

Motivations for Voluntary Financial Reporting by Religious Non-profit Organisations (RNPOs) in Malaysia: A Conceptual Paper

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Abstract

Purpose: The study attempts to discuss the feasible motivations that drive RNPOs in Malaysia to perform voluntary financial reporting despite having no mandatory obligations to do so. Institutional logic will be used as a theoretical insight to explain the motivations of voluntary reporting.

Design/methodology/approach: Qualitative approach is chosen as a proposed methodology to collect primary data through semi-structured interviews with selected RNPOs representing the main four religions in Malaysia. Data triangulation will be utilised in analysing the primary findings with the related documents review.

Research limitations/implications: The study will employ field-level analysis which focuses on emergence field-level structure to understand the interplay of institutional logics at a less-focused institutional field.

Practical implications: The study attempts to provide a greater understanding of the underlying motivations for a less-regulated organisational structure to adopt comprehensive private-alike practices.

Originality/value: The study explores the implication of highly fragmented fields in one of the less-researched areas in institutional logic (i.e., emergent field), especially in discussing how contesting multiple logics were aligned and realigned by the organisational actors in achieving legitimacy at different organisational settings.

Keywords: Motivation, Voluntary reporting, Religious non-profit organisations, Malaysia. Institutional logics.

Introduction

As the third sector of Malaysia, non-profit organisations (NPOs) are noticed for their existence and contributions, especially in the current challenging environment of the Covid-19 pandemic. They have been actively helping citizens through a lot of initiatives such as participating in fundraising activities to help those affected by the Covid-19 pandemic (D'Souza, 2020; The

Star, 2021b). However, one issue remains relevant until today where NPOs demonstrate a lack of transparency and accountability practices, giving rise to information asymmetry, accountability, and trust issues among the public. The issues appear to be very concerning which could be a result of the absence of standardized reporting requirements among NPOs in Malaysia (Sapingi, Nelson & Obid, 2020; Roslan, Arshad & Mohd Pauzi, 2017). Subsequently, it negatively impacts the existence and quality of financial reporting made by the NPOs.

Interestingly, some NPOs in Malaysia voluntarily have their financial statements to be audited despite having no statutory obligations to do so (Endut, Taha, Ismail, Ahmad & Muhamad Ali, 2020). This could be an effort to utilize financial reporting as a medium to communicate with the stakeholders to establish trust and confidence. Hence, it is important to understand why certain NPOs engage with voluntary financial reporting even though there is no or lack of financial reporting statutory requirements and guidance for financial reporting. Therefore, the current study proposed to investigate the motivations of voluntary financial reporting through the lens of institutional logic as the theoretical insight. The scope of this study would be the religious non-profit organizations (RNPOs) in Malaysia. The reasons for selecting RNPOs are discussed in the next section. The study will employ a qualitative approach by performing semi-structured interviews with selected RNPOs representing four main religions in Malaysia, then continues to proceed with data triangulation using the information available through documents review.

The next section discusses the background of NPOs in Malaysia and followed by a comparison of the reporting requirements for-profit based organisation and NPOs in Malaysia. Next, this paper will discuss the early findings gathered from the literature, followed by the discussion of the theoretical insights on the research issues. It continues with a discussion on the proposed methodology. Finally, the paper ends with a conclusion.

Background of Non-Profit Organisations in Malaysia

NPOs in Malaysia include societies, associations, foundations, clubs, and companies limited by guarantee (CLBG). NPOs can be divided into two types based on their registration. They can be either registered under two main regulatory bodies namely Registrar of Societies (ROS) or Companies Commission of Malaysia (CCM). NPOs established in the form of the company are incorporated as companies limited by guarantee or CLBG, governed by the Companies Act 2016. On the other hand, another majority of the NPOs' establishments are registered under ROS and their structural requirements, including financial requirements, are governed by the Societies Act 1966. For this reason, different regulatory frameworks between the NPOs lead to unstandardized reporting requirements among the NPOs (CCM, 2014).

Based on the categorisation by ROS, NPOs can be further divided into twelve categories which include one category for NPOs who cannot be classified according to the eleven categories. Among the categories are politics, welfare, religion, social, and culture, and arts. Religious non-profit organizations (RNPOs), therefore, will be the focal point of this research due to their significant contribution to society and are the third-largest group among all other types of NPOs in Malaysia (Zainon, Hashim, Yahaya & Atan, 2013). In addition, recent scandals involving RNPOs also become the reason for choosing RNPOs as the scope of the study.

Reporting Requirements for Profit and Non-profit Organisations in Malaysia

In Malaysia, profit organisations such as companies must register under the Companies Commission of Malaysia (CCM). These profit organisations are bound to comply with the Companies Act 2016 that requires them to submit their audited financial statements annually, by adopting MFRS in preparation of its accounts. As mentioned previously, NPOs in Malaysia are either registered under ROS or CCM. Although these organisations have the same nature of non-profit oriented, a significant difference exists for their financial reporting requirements.

Since CLBGs are registered under CCM, CLBGs are bound to comply with the Companies Act 2016. Therefore, CLBGs have the same obligations with the profit organisations in which they are required to comply with the MFRS and to publish their audited financial statements annually. Contrariwise, ROS only encourages its NPOs to comply with the MFRS and their financial statements are not compulsory to be audited. The NPOs only need to submit their balance sheet and their statement of receipt and payments as stipulated by the Societies Act 1966. Other financial information such as cash flow statements, statements of changes in the general fund, notes on significant accounting policies, and other supplementary statements are not required to be submitted (Roslan et. al, 2017). Nonetheless, ROS highly encourages for NPOs to perform voluntary audited financial reporting in order to comply with the MFRS.

Preliminary Findings on the Research Issues

RNPOs work towards achieving their organisational goals with the central thrust for their existence and operations are often based on their respective religious foundation and beliefs. Despite being founded based on religious beliefs, RNPOs are not excluded when it comes to scandals such as misappropriation of funds and bribery. It was seen that two cases of misuse of funds and bribery were reported involving RNPOs in Malaysia in the first quarter of 2021 (The Star, 2021a; Zulkifli, 2021). Consequently, such scandals attract public attention, especially the donors who demand greater accountability and transparency from their trusted RNPOs.

Correspondingly, proper recording and reporting are essential to provide information to multiple stakeholders in improving accountability and efficiency of non-profit organizations in managing the resources received (Paiva & Carvalho, 2018; Ramli, Md Ali & Muhammed, 2018; Yasmin & Haniffa, 2015). However, lack or no specific guidelines in preparing financial reporting for NPOs in Malaysia has subsequently produce inconsistency of financial reporting among NPOs (Sapingi et al., 2020; Roslan et al., 2017; CCM, 2014). Not only that, smaller NPOs especially do not possess financial expertise and are in need for some guidance with regards to financial reporting (Arshad, Abu Bakar, Sakri & Omar, 2013). It is expected that the presence of reporting guidance could help NPOs to have better financial reporting.

The issue is supported by the findings of CCM (2014) in which they have found that many CLBGs have failed to adopt MFRS in their preparation of financial statements. Even in the context of CLBGs who have statutory obligations to audit and publish their financial statements, low quality of financial reporting and transparency issues are found in the CLBGs' reporting despite having MFRS as guidance. One of the few reasons that could explain this is the non-profit nature of the CLBGs. Accordingly, CCM has acknowledged the need for an introduction of specific accounting standards that suit the nature and operation of non-profit organizations for better transparency and high-quality financial reporting. Their findings affirm the severity of financial reporting made by the NPOs, whether it is mandatory or voluntary reporting.

It is interesting to note that despite there is no mandatory requirement or specific guidance for NPOs in Malaysia to have audited financial statements and to perform financial reporting, some RNPOs voluntarily publish their audited financial statements to the public (Endut et. al, 2020), particularly those RNPOs who registered under ROS. This could be due to escalating cases of mismanagement of funds and fraudulent activities among the RNPOs, further tarnishing their reputation (Saat, Mohamed, Zakaria & Omar, 2013). Hence, financial reporting is seen as a medium to communicate with the stakeholder in the effort to strengthen the relationship with the stakeholders and financial support.

Prior literature manifested few possible reasons that motivate NPOs to perform voluntary financial reporting. Among the reasons discussed in the previous literature are (i) to improve accountability and transparency of the organization (Paiva & Carvalho, 2018) (ii) to gain

financial support from stakeholders (Zainon, Atan & Wah, 2014; Roslan et al., 2017), and (iii) for religious fulfilment (Basri, Siti-Nabiha & Abd-Majid, 2016, Jayasinghe & Soobaroyen, 2009). These motivations are supported by a recent study by Masruki, Hussainey, and Aly (2020) who discussed five different motives of disclosure. The motives consist of political, financial, social, institutional, and governance motives. For instance, the study mentioned that there is a financial motivation to perform disclosure for the sustainability of the NPOs. Since NPOs depend on external funding and are usually self-funding entities, higher disclosure signals the reporting entities to have managed their funds efficiently and might influence the contribution decision (Masruki et. al, 2020).

Although previous studies have studied the motives of disclosure by non-profit organisations, these studies often focused on the public non-profit entities in Malaysia such as zakat institutions and State Islamic Religious Council (see Sapongi, Nelson & Obid, 2017; Masruki et. al, 2020; Sapongi et. al, 2020). Hence, there is an interesting avenue of research for private religious non-profit organizations (RNPOs) which can be further explored. For the purpose of this study, the study intends to understand the motivation of voluntary financial reporting made by private religious non-profit organisations (RNPOs) in Malaysia. Later, the study attempts to provide theoretical insights by connecting the research findings with the institutional logic's perspective.

Theoretical Insights

Organisations face institutional complexity when their existing organisational structures are no longer able to withstand the divergence change imposed by new or rival multiple institutional logics (Greenwood, Raynard and Kodieh, 2011). In general, institutional logic is defined as sets of principles that provide guidelines on how to interpret and function in social situations (Thornton, 2004: 70; Friedland and Alford, 1991). Organisations continuously adapt and as well as influenced by logic to acquire legitimacy from their important audiences, and this is because logic renders an explanation to understand how their audience responds and reacts to changes exerted by the organizations. Over the past two decades, institutional logics have become one of the fastest-growing theoretical development in organizational theory (Thornton and Ocasio, 2008). There are many facets of theoretical buildings in institutional logics that open for further explorations, however, our main interest is to explore how institutional logics behave at various levels of field-level structures.

Prior research on institutional logics found that they are two facets of institutional complexity; 1) the number of logics that existed in the field and 2) the degree of incompatibility of logics towards one and each other (Greenwood et al. 2011). In general premise, institutionalists postulate that when there are more logics exist in the field, the greater will be the complexity facing by the organisations. Thus, the way how the organisations behave and shaped in the field will be determined by the extent of institutional complexity facing by the organisations in which they are located (Greenwood et al. 2011). Despite many studies have been done in various aspects of field-level institutional infrastructures, only a few studies have fully explored the stability of the field-level's structures, and there are three well-known dimensions of field-level structure (i.e., mature, emergent, centralisation) for institutional complexity (Greenwood et al. 2011).

The first field-level dimensions, the mature fields, illustrates the organisational level that is more stabled, and the institutional complexity will be lower and predictable, which at this level, the tensions between multiple logics that competing in the field have been reconciled and/or realigned as compared to emerging fields (Garud, Jain and Kumaraswamy, 2002; Lawrence and Phillips, 2004), examples of the mature field are like accounting, legal, and medical sectors. Meanwhile, studies done at the second field-level dimension, the emergent fields, by contrast, highlight the underlying uncertainty embedded in the institutional arrangement— such as,

highly institutionalised rules in legitimate activities, memberships or affiliations, and unexplored boundaries that have not yet been understood (Fligstein and McAdam, 2011; Garud et al., 2002), examples of the mature field are like non-profit organisation or semi-government sector. The last field-level dimension, the extent of centralisation, concerns the inter-play of the level of power's structure of institutional actors or members in the fields (Greenwood et al. 2011), such as the field of education and state governments.

Hence, the structure of the fields is often unpredictably fragmented, which are due to institutional disturbances or jolts exerted by the changes in institutional environments and/or due to the emergence of divergence actors (Thornton, 2004; Thornton and Ocasio, 2008). Therefore, such organisations located in the fragmented field of structure would face a high degree of institutional complexity and will struggle to fight for legitimacy and material resources (Greenwood et al. 2011).

In this study, we argue that the RNPOs in Malaysia are highly exposed to the ambiguity of the fragmented institutional field in which they are located. As the RNPOs in Malaysia resides in the emergent field-level, which is a fragmented field structure that is governed by loose-regulated statutory laws as compared to privates and governmental sectors, especially when it comes to financial disclosure regulations, the RNPOs are often imposed by private-sector logics to survive, such as adopting private-like strategies in obtaining financial supports (e.g., marketing strategies and operational techniques), and at the same time, they are also required to adhere to government inspirations (or logics) and regulations. However, even though RNPOs are not regulated by the laws and/or not mandated by the regulator (i.e., ROS) to submit their financial report for auditing, some of the RNPOs are voluntarily submitted their financial reports for audit and disclosed their financial and non-financial information for public viewing. This paradoxical issue requires special academic attention to understand the motivations behind the RNPOs initiative to adopt volunteer financial disclosure and auditing even though they are not mandated to do so.

The Malaysian RNPOs who located at emergent-field, expose to a high degree of institutional complexity (i.e., suffer from multiple competing logics) underscore the uncertainty inherent in institutional arrangements, which subsequently pushed them to ceremonially adopted private-business logics in their practices and the acts of disclosing financial and non-financial information is a symbolic-gesture to appeal for legitimacy status from their stakeholders (e.g., donors, members/followers, media, etc). As noted by Greenwood et al. (2011), studies that explore the implication of ambiguity (due to fragmentation of field-structure) is still unclear, thus this study aims to employ institutional logics as underpinning theory to understand how organisations (i.e., RNPOs) that highly fragmented in the emergent fields deal with multiple logics in the fields (between government inspiration and private-business ideology) and what are the strategies that have been employed to deal with contested multiple logics in the fields.

Methodology

To further understand the research issues, a qualitative approach will be employed to offer a deeper and effective way of understanding their reasons, by perceiving the reality from the inside (Gillham, 2000). The data will primarily be drawn through semi-structured interviews and then triangulated with the findings from the documents review. The interviews would involve the management level employees, particularly those who are involved in the financial reporting process. Considering the current situation of the Covid-19 pandemic, online interviews will be offered to the respondents who prefer to not have a face-to-face interview. By doing so, it grants the flexibility to schedule the interview sessions with the respondents, ensuring better information exchange between the researchers and the respondents in understanding the subject matter.

The study aims to include RNPOs that represent the main four religions in Malaysia, namely Islam, Christian, Buddha and Hindu. The RNPOs who are registered with CCM will be excluded from the sample for this study. This is because RNPOs registered under CCM are required to comply with the Companies Act 2016, therefore, requiring them to comply with MFRS and publish the audited financial statements annually. RNPOs that will be selected as the respondents for this study are the RNPOs that are registered under ROS since they have no such requirements. Thus, they make the perfect sample to be studied for us to understand further what motivates them to perform voluntary financial reporting disclosure.

Conclusion

In conclusion, it is important to understand the various motivations that drive RNPOs to report financial information to the public by voluntarily submitting and publishing their audited financial statements. Therefore, to understand the research issues, the current study attempts to investigate the following issues:

1. What motivates the RNPOs to perform voluntary financial reporting disclosure in Malaysia?
2. How does the organization (i.e., RNPOs) that highly fragmented in the emergent fields deal with multiple logics in the fields (between government inspiration and private-business ideology)?
3. What are the strategies that have been employed to deal with contested multiple logics in the fields?

Such understanding will provide useful insights into the various aspect of disclosure practices of RNPOs in improving RNPOs' accountability. Thus, this study wishes to contribute theoretically and practically in the context of RNPOs in Malaysia. In term of theoretical contribution, this study will attempt to explain the empirical research findings using institutional logics perspective in which could possibly enrich the financial reporting literature for NPOs. Practically, the research findings could provide insights to many stakeholders including the regulators in regulating and harmonising the financial reporting environment and requirements for RNPOs and NPOs in Malaysia.

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