

Organizational Strategic Response in Implementing the Indonesian ISFAS 109 on Accounting for Zakat: Case of *Amil Zakat* Agency in Bali

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Abstract

This study addresses an issue of the alternative strategic responses, rather than compliance, to institutional pressure take by a public organization. This study aims to investigate why and how zakat management organizations strategically respond to comply or not to comply with the Indonesian Statement of Financial Accounting Standards of 109 (ISFAS 109) concerning Accounting for Zakat. This study was conducted in National Amil Zakat Agency in Bali, and it applies a case study method with interviews, observation, and document review as data collection techniques. The data were interactively analyzed by applying thematic analysis. The results showed that although a majority of the financial reporting processes could reflect the choice of acquiescence responses (compliance) to the ISFAS 109, other findings revealed the existence of non-compliance responses (compromise-balancing). These non-compliance responses were relating to the context of receiving non-halal funds and the related parties' transactions. It is also found that the existence of this non-compliance behavior can be attributed to the low level of both organizational dependence on its constituents and coercivity of the institutional pressure. This study contributes theoretically by revealing new findings of a significant role of powerful internal actor in shaping the organizational response to institutional pressure. Besides, it have practical implications on policy formulation by the Indonesian Accounting Association as a standard-setter body.

Keywords:

Amil Zakat Agency; institutional pressure; statement of financial accounting standards 109; strategic response; zakat infaq sadaqa (ZIS)

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1. Introduction

Previous literature has presented evidence that public organizations are more vulnerable to institutional pressure than those in the private and not-for-profit sectors (Ashworth et al., 2009; Frumkin & Galaskiewicz, 2004). While many researchers focus on the institutionalization process of public organizations, academic debates also arise regarding the forms of response to the institutional pressures they face (Abernethy & Chua, 1996; Oliver, 1991). Addressing this gap, this study aims to investigate why and how public organizations respond strategically to institutional pressures in their operational environment. Adopting the predictive response framework proposed by Oliver (1991), this study focused on the institutional pressure in the form of obligation to implement the Indonesian Statement of Financial Accounting Standards (ISFAS) 109 regarding Zakat and Infaq/Sadaqa Accounting in one of the districts National Amil Zakat Agency (Badan Amil Zakat Nasional) organizations in Buleleng Regency, Bali (hereinafter referred to as AZA X Regency).

This study is critical to conduct by considering several aspects as follows; firstly, there are still inconsistencies in empirical findings related to public organization response to institutional pressure. Many research (e.g. Akbar et al., 2012; DiMaggio & Powell, 1983; Ridha, 2012; Scott, 2008) found that compliance passive behavior is the only response option for public organizations to the institutional pressures they face to gain legitimacy. Meanwhile, other research found that organizations can implement more active and varied strategies other than in the form of compliance responses. For example, in the form of financial independence (Sanz-Menéndez & Cruz-Castro, 2002), opposition (Grafton et al., 2011), or neglect (Bjork, 2003).

Secondly, the organization's motivation in implementing the accounting rules is still debated. Generally, accounting behavior displayed by public organizations can be closely related to their institutional environment (Aburous, 2018; Falkman & Tagesson, 2008; Potter, 2005). However, Abernethy & Vagnoni (2004), Macintosh & Hopper (2005), and Julianto & Prayudi (2016) found that accounting policies applied by the organizations are political and aim to fulfill the interests of those who dominate the organization. Thirdly, at the practical level, the concept of sharia governance is found to be inadequately implemented at the Amil Zakat Institution (*Lembaga Amil Zakat*—LAZ) even though there are zakat core principles and Decree of the Minister of Religion number 333 of 2015 concerning Guidelines for Granting Permits to establish the Institutions (Abdurahim et al., 2018). In addition, the compliance level and the ISFAS 109 implementation by zakat management organizations (OPZ) in Indonesia is still low (Sofyani, 2019). However, a study by Puspitasari & Habiburrochman (2013) even found that that LAZ in Indonesia tend to take the initiative to disclose some transactions that are not regulated by the ISFAS 109.

Fourth, even though it operates in the largest non-Muslim majority community in Bali, AZA X Regency is a zakat management organization with the best program realization rate in the Province. However, previous research showed that at AZA X Regency, there are still problems in zakat management, Infaq/sadaqah (ZIS), in implementing financial management accountability and also related to compliance with ISFAS 109 implementation 109 (Purwanto et al., 2017; Zen et al., 2017). Interestingly, Riandani, Prayudi, & Dewi (2018) showed that the non-compliance behavior displayed by AZA X Regency is more based on the inconsistency consideration between several rules in ISFAS 109 and Islamic/Sharia Law, which is firmly adhered to by the organization management. This interesting finding is further discussed and is the main consideration in choosing the form of compliance behavior with the application of ISFAS 109 at AZA X Regency as the analysis unit.

In addition, as Sofyani (2019) found, theoretical implication in zakat accounting studies in Indonesia has become a research gap. He said that in a period of approximately 17 years of zakat accounting studies, most researchers focused on practical aspects and ignored the issue of theoretical development. The institutional theory of DiMaggio & Powell was suggested by Sofyani in the context of zakat accounting research. Developing that, this study focuses on institutional pressures in the form of accounting standard implementation in public organizations using institutional theory lens proposed by DiMaggio and Powell. As stated by M. Fuad Nasar as Deputy Secretary of the Central Indonesian National Amil Zakat Agency, IFSAS 109 is a guideline for preparing financial reports that must be applied by National Amil Zakat Agency organizations in all the regions (Republika, 2015). It has received approval from the National Sharia Board of Indonesian Council of Ulama (MUI—*Majelis Ulama Indonesia*) and the Sharia Accounting Standards Board. In DiMaggio & Powell's categorization, this kind of pressure was in the regulatory category because it comes from the mandate given by the government (Akbar et al., 2012; Bruton et al., 2010; Prayudi & Basuki, 2014; Wang et al., 2017).

This study also adopted the predictive response framework from Oliver (1991) which stated that organizations do not always adopt the rules, myths, and expectations of their institutional environment. Also, political, personal, and group interests are recognized to play important roles in making a decision related to responses form displayed in the organizations. Furthermore, Oliver (1991) proposed five categories of organizational strategies in responding to the institutional pressures, namely the form of acquiescing, compromise, avoid, defy, and manipulate. The "acquiesce" response is categorized as a form of passive strategy because it can indicate the organization's submissive behavior and its compliance with institutional pressures. Meanwhile, the other four response forms are categorized as more active (Clemens & Douglas, 2005). Besides, each strategy contains specific tactics as described in detail in Table 1.

Oliver (1991) also proposed that certain conditions influence the organization's options on the available strategic response form. The conditions include (a) the legitimacy level of the perceived institution expectations; (b) aspects of the economic benefits that can be obtained; (c) the degree to which each organization constituent has conflicting institutional expectations; (d) the dependence level of the organization on external constituents; and (e) aspects of the organizational internal political interests. Also, there are 10 predictive factors in five different categories as antecedents of the five forms of strategic responses discussed in the previous section. These factors are described in more detail in Table 2.

Next, this study proposed a proposition that response form of compliance with ISFAS 109 will be displayed by AZA X Regency, when:

P₁: the perception of obtaining legitimacy from the regulator and the efficiency increment (economic gain) of the organizational management is high;

P₂: the constituent diversity level is low and the independence degree of the organization on the interests of external constituents is high;

P₃: consistency level of the institutional pressure in the form of mandatory ISFAS 109 application with organizational goals are classified as high and the limitation level of authority by institutional pressure is low;

P₄: the level of coercivity of control over institutional pressure on the organization is classified as strong

However, when these conditions are not met, the AZA X Regency organization will

show non-compliance behaviors to the ISFAS 109 application, ranging from compromising, avoiding, defying, and manipulating.

Table 1. The Strategic Responses to Institutional Pressure

Strategies	Tactics	Meanings
Acquiesce	Habit	Unconscious adherence to rules or values previously assigned or taken for granted.
	Imitate	Consciously or unconsciously mimicking institutional models (such as successful organizations).
	Comply	Conscious obedience or self-integration of institutional values, norms, or rules.
Compromise	Balance	Accommodating various demands and expectations from external and internal constituents of the organization.
	Pacify	Fulfilling institutional demands at the minimum level to 'please' external parties.
	Bargain	Demanding certain agreements to external parties in a negotiated manner.
Avoid	Conceal	Concealing non-compliance by presenting activities as though they are expected.
	Buffer	Limiting external parties' access to the technical activities of the organization to reduce the possibility of being evaluated.
	Escape	Leaving the institutional environment or significantly changing the goals and activities of the organization.
Defy	Dismiss	Ignoring institutional norms and values
	Challenge	Resisting rules and requirements.
	Attack	Underestimating or criticizing the institutionalized values and external constituents from which they are based.
Manipulate	Co-opt	Persuading external constituents to be in coalition
	Influence	Influencing the formation of institutional values and criteria.
	Control	Dominating constituents and institutional processes.

Source: Oliver (1991)

Table 2. Institutional Pressure Antecedents and Predicted Strategic Responses

Predictive Factors	Strategic Responses				
	Acquiesce	Compromise	Avoid	Defy	Manipulate
Cause					
Legitimacy	High	Low	Low	Low	Low
Efficiency	High	Low	Low	Low	Low

Constituents					
Multiplicity	Low	High	High	High	High
Dependence	High	High	Moderate	Low	Low
Content					
Consistency	High	Moderate	Moderate	Low	Low
Constraint	Low	Moderate	High	High	High
Control					
Coercion	High	Moderate	Moderate	Low	Low
Diffusion	High	High	Moderate	Low	Low
Context					
Uncertainty	High	High	High	Low	Low
Interconnectedness	High	High	Moderate	Low	Low

2. Method

This study employs a qualitative research type with a case-study strategy. Case study can provide an overview of how social influences on a macro scale will shape structures and processes in certain contexts on a micro-scale (Neuman, 2014). This strategy was chosen because it directs the research team to answer “how” and “why” a social phenomenon happens (Yin, 2003, 2018) as the main objective of this study. The phenomenon which then becomes the unit of analysis (case) is a form of response from public organizations in the religious sector, namely the AZA X Regency, to the institutional pressures, namely the obligation to implement ISFAS 109 related to *Zakat* and *Infaq/Sadaqa* Accounting. Therefore, this study adopted the predictive response framework proposed by Oliver (1991) to explain the antecedent factors and forms of an organizational strategic response to the institutional pressures.

The data collection methods included an interview, observation, and document study. A semi-structured interview was conducted with six informants, namely (a) Head Commissioner of AZA X Regency (BX1); (b) the Treasurer of AZA X Regency (BX2); (c) the operator of AZA X Regency (BX3); (d) two active *muzzaki* AZA X Regency (MX1 and MX2); and (e) Islamic religious leaders in District X (TX). Informant names were codified to maintain confidentiality. The interview process was carried out face to face by providing open-ended type questions, therefore the informant had the freedom to answer according to their perspectives, experiences, and opinions. Furthermore, the interview was conducted at the AZA X Regency office and the informant's private residence for one to two hours per informant, and the results were recorded with their permission. The interviews were conducted by first contacting and requesting permission from the Head Commissioner of the AZA X Regency. The Head Commissioner was the key informant by considering the central role in the organization and the characteristics of openness, acceptance, and good communication skills. Meanwhile, others were determined based on the Head Commissioner's recommendations, and consideration of the research needs.

Table 3. Interview Guideline

Predictive Factors	Components	Explorative Questions
Cause	Legitimacy Acquisition	1. Why does the organization apply ISFAS 109?
	Efficiency Enhancement	2. What are the benefits of ISFAS 109 implementation for the organization?

Constituent	Diversity Level	1. Who are the parties involved in ISFAS 109 implementation in the organization?
	Dependence Degree	2. How are the relationship and interaction patterns between the organization and the parties?
Content	Objective Consistency	1. How are the links between the rules in ISFAS 109 and the goals of the organization in general?
	Performance Limits	2. Do the rules in ISFAS 109 accommodate routine operational matters of the organization in the context of accountability for ZIS fund management?
Control	Coercive	1. How is the monitoring and evaluation mechanism for the implementation of ISFAS 109 in the organization?
		2. How is the application of reward and punishment with the application of ISFAS 109?
Response Forms		1. How is the application of ISFAS 109 in the organization?

3. Result and Discussion

3.1. Predictive Factors of Organizational Strategic Response

Perceptions of Potential Legitimacy and Efficiency Achievements from the ISFAS 109 Implementation (Proposition 1).

The description of obtaining legitimacy potential (social stability) was carried out by evaluating whether AZA X Regency perceived that ISFAS 109 implementation can increase the organization's capability in effectively and efficiently managing *zakat* to achieve mandated social goals. Article 3 paragraph (b) in the Republic of Indonesia Law Number 23 of 2011 concerning *Zakat* (Law 23/(2011) states that the management of *zakat* is aimed at increasing its benefits to bring community welfare and poverty alleviation into reality. The law also regulates the role of AZA as an authorized institution to nationally carry out *zakat* management tasks (article 6) and its functions in terms of reporting and accountability for the implementation (article 7 paragraph (1) letter d). However, the Indonesian Accountants Association (IAI) as the accounting standard-setter institution states that ISFAS 109 is needed to support *zakat* management transactions by the institutions that are becoming more complex (Ikatan Akuntan Indonesia (IAI), 2010).

AZA X Regency admitted that ISFAS 109 implementation was initially motivated by the mandate from Central AZA to Provincial and Regency/City AZA throughout Indonesia. The mandate was accepted by AZA X Regency when participating in socialization and training on the operation of the ISFAS 109-based financial reporting system held by AZA Bali Province at the end of 2016. In this activity, it was conveyed that the Central AZA had previously coordinated with the Ministry of Religion as the regulator to agree on the obligation to implement ISFAS 109 in *zakat* management organizations throughout Indonesia. This confirms that there are regulative institutional pressures addressed to AZA X Regency.

Regulative pressure is a form of institutional pressure that arises when relative pillar-related institutions direct the actors to behave rationally based on sanctions consideration and compliance aspects (Scott, 2005). Meanwhile, the actors (organizations) that receive the pressures will be motivated to display compliance responses to gain legitimacy and social stability through uniformity of internal structures, including the structure of their financial reporting system. Also, the motivation to obtain legitimacy like this appears in the context of the ISFAS 109 application to AZA X Regency as implied in the statement in one of the following key informants:

“...by implementing ISFAS 109, it means that we have entered into AZA category that obeys the rules of central AZA ... [Moreover] we have high hopes that the implementation of ISFAS 109 with all the rules will make us an amil zakat institution that is trusted by the people. ... ”—BX1.

The interview results showed a perception from the AZA X Regency that by implementing ISFAS 109, the organization will be judged to pursue things that are under the demands and expectations of its social environment, which is the realization of management and accountability of better quality ZIS funds. This is relevant to the legitimacy concept by Dowling & Pfeffer (1975) that is interpreted as conformity between social values, which can be implicated from organizational activities with behavioral norms accepted by the larger social system. Also, legitimacy becomes important for organizations to maintain operational existence and sustainability because it can have consequences on obtaining economic and financial support (Akbar et al., 2012). These findings confirm by Abu, et al. (2014) which found that the process of adopting international accounting standards (IFRS) in Romania is closely related to fulfilling interested parties' legitimacy (stakeholders), namely national accounting standards regulators, accountants, financial report compilers and auditors. It is also consistent with Pujianto & Asrori (2015) who found that *zakat* and *Infaq/Sadaqa* management organizations in Semarang consider the stakeholders' perceptions in recognizing, measuring, presenting, and disclosing ZIS funds based on Indonesian ISFAS 109. In addition, it confirms Syaifuddin (2021) that the implementation of PSAK 109 by LAZ is intended to maintain public trust.

However, ISFAS 109 implementation in the ZIS fund's management and financial report at the AZA X Regency is believed to ease the revenue record and expenditure of relative funds to the use of the SIMBA application. This is as stated by the following informants:

“...it is easier for us to make details of the income, expenditure items, and accumulate all financial administration programs... it is more detailed so that even one rupiah will not be less from the balance, [because in the system] there is a “red mark” [notification of recording error—author]... In other words, it minimizes errors...”—BX3

“... [ISFAS 109 implementation] eases the operator to access all data which is then used to explain the muzakki so that AZA has a good image in the society...”—BX1.

Generally, *Zakat* Accounting application in ZIS fund management organizations is indeed directed to ensure the availability of information needed to appropriately, efficiently, and effectively manage *zakat* funds (Nugraha et al., 2018). This is in line with the mandate of

Law 23/2010 on *Zakat* Management which emphasizes the purpose of managing funds in increasing the effectiveness and efficiency of services and increasing the benefits of *zakat* to make community welfare and poverty alleviation into reality. These findings confirmed Megawati & Trisnawati (2014) related to the economic consequences which have been obtained by AZA Pekanbaru City because of the ISFAS 109 implementation. Therefore, it can be concluded that the potential level of obtaining legitimacy and increased performance efficiency as causal predictive factors of the strategic response to ISFAS 109 implementation is in the high category.

Multiplicity and Dependence on External Constituents (Proposition 2)

Oliver (1991, p. 162) defined multiplicity as the levels of varying and conflicting expectations given by interested parties to an organization. Diversity can affect how organizations respond to institutional pressure because conflicting expectations will limit their ability to agree with certain expectations. In the AZA X Regency organization, an analysis of the number and types of external constituent groups shows that the diversity level tends to be categorized as low. Also, the organization's constituents only range from the regulator (Ministry of Religion of the Republic of Indonesia, AZA Center, AZA of Bali Province), Regional Government of X Regency, the *Zakat* Management Unit (UPZ) as well as the *muzakki* and *mustahiq* parties. As described in the previous section, the regulator is the main party that becomes a source of institutional pressure for the AZA organization and therefore has expectations of organizational compliance in implementing ISFAS 109. Meanwhile, the *muzakki* were indicated not very aware of the obligation to implement ISFAS 109 in the AZA X Regency organization, hence it does not have certain expectations for its application as implied by the interview results as follows:

"I have never heard of the [ISFAS 109 — author] rule... What is clear is that so far my family and I have been able to easily distribute zakat because AZA will help distribute it to people who are entitled to receive." - MX1

"I think the zakat management is good ... There are reports that have been made by computer." - MX2

"It seems they (muzakki - author) do not know about ISFAS 109 ... They know that the process is online, just like that." - BX1

This can represent a conflict of interest absence between significant and influential constituents in the AZA X Regency institutional environment regarding the obligation to implement ISFAS 109, therefore it minimizes the possibility of the organization not being obedient in responding to these institutional pressures.

However, the interview results showed a low dependence level of the organization on the main constituents as follows:

"We, especially in Bali, still have no subsidies from the local government for organizational operations. [Whereas] after the law was formed, the operation of this [organization] was borne by the regional government. Even the position of the commissioner [head of the organization] is equivalent to the rank IIIb at his level... Yes, the same as the KPU commissioner... "—BX1.

A similar thing was expressed by other informants as follows:

“The source of funding for the organization is mainly from zakat funds obtained from the public. None of that from the Ministry of Religion or Central AZA.” - BX2.

“We submit proposals every year, hence funding [for AZA X Regency] is included in the APBD, but until now, Alhamdulillah, there has been no response. The financial reports that we deposit every three months to the local government are just received without any follow-up response.” -BX3.

Oliver (1991) stated that the dependence degree of an organization on certain constituents can be implicated from the number of alternative sources to obtain capital or resources, or the percentage of the total agency budget that is funded by one constituent. The findings in this study showed that constituents that are the source of institutional pressure (Central AZA) are not sources of obtaining resources for AZA X Regency. This is true as regulated in Government Regulation Number 14 of 2014 (PP 14/ (Peraturan Pemerintah Republik Indonesia Nomor 14 Tahun 2014 Tentang Pengelolaan Zakat, 2014)) concerning *Zakat* management article 69 paragraph 1, which states that “the operational costs of the provincial and regency/city AZA are charged to the regional revenue and expenditure budget and *Amil* Right”. However, ironically, the regency X government seems unable to properly carry out the PP mandate 14/2014. Therefore, it can be concluded that the multiplicity level of external constituents at AZA X Regency is categorized as low, with the degree of independence on constituents which also tends to be categorized as low.

Consistency between Implementation of ISFAS 109 and Achievement of Organizational Goals (Proposition 3).

Institutional pressure in form of an obligation to implement ISFAS 109 at AZA X Regency is admitted to be very accommodating to the duties and authorities of the organization in managing and being accountable for ZIS funds deposited by the community. Also, the ISFAS implementation is recognized as following the objectives of AZA X Regency as stated in the organization's vision, namely “To Become a Trustworthy, Transparent, and Professional *Amil Zakat* Institution.” Likewise, in the organization's mission statement document, it is stated that AZA X Regency strives to increase the collection and utilization of regional *zakat* under sharia provisions and modern management principles, as well as to develop managers who are trustworthy, transparent, accountable, and integrated, that can make *zakat* data center for the region/ X Regency.

Interestingly, the key informant showed that in the previous periods before the ISFAS 109 implementation, AZA X Regency had communicated with AZA Bali Province to provide a better financial management system and following the rules. The request was made to ensure that the demands for accountable and transparent ZIS fund management are met. This is as stated as follows:

“... Our AZA has many demands. Firstly, demands from public accountants because we manage people's money so that it is not scattered, thereby eliminating the belief of the people to deposit funds to AZA. Secondly, there is a Sharia accountant... Therefore, we urge the province how to make a really good system... and it turns out that it is connected to the central [AZA] program which makes ISFAS 109 to be coordinated with

the center... ”—BX1.

“[AZA operational] is not limited by ISFAS 109, because ISFAS 109 is a guideline that complements other regulations related to the management of ZIS funds other than Law No. 23 of 2011; PP No. 14 of 2014. ”- BX2.

Therefore, it can be concluded that the consistency level of institutional pressure in the form of obligation to implement ISFAS 109 with the aim of the AZA X Regency is high and the limitation level on organizational authority by institutional pressure is low.

Types of Controls Felt from the Implementation of ISFAS 109 (Proposition 4)

As stated in the initial discussion, the application of ISFAS 109 to AZA X Regency is perceived as an obligation based on regulatory pressure exerted by the Central AZA. Nevertheless, the control environment felt by the Regency on the obligation to implement ISFAS 109 is classified as not too strong. Meanwhile, the reward and punishment mechanism which tends to be flexible, implemented by the government and the Central AZA as the regulator, does not seem too motivating and does not provide incentives for the AZA X Regency to fully implement the provisions of ISFAS 109. This is as stated by the informants as follows:

“For monitoring, the ISFAS 109 implementation is carried out by a public accountant who is assigned and financed by the Central AZA ... with the results of “Received Conditionally”, “Received Unconditionally” or “Fully Received”... Finally we received the status” Received Conditionally ”... No sanctions or consequences, only a recommendation to further improve [the quality of financial management]. ”- BX1.

“We report financially to the regent every three months, we also copy them to the Regional Office of the Ministry of Religion, copy them to AZA Bali Province, as well as the Ministry of Religion in Regency X and the Zakat Management Unit ... We just accept the response to the financial report, no follow-up. ”- BX3.

The interview results showed that there was a higher preference/concern for fulfilling the obligations of fund management under sharia relative to fulfill obligations based on conventional rules (ISFAS 109). This is implied by the following key informant statement:

“Audit by public accountants was related to the accuracy of income and expenditure of [ZIS funds], while the audit by a sharia accountant is related to the distribution accuracy... [If] the public accountant is already good [the results of the financial examination], but by the sharia accountant [is stated] wrong, it becomes a fatal mistake.”- BX1.

Table 4. Summary of Findings of Predictive Factors for Strategic Response of AZA X Regency

Predictive Factors	Findings Summary	Conclusion
Cause		
<ul style="list-style-type: none"> The motivation of Legitimacy Gain 	<ul style="list-style-type: none"> Feeling that they are one of the AZA who obeys the rules of the Central AZA (BX1) Hoping to be a trustworthy amil zakat 	<ul style="list-style-type: none"> The level of motivation to gain legitimacy is high

Predictive Factors	Findings Summary	Conclusion
<ul style="list-style-type: none"> The motivation for Efficiency Enhancement (<i>economic gain</i>) 	<ul style="list-style-type: none"> <i>institution (BX1)</i> <i>Easier to manage ZIS (BX3) funds</i> <i>More accountable and transparent to muzzaki (BX1)</i> 	<ul style="list-style-type: none"> The level of motivation to achieve efficiency is high
Constituent <ul style="list-style-type: none"> Multiplicity level 	<ul style="list-style-type: none"> <i>Regulators have expectations of compliance with the implementation of ISFAS 109 (BX1)</i> <i>Muzzaki did not know about ISFAS 109 (MX1; MX2; BX1)</i> 	<ul style="list-style-type: none"> The level of the multiplicity of the constituents is categorized as low
<ul style="list-style-type: none"> Dependence degree 	<ul style="list-style-type: none"> <i>No subsidies from local governments (BX1)</i> <i>No funding from the Ministry of Religion or Central AZA (BX2)</i> <i>There is no response from the local government regarding the funding proposal (BX3)</i> 	<ul style="list-style-type: none"> The degree of dependence of the constituents is low
Content <ul style="list-style-type: none"> Consistency of goals 	<ul style="list-style-type: none"> <i>ISFAS 109 implementation is under the organization's vision and mission (BX1)</i> <i>ISFAS 109 complements the ZIS management guidelines (BX2)</i> 	<ul style="list-style-type: none"> The level of goals consistency is high
<ul style="list-style-type: none"> Performance restrictions 		<ul style="list-style-type: none"> The level of performance restrictions is low
Control <ul style="list-style-type: none"> The coercivity of institutional pressures 	<ul style="list-style-type: none"> <i>No sanctions, only a recommendation (BX1)</i> <i>There is no follow-up from the regulator on the reported financial statements (BX3)</i> 	<ul style="list-style-type: none"> The level of coercivity to institutional pressure is low
Predictive Factors	Findings Summary	Conclusion
Cause <ul style="list-style-type: none"> The motivation of Legitimacy Gain 	<ul style="list-style-type: none"> <i>Feeling that they are one of the AZA who obeys the rules of the Central AZA (BX1)</i> <i>Hoping to be a trustworthy amil zakat institution (BX1)</i> 	<ul style="list-style-type: none"> The level of motivation to gain legitimacy is high
<ul style="list-style-type: none"> The motivation for Efficiency Enhancement (<i>economic gain</i>) 	<ul style="list-style-type: none"> <i>Easier to manage ZIS (BX3) funds</i> <i>More accountable and transparent to muzzaki (BX1)</i> 	<ul style="list-style-type: none"> The level of motivation to achieve efficiency is high
Constituent <ul style="list-style-type: none"> Multiplicity level 	<ul style="list-style-type: none"> <i>Regulators have expectations of compliance with the implementation of ISFAS 109 (BX1)</i> <i>Muzzaki did not know about ISFAS 109</i> 	<ul style="list-style-type: none"> The level of the multiplicity of the constituents is categorized as low

Predictive Factors	Findings Summary	Conclusion
	(MX1; MX2; BX1)	
<ul style="list-style-type: none"> • Dependence degree 	<ul style="list-style-type: none"> • No subsidies from local governments (BX1) • No funding from the Ministry of Religion or Central AZA (BX2) • There is no response from the local government regarding the funding proposal (BX3) 	<ul style="list-style-type: none"> • The degree of dependence of the constituents is low
Content		
<ul style="list-style-type: none"> • Consistency of goals 	<ul style="list-style-type: none"> • The implementation of ISFAS 109 is under the organization's vision and mission (BX1) 	<ul style="list-style-type: none"> • The level of goals consistency is high
<ul style="list-style-type: none"> • Performance restrictions 	<ul style="list-style-type: none"> • ISFAS 109 complements the ZIS management guidelines (BX2) 	<ul style="list-style-type: none"> • The level of performance restrictions is low
Control		
<ul style="list-style-type: none"> • The coercivity of institutional pressures 	<ul style="list-style-type: none"> • No sanctions, only a recommendation (BX1) • There is no follow-up from the regulator on the reported financial statements (BX3) 	<ul style="list-style-type: none"> • The level of coercivity to institutional pressure is low

Therefore, it can be concluded that the level of coercive control over institutional pressure in the form of the obligation to implement ISFAS 109 felt by the AZA X Regency is low.

Table 4 then presents the summary of the findings related to predictive factors for the strategic response of the AZA X Regency organization to institutional pressure in the form of obligation to implement ISFAS 109. There are the motivation of AZA X regency to be able to image itself as a trustworthy *amil* zakat institution (gaining legitimacy) as well as the perception of ease in managing organization fund (increasing efficiency) through the implementation of PSAK 109. From the 'constituent' category, it is found that there are no such varying and conflicting expectations given by interested parties to an organization since the *muzzaki* are not very aware of the obligation to implement ISFAS 109 in the AZA X Regency organization. It is also observed that the implementation of PSAK 109 is recognized as having a high degree of consistency with organization goals. Lastly, the organization feels the less coercive control from regulator as there is no follow-up from the regulator on the reported financial statements.

3.2. Organizational Strategic Response: The ISFAS 109 Implementation

The application of ISFAS 109 concerning the Accounting for *Zakat* and *Infaq/Alms* at AZA X Regency is represented in the implementation of the principle of financial reporting. From the Principles of Recognition and Measurement, AZA X Regency is observed to have applied the principles following ISFAS 109. An interesting point was found related to the application of the recognition and measurement principle of non-halal funds in the AZA X Regency. As described in ISFAS No. 109 paragraph 32, received non-halal funds are from activities that are not under sharia principles, including from current accounts or interest from conventional banks (*Ikatan Akuntan Indonesia – (IAI), 2010*). Furthermore, paragraph 33 of

ISFAS 109 also states that the received non-halal funds are recognized as non-halal, which are separate from *zakat*, *Infaq/alms*, and *amil* funds. Meanwhile, non-halal assets are channeled accordingly to sharia. In practice, until now AZA X Regency has never been willing to accept these funds because AZA is very adherent to sharia law, which prohibits the management of non-halal funds containing '*riba*' (usury). This is as stated as follows:

"... Regarding non-halal funds, it is not wrong to make regulations such as disclosing them because we understand that this is to clarify transactions. But for AZA X Regency itself, we still haven't and hope that we will never manage non-halal funds, and we hope that there are no urgent conditions that will make us manage these funds. Because as we know that non-halal funds or what we now know as funds that contain an element of 'riba' (usury) are strictly prohibited by Islam except in very urgent conditions."- BX1.

Related to the Principles of Presentation, at AZA X Regency, ZIS funds are reported in received and distributed funds, meanwhile, *amil* funds are presented in form of *amil* cash reports. The financial statements have been presented based on ISFAS 109. However, with the consideration that several accounts are still not understood by *amil*, financial statement preparation still does not follow those stipulated in ISFAS 109. AZA X Regency has prepared financial statements based on ISFAS No. 109 with components as (a) Statement of Financial Position; (b) Fund Change Report; (c) Report on Changes in Assets under Management; (d) Cash Flow Statement, and (e) Notes to Financial Statements. Finally, from the Principles of Disclosure, at AZA X Regency, several discrepancies were found in applying the principle of disclosing *zakat* funds as regulated in paragraph 35 of ISFAS 109. Firstly, there was no policy disclosure regarding the priority scale of *zakat* distribution. Secondly, for the fair value determination method, *amil* recognizes an amount that is not recognized as a non-cash asset but as cash. Thirdly, the *amil* party did not disclose the nature of the special relationship between *amil* and *mustahiq*, because the *amil* party had never distributed *zakat* funds to *mustahiq* which had kinship or special relationships. Meanwhile, regarding the third non-conformity, this policy was taken by considering the rules of Sharia Law as revealed below:

"So far, we have never had a special relationship. Even though, I'm sorry, nephew... If we can afford it [financially], then come here, we will refuse. So [this distribution of zakat funds] is indeed valid proportionally and under Sharia. "- BX1.

In general, the behavior of implementing ISFAS 109 by AZA X Regency related to recognition and measurement principles as well as presentation principles in the financial reporting process reflects strategic response options in the form of acquiescence towards perceived institutional pressures. However, there are indications of organizational non-compliance behavior when dealing with the context and situation of receiving non-halal funds and related relationship transactions. Implicitly, AZA X Regency expressed receipt rejection of non-halal funds and special relationship transactions even though the rules in ISFAS 109 have facilitated the procedures for their recognition and measurement under urgent conditions. This can imply that there are efforts to accommodate internal parties' interest of the organization who always adhere to the Islamic Sharia Principles relative to institutional pressure by regulators. Therefore, referring to Oliver's framework, this form of strategic response can be categorized into compromise behavior in a balanced strategy.

These findings confirm the accuracy of the predictive factors for Oliver's (1991) strategic response according to the proposed research proposition. In AZA X Regency, it was found that not all conditions that lead to the form of compliance can be fulfilled in the context of implementing ISFAS 109. Also, the degree factor of organizational dependence and control level coercivity gave by institutional pressure on AZA X Regency is categorized as low. Following Oliver's (1991) strategic response framework, this condition can lead organizations to respond to institutional pressures with the choice of non-compliance behavior (Grafton et al., 2011) as empirically found in AZA X Regency. Also, the superiority of authority and competence of the Head Commissioner can be a significant factor for the organization to choose a particular response displayed. From the interview results, it is clear that the Head Commissioner has a stronger preference for the application of Islamic Sharia rules relative to the ISFAS 109 application. Furthermore, the existence of central actors in the organization is believed to play a role in determining the strategic decisions of the organization, including responding to the institutional pressures (Abernethy & Chua, 1996; Albu et al., 2014). This is also predicted by Oliver (1991) that the initiated strategic framework needs to consider the existence of cohesive organizational beliefs and internal cultures as a triggering factor for non-compliance behaviors against institutional pressure.

Table 5. presents a summary of the findings related to response forms of ISFAS 109 implementation at the AZA X Regency.

Table 5. The Findings Summary Related to Response Forms of ISFAS 109 Implementation at AZA X Regency.

Principles of Financial Reporting	Provisions in ISFAS 109	AZA X Regency's Response Category
Recognition and Measurement	Receipt recognition of ZIS when cash or other assets are received	Approve (Comply)
	Recognition of <i>zakat</i> funds received from <i>muzakki</i> as an addition to <i>zakat</i> funds	Approve (Comply)
	Recognition of <i>zakat</i> funds received in the <i>amil</i> fund classification for the <i>amil</i> portion and <i>zakat</i> funds for the non- <i>amil</i> portion	Approve (Comply)
	Measurement of the number or percentage of portions for each <i>mustahiq</i>	Approve (Comply)
	Recognition of <i>zakat</i> funds when the <i>muzakki</i> determines the <i>mustahiq</i> who must receive <i>zakat</i> distribution through <i>amil</i>	Approve (Comply)
	Recognition of impairment of ZIS assets	
	Recognition of ZIS funds distributed to <i>mustahiq</i> as a deduction from ZIS funds	
	Recognition and measurement of receipt of non-halal funds and assets	Approve (Comply) Approve (Comply) Compromise (Balancing)

Presentation	Presentation of financial statements Separate presentation of ZIS funds and non-halal funds	Approve (Comply) Compromise (Balancing)
Disclosure	Disclosure of <i>zakat</i> fund transactions related to a) <i>zakat</i> distribution policies; b) the policy of sharing between <i>amil</i> funds and non- <i>amil</i> funds for the received <i>zakat</i> ; c) the method of determining the fair value used to receive <i>zakat</i> in the form of non-cash assets; d) details of the amount of <i>zakat</i> fund disbursement, and e) a special relationship between <i>amil</i> and <i>mustahiq</i>	Compromise (Balancing)

4. Conclusion

This study aims to investigate why and how public organizations strategically respond to institutional pressures in their operational environment. This was conducted on institutional pressure in the form of the obligation to apply ISFAS 109 concerning Accounting for *Zakat* and *Infaq/sadaqa* at religious public organizations, namely the National *Zakat* Agency (AZA) in X Regency in Bali Province. The results showed that there were variations in the levels of predictive factors for organizational strategic responses to institutional pressures as proposed by Oliver (Oliver, 1991). In AZA X Regency, the level of motivation to gain legitimacy and the perception of achieving efficiency (economic gain) is categorized as high, while the level of constituent diversity and the degree of organizational dependence on constituents is low. However, the consistency level of institutional pressure with the objectives of AZA X Regency is high and the limitation level of organizational authority by institutional pressure is low. Finally, the level of coercive control over institutional pressure in the form of the perceived obligation to implement ISFAS 109 is low. Meanwhile, although the majority of the organization's financial reporting processes can reflect the response options of approving and compliance, other findings showed non-compliance (compromise-balancing) behavior related to ISFAS 109 implementation to AZA X Regency, especially in the context of receiving non-halal funds and special relationship transactions.

This study makes an important contribution to the existing literature. Firstly, it provides empirical evidence of institutional pressure's role in shaping organizational behavior, in this case, the behavior of applying national accounting standards. Secondly, the results complement the findings of previous studies that focus on administrative public organizations (for example, local government organizations) because they were carried out in professional institutions (in the religious sector) which were also vulnerable to regulatory pressure. Thirdly, this study generally confirmed the accuracy of the predictive factors for strategic responses proposed by Oliver (1991) with new findings that there is a role for internal actors as significant determinants of organizational response choices to institutional pressure. Besides, this study can have practical implications for policies formulation by the Indonesian Accounting Association as the standard-setter in the country regarding matters that need to be regulated (or reregulated) in ISFAS 109, especially regarding non-halal funds. Also, the involvement of related parties, for example, the Indonesian *Ulama* Council, the Sharia Supervisory Board, and other parties are deemed necessary for the formulation in ISFAS 109 to be applied without any hesitation with Islamic Sharia application (Roziq & Yanti, 2015).

This study, of course, has some limitations; therefore, the findings need to be carefully interpreted. Unlike in previous research (e.g. Abernethy & Chua, 1996; Albu et al., 2014;

Clemens & Douglas, 2005; Grafton et al., 2011) which compared the form of strategic responses in several organizational units, this study was limited to only AZA regency organization in Bali Province. This can have consequences on the quality of predictive accuracy as proposed in the strategic response framework (Grafton et al., 2011). However, this study has succeeded in uncovering non-compliance indications with institutional pressures due to the existence of strong internal beliefs and culture in organizations that receive these pressures, as expected by Oliver (1991: 173). Therefore, further research can develop a unit of analysis in several organizational units dominated by professionals who tend to maintain communal beliefs and independence in performance (Abernethy & Vagnoni, 2004; Prayudi & Basuki, 2014; Scott, 2014).

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