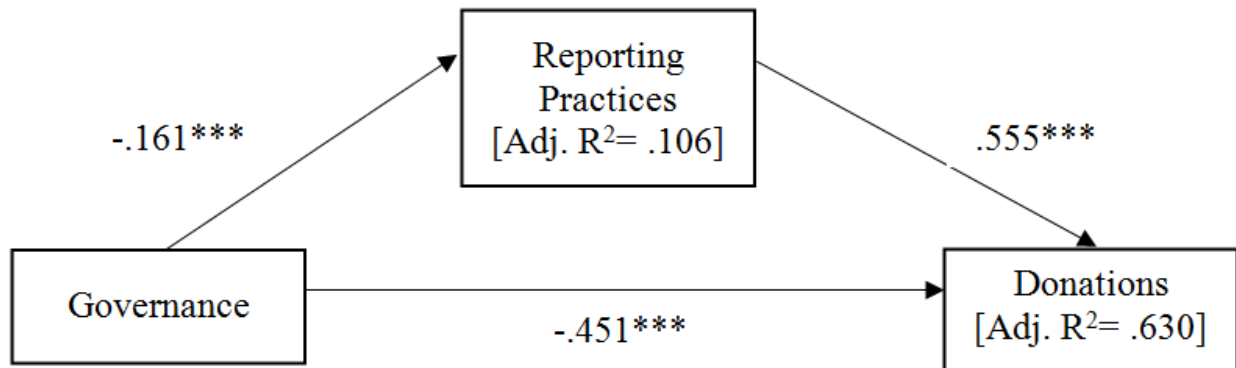


Figure 2: Significant Relationships among constructs

6.4. Results of structural model

Standardised path coefficients allow us to analyse the degree of accomplishment of the hypothesis. Table 6 provides standardised path coefficients corresponding to all nine hypotheses. Among them, five are accepted. H_1 states that governance mechanisms applied by mosques have a positive effect on the reporting practices. Table 6 shows a coefficient value of -.161 and t -value of -2.034, which is statistically significant. These results indicate that mosques' financial reporting practices are negatively affected by the application of the higher degree of governance mechanisms. Thus, propositions of stewardship theory are validated, and H_1 is accepted.

H_{1a} relates the method of auditor appointment by mosques with reporting practices and hypothesises a positive relation. A coefficient value of -.131 and non-significant t -value of -1.257 do not provide satisfactory statistical evidence to support H_{1a} . Thus, H_{1a} is rejected. H_{1b} relates the type of auditors used by mosques with reporting practices and hypothesises a positive relation. A coefficient value of .199 and significant t -value of 1.903 indicate that mosques should consider employing both external and internal auditors as it has a positive association with reporting practices. Thus, H_{1b} is accepted. H_{1c} hypothesises that the existence of an internal audit committee will positively influence reporting practices of mosques. A coefficient value of .133 and non-significant t -value of 1.279 do not provide satisfactory evidence to support H_{1c} . Thus, H_{1c} is rejected.

H_2 states that governance mechanisms applied by mosques have negative effect on individual donations. Table 6 shows a coefficient value of -.415 and t -value of 1.907, which is statistically significant. These results indicate that donors feel less motivated to donate in mosques that apply higher degree of governance mechanism. Thus, H_2 is accepted.

H_{2a} relates the method of auditor appointment by mosques with individual donations and hypothesises a positive relation. A coefficient value of -.010 and non-significant t -value of -.116 do not provide satisfactory statistical evidence to support H_{2a} . Thus, H_{2a} is rejected. H_{2b} relates the type of auditors used by mosques with individual donations and hypothesises a positive relation. A coefficient value of -.378 and significant t -value of -3.292 indicate that appointment of external auditors has a positive association with individual donations. Thus, H_{2b} is accepted. H_{2c} hypothesises that the existence of an internal audit committee will positively influence individual donations to mosques. A coefficient value of -.060 and non-significant t -value of -.708 do not provide satisfactory evidence to support H_{2c} . Thus, H_{2c} is rejected.

Finally, H_3 states that increase in reporting practices by mosques has a positive influence on individual donations. Table 6 shows a coefficient value of .555 and t -value of 3.046, which is statistically significant. These results indicate that individual donors feel motivated to donate in mosques that have better financial reporting practices. Thus, H_3 is accepted.

Table 6
Results from the structural model: Relationships between constructs ($n = 287$)

<i>Hypothesis</i>	<i>Relationships between constructs</i>	<i>Coefficient</i>	<i>t-statistics</i>	<i>Supported</i>
H1	Governance → Reporting Practice	-.161	-2.034***	Yes
H1a	Appointment → Reporting Practice	-.131	-1.257	No
H1b	Type → Reporting Practice	.199	1.903*	Yes

<i>Hypothesis</i>	<i>Relationships between constructs</i>	<i>Coefficient</i>	<i>t-statistics</i>	<i>Supported</i>
H1c	Existence → Reporting Practice	.133	1.279	No
H2	Governance → Donations	-.415	1.907***	Yes
H2a	Appointment → Donations	-.010	-.116	No
H2b	Type → Donations	-.378	-3.292***	Yes
H2c	Existence → Donations	-.060	-.708	No
H3	Reporting Practice → Donations	.555	3.046*	Yes

Note: *, **, *** represents significance level of 10 percent, 5 percent and 1 percent respectively.

Baron and Kenny (1986) proposed three conditions to establish mediation. First, the independent variables such as governance mechanism must be related to the mediator (reporting practices). Second, the mediator must be related to the dependent variable (individual donations). Third, the significant relationship between the independent variable(s) and dependent variable(s) will be reduced (partial mediation) or no longer be significant (full mediation) when controlling for the mediator. Table 7 provides empirical evidence for the mediation analysis. It can be observed that governance mechanism is significant relationship with and without the existence of the mediator. However, the coefficient score changes while controlling for reporting practices. Hence, reporting practices have an indirect effect on the relationships between governance mechanisms and individual donations.

Table 7
Mediation Analysis

<i>Relationships between constructs</i>	<i>With Mediator</i>		<i>Without Mediator</i>		<i>Indirect Effect</i>	
	β	<i>t</i>	β	<i>t</i>	β	<i>t</i>
Governance Mechanism → Donations	-.415	1.907***	-.583	-4.841***	-.181	-1.815*

Mediator: Reporting Practices

Note: *, **, *** represents significance level of 10 percent, 5 percent and 1 percent respectively.

7. CONCLUSION

Mosques are currently used as a house of worship in all parts of the world and have the ability to play a bigger role in shaping the society. The spiritual nature of this Islamic institution can make a deep psychological impact among Muslims through religious, educational and training programs. This study has tried to integrate the *maslahah* principle of *Shari'ah* with the core objectives of mosques and provided evidence of donations for increasing the ability of mosques in making socio-economic impact in a developing country. There are conventional and Islamic mechanisms available in alleviating poverty, but looking at the problems relating to microfinance schemes and lack of utilisation of Zakat and Waqf funds, this study has looked into another alternative to tackle the problem. It is identified that mosques depend on donations to run their operations, and donations have strong ties with accounting practices. The quality and extent of financial reporting help a charity organisation to show its accountability to stakeholders and secure a sustainable donation. A similar indication is found for mosques operating in Malaysia. However, governance mechanism applied by mosques through the implementation of internal and external auditing revealed a different scenario.

Results indicate that increase in the governance mechanism does not only reduce reporting practices but also negatively affects individual donations. Such findings have significant contributions to charity and governance literature since they shed more light on applicability of stewardship theory in studying Islamic religious charitable intuitions. Management of charity organisations is assumed to be opportunistic based on agency theory. However, this study provides statistical evidence that donors view mosque management as stewards of Allah who requires less control as their objectives are to ensure the benefit of the Ummah. There are several limitations of the study that could be reduced through future researchers focusing on mosques in other Muslim countries. First, the study could not introduce several internal governance mechanisms such as board size, board independence and duality into the model. Second, extent and quality of reporting practices could not be measured through a disclosure index due to lack of financial reports. Lastly, findings of the study will provide valuable guidance to regulators in designing a uniform reporting guidelines for mosques in Malaysia.

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