ORGANIZATIONAL CULTURE, FINANCIAL REPORTING QUALITY, AND GOOD GOVERNANCE: EVIDENCE FROM ISLAMIC FINANCIAL INSTITUTIONS

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Abstract

This study aimed to verify the magnitude of the influence of organizational culture on the quality of financial reporting and its impact on good governance in zakat bodies and institutions in Indonesia. The magnitude of the gap between the potential and realization of zakat accumulation due to not yet growing awareness about the benefits of zakat and the lack of public trust in the institution of zakat tended to surrender their own zakat directly (Subiyanto, 2014; Zuraya, 2013; Jahar, 2010). The study was in the form of explanatory research using primary data and a questionnaire, as a research instrument, with regression analysis tools and unit analysis in zakat agencies and institutions in Indonesia. The results showed that organizational culture had a significant effect on the quality of financial reporting and good governance in the medium and low categories, the quality of financial reporting had a significant effect on the good governance in the low category, and the organizational culture had an indirect effect on good governance in low quality on financial reporting.

Keywords: Financial Reporting Quality, Good Governance, Zakat, Jakarta, West Java, Organizational Culture

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1. INTRODUCTION

Zakat, in a macroeconomic aspect, is an alternative policy of anti-gap and poverty (Kahf, 1990; Mannan, 1997; Santoso, 2002). The issue of concept of zakat implementation is a very popular component of public finance. This is triggered by the issuance of Law No. 23 in 2011 on zakat management as a stronger legal protection in Indonesia, as well as efforts to support the fact that Indonesia is a country with the largest Muslim population in the world having obligations to pay zakat both zakat fitrah and treasure. Further, the law mentions the institution authorized to perform the task of zakat management nationally is the national board of zakat aided by the Amil Zakat Agency.

The research results of the National Board of Zakat, Bogor Agricultural Institute (*Institut Pertanian Bogor* — IPB) and Islamic Development Bank (*Bank Pembangunan Islam* — IDB), showed the potential of zakat. Indonesia, in 2016, amounted to Rp 442 trillion while the realization of zakat on average for 5 years was only 1.04%. The magnitude of the gap between the potential and realization of zakat accumulation is caused by various factors, such as the lack of awareness of the importance and benefits of zakat, and the lack of public trust in the zakat institution tended to submit their own zakat directly (Subiyanto, 2014; Zuraya, 2013; Jahar, 2010). Indonesia Magnificence of Zakat (IMZ, 2011) showed the proportion of zakat absorption by Zakat Collection Agency (*Lembaga Pengumpul Zakat* — LPZ) was very small, only able reaching 4.4%. Direct zakat delivery, for example to relatives, will hamper efforts to attain the potential of zakat. The zakat payment system is ineffective and causes many other problems (Al Jufri, 2012). Zakat payments through agencies (*Badan Amil Zaka* — BAZ/*Lembaga Amil Zakat* — LAZ) will have a widespread impact, as the zakat funds will be managed and empowered in the form of targeted, structured, and long-term impacted social programs.

In the constantly changing economic landscape, the paramount importance of corporate governance is highly debated among academics, executives, investors, and policymakers (Koutoupis & Pappa, 2018). In recent years, compliance with corporate governance has become an important factor for shareholders in identifying potential investment opportunities and aligning their investment strategies (Tseng et al., 2019). Compliance with governance principles nowadays is a mandatory requirement for firms as governance criteria are increasingly included in capital investment decisions and became an important input to define investment strategies (Stender & Rojahn, 2020).

As a public institution, the institution of zakat distribution is required to ensure transparency and accountability of the organization. Zakat givers refer accountability of managers to the integrity, efficiency, and effectiveness of funds submitted. So far, zakat institutions have not succeeded in optimizing zakat funds properly and one of the reasons is the usage of zakat funds extravagantly for less important things, such as huge advertising costs and other ceremonial events (Annajah, 2012). The issue of accountability and transparency is still the main problem that overwhelms most of the zakat management institutions in Indonesia, both government-managed and community-managed (Mintarti, 2011). Similar issues are also expressed by Amidan (2010), while that transparency, which is implemented by the LAZ in Indonesia is still lacking because not all zakat institutions conduct audits by public accountants and published them to the public.

Further, qualified financial statements should have some basic characteristics; understandable, relevant, reliable, and comparable (Ikatan Akutansi Indonesia, 2012). The quality of financial statements can also be characterized by independent auditor reporting since independent auditors' reportings can be useful to be more convincing in retrieving the decision because it contains two quality accounting information that is relevant and reliable (Boynton & Johson, 2006). The quality of poor financial reporting will have an impact on the governance of the organization (good governance). As stated by Herlina (2011), high-quality financial reporting is the main requirement of good governance. It will not exist if the financial reporting is not qualified. The concept of good governance is a demand that must be fulfilled by the public sector, especially zakat management institutions. The bureaucratic system and good governance of zakat institutions are still low (Jahar, 2010) or it can be said zakat does not have good governance nationally (Wibisono, 2010).

Additionally, the successful implementation of good governance is inseparable from the effect of internal factors on the organization. Internal factors are various factors coming within the company, one of which is the organizational culture (Daniri, 2005). Mulili and Wong (2011) state that every country implements a corporate governance procedure based on factors such as financial and legal systems, corporate ownership structure, culture, and economic climate. The function of organizational culture in the life of an organization is a means to unify the member activities of the organization from a group of individuals with different backgrounds (Kreitner & Kinichi, 2003). Organizational culture is an important parameter for business survival and growth (Inah et al., 2014).

The phenomena occurring in Indonesia caused the lack of success of good governance because the public tends to implement good governance as formal formalistic and has not regarded them as a culture. This was stated by Boediono (2012) that compliance tools in the form of documents, regulations, structures, and systems, are adequately available in various government agencies and corporations to be implemented. Unfortunately, the public is more likely to implement the provisions and rules in terms of formal legalistic aspects and has not really emphasized the content of values and principles of good governance itself.

In addition, culture and environment are the two factors shaping the context in which accounting operates, and the recognition of the cultural impact on accounting is an important contribution to the international accounting literature. Solas and Ayhan (2008) state that accounting development can be explained both in terms of cultural and environmental factors. Organizational culture has two important functions within the organization: to unite members so that they know how to relate to each other and to help organizations adapt to the external environment (Aquinas, 2008). The results of Hashim's (2012) study support that the quality of financial reporting can not be free from culture. In addition, Inah et al. (2014) state that organizational culture significantly affects the practice of financial reporting in Nigeria.

The phenomenon of zakat acquisition in Private Capital Region (*Daerah Keistimewaan Ibukota* — DKI) Jakarta province showed the potential of zakat for the Jakarta area only reach about Rp 19 trillion in a year, while the entry into (*Agency of Amil Zakat Infak and Sedekah* — BAZIS) DKI Jakarta only Rp 2 trillion (Barmanda, 2014). Acquisition of zakat from the National Amil Zakat Agency (BAZNAS) Jabar and BAZNAS district/city and the LAZ only reached Rp 726 billion, while the potential of zakat in West Java could reach Rp 30 trillion in a year, so the new zakat acquisition is about 2.4% (Nurwidiawati, 2012). The purpose of this study is to explore the effect of organizational culture on the quality of financial reporting, and its impact on good governance. This study tried to verify and know the effect of organizational culture on the quality of financial reporting and its impact on good governance in Zakat institutions in Indonesia.

The remainder of this paper is structured as follows. Section 2 reviews the relevant literature. Section 3 presents the research methodology used in this paper. Section 4 explains the results and Section 5 provides a discussion of the findings. Finally, Section 6 concludes this paper by providing some insights from the related studies that have been carried out.

2. LITERATURE REVIEW

2.1. Organizational culture, financial reporting quality, and good governance

Tang et al. (2008) explain that financial reporting quality is the extent to which the financial statements provide true and fair information about the underlying performance and financial position. Biddle et al. (2009) state the quality of financial reporting is the accuracy of financial statements providing information about the company's operations, especially the cash flow information expected by investors. International Financial Reporting Standards Foundation (IFRSF, 2010) states that the level of financial reporting information is useful for its qualitative characteristics.

Kreitner and Kinichi (2003) interpret organizational culture as a form of assumed possession, implicitly accepted by the group, and it determines how the group feels, thinks and reacts to its diverse environment. Measurement of organizational culture uses the dimensions: attention to detail, outcome orientation, people orientation, team orientation, aggressiveness, stability, innovation, and risk-taking (McShane & Von Glinow, 2010; Robbins & Coulter, 2012).

The financial statement provides information for various interested parties (Solikhah et al., 2022). Financial reporting quality is an important factor to the users in their decision-making process (Naz'aina, 2015). Furthermore, IFRSF (2010) states that the level of financial reporting information depends on its qualitative characteristics. Four main qualitative characteristics are understandable, relevant, reliable, and comparable. Additionally, Harrison (2013) and van Beest et al. (2009) add comparability, verifiability, timeliness, and understandability. Based on some expert statements regarding the characteristics of financial reporting quality, the dimensions used in this study were independent auditor's reporting and timeliness (punctuality).

Boynton and Johson (2006) stressed that the independent auditor's report can be useful to be more convincing in decision-making because it contains two main qualities of accounting information that is relevance and reliability. It is necessary to carry out an independent audit of the financial report seen from three conditions: conflict of interest, consequence, and complexity. It can be said that the audit of financial statements can improve the credibility of financial statements by reducing the risk of information (Boynton & Johson, 2006).

Cohen and Kaimenakis (2011) mentioned that high-quality financial statements should not only meet accounting standards but also, at the same time, it should be accompanied by an external auditor's reporting on comments on compliance in the preparation of the financial statements. Research on the quality of financial reporting by using independent auditor reporting indicators has been conducted by Pucheta-Martinez and De Fuentes (2007).

Timeliness means information is available to decision-makers (IFRSF, 2010). Porter and Norton (2014) mention the optimization that information should be available at the time when a decision is being made. It is in line with Hall (2011), timeliness (information) should not be more than the time period needed. Timeliness is identified as one of the characteristics of financial reporting information. The usefulness of financial statements is disrupted if it is not made available to users within a reasonable time after the reporting date (Vuran & Adiloğlu, 2013).

Timeliness is an important qualitative characteristic of accounting and is fundamental to the relevance of financial statement information (Amari & Jarboui, 2013). Performance provides a platform for market integrity and efficiency to ensure fairness, efficiency, and transparency, to protect the investor, and reduce risk turning to improve the quality of financial reporting (Al-Ajmi, 2008; Turel, 2010).

Research on the quality of financial reporting by using the timeliness indicator (on time) has been carried out by Afify (2009), Rochmah Ika and Mohd Ghazali (2012). The quality of financial statements is the extent to which the financial statements provide true and fair information about the underlying performance and financial position in particular cash flow information that investors expect (Biddle et al., 2009; Tang et al., 2008). IFRSF (2010) states that the level of financial reporting information that is useful depends on its qualitative characteristics. The measurement of the quality of financial reporting uses the independent auditor's reporting dimensions put forward by Boynton and Johson (2006), Arens et al. (2014), and timeliness indicators which were proposed by Ikatan Akutansi

Indonesia (2012), IFRSF (2010), Vuran and Adiloğlu (2013), Amari and Jarboui (2013), Al-Ajmi (2008), Afify (2009), Turel (2010), Rochmah Ika and Mohd Ghazali (2012), and Bimo et al. (2019).

An independent auditor's report based on the opinion given by an independent auditor consists of unfair and unqualified announcements with explanatory paragraphs, and unqualified exceptions whereas timeliness is measured by the number of days between the date at the end of the financial year and the date of the auditor to sign the audit reporting (Afify, 2009; Al-Ajmi, 2008; Braam & van Beest, 2013; IFRSF, 2010; Rochmah Ika & Mohd Ghazali, 2012; Amari & Jarboui, 2013; Turel, 2010; Vuran & Adiloğlu, 2013).

Antwi et al. (2021) stated that good corporate governance ensures that an organisation's staff, processes, values, procedures, and structures are well controlled and directed towards its purpose and vision or corporate objectives, and organizations can achieve better results by applying acceptable corporate governance standards. Hitt et al. (2011) define corporate governance as a set of mechanisms used to manage relationships among stakeholders and determine and control the direction and performance of the organization.

Corporate governance provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined. As such, corporate governance is a cornerstone of trust, transparency, ethics, accountability, and risk management in organization (Koutoupis & Pappa, 2018). Corporate governance is a system that directs and controls a company (Solikhah et al., 2022). Good corporate governance is one of the means by which the company maintains its legitimacy in the community and the implementation of corporate governance will encourage companies to pay attention to their role in the community (Solikhah et al., 2022). With regard to corporate governance, supervisor boards serve as a monitoring mechanism to mitigate information asymmetry and agency conflicts between management and owners (Dobler & Luckner, 2018).

Graham et al. (2003) mention five principles of good governance: legitimacy and voice, direction, performance, accountability, and fairness. Tricker (1984) mentions four main corporate governance activities: direction, execution action, supervision, and accountability. Further, Indonesian Teachers Association mentions governance principles consisting of participation, fairness, accountability, transparency, efficiency, and effectiveness. The three basic pillars that are related to each other in realizing good governance are transparency, participation, and accountability (Krina, 2003; Osborne & Gaebler, 1992). The Institute of Internal Auditors (IIA, 2012) establishes governance principles consisting of four components: accountability, transparency, integrity, and equity. Ulrich and Fibitz (2018) defined corporate governance as a framework for value creation and long-term value creation. Based on the understanding and characteristics of some experts above, it can be concluded that the characteristics of good governance can consist of transparency, accountability, participation, and integrity.

Good governance *syariah* is a system that organizes and controls managers in order to provide and increase the value of Islamic institutions to the stakeholders. The practical implementation of good governance *syariah* can help investors or stakeholders to know that managers have acted to manage *syariah* institutions properly. Implementing good governance in *syariah* institutions is not enough with the principles of governance (Nofianti, 2012) proposed for conventional institutions, such as *shiddiq* (honesty), trust, *tabligh* (transparency and disclosure), *fathonah* (intelligence), *tawazun* (balance), *mas'uliyah* (accountability), *akhlaq* (moral and integrity), 'is (justice), *hurriyah* (independence and responsible freedom), *ihsan* (professional), *wasathan* (fairness), *ghirah* (spirit), *idarah* (management), *khilafah* (leadership), *aqidah* (belief and faith), *ijabiyah* (positive thinking), *raqabah* (supervision), *qira'ah* and *ishlah* (organizations continuing learning and always improving), and *zuhud* (avoiding worldly things).

2.2. Theoretical framework

Salter and Niswander (1995) argue that the practice of financial report is actually culturally influenced. Research conducted in several countries also proves that organizational culture affects financial reporting quality. Noravesh et al. (2007) conclude that there is a relationship between cultural values and the accountability of Iran. Research in Malaysia and Nigeria conducted by Hashim (2012) and Inah et al. (2014) stated that financial reporting quality is not free from culture.

Organizational culture affects the application of good governance. This is because ethics is the basis for the implementation of good governance. Internally, ethics both in terms of values and norms becomes part of the organizational culture. Organizational culture is a set of scattered values and norms controlling the interaction between members of the organization and those outside the organization.

The function of organizational culture, according to Kreitner and Kinichi (2003), can be used as a means of unifying member activities of the organization consisting of a set of individuals with different backgrounds. Strong organizational culture is an organizational culture that is held intensively, broadly embraced, and more clearly socialized and inherited. A strong organizational culture can create good governance because organizational culture is one of the factors that affect the implementation of good governance in an organization (Solomon & Solomon, 2004). This is in line with a study conducted by Fadilah (2013) which concludes that organizational culture has a significant effect on good governance. Haniffa and Cooke (2003), who conducted a study on firms in Malaysia, concluded that there was a link between organizational culture with corporate governance especially with regard to information disclosure (accountability). Mulili and Wong (2011) state that each country will adopt a unique set of corporate governance procedures based on factors, such as financial and legal systems, corporate ownership structures, culture, and economic climate.

Sloan's (2001) study showed that financial accounting is a key ingredient in corporate governance processes. Imhoff (2003) states that accounting and auditing are components of a broader corporate governance system and can not be “fixed” in any way, without substantive changes in the overall governance process. Another study by Afiah and Azwari (2015) showed the quality of financial reporting has a positive and significant impact on good governance. Bushman and Smith (2001) stated that the limitations of corporate transparency to investors increased the emergence of moral hazard in the system of government. Reck (2001) states that financial and non-financial information affect performance evaluation (accountability and financial accountability) and non-financial performance (accountability, efficiency, and effectiveness).

3. RESEARCH METHODOLOGY

3.1. Research method

This research uses a quantitative research approach. The independent variable in this study was *organizational culture* and the dependent variables was *the quality of financial reporting* and *good governance*. Research population in Zakat Management Agency (Forum Zakat) as many as 185 institutions throughout Indonesia. The sample of this research was 37 institutions (20%), located in the provinces of Capital Special Region (*Daerah Khusus Ibukota* — DKI). The data will be obtained through field research and library research.

3.2. Data collection method

The research type used was explanatory research, primary data were collected using the quantitative technique of a questionnaire. The questionnaire-based survey is considered the most appropriate research method to seek information that is not publicly available, collect data quickly and anonymous feedback encourages openness and honesty (Drogalas & Siopi, 2017; van der Nest et al., 2017). The primary data type and research instrument are in the form of questionnaires using the Likert scale. Respondents were asked to indicate how much the statements are true in terms of a five-point Likert scale that ranged from “Very much” (scored as 5) to “Not at all” (scored as 1).

3.3. Data analysis

The validity test was carried out by calculating the correlation of each statement with the total score using Pearson correlation. The smallest validity coefficient value considered valid was $r > 0.3$. The reliability test used Cronbach’s alpha coefficient through IBM SPSS Statistics. An instrument is said to be reliable if the value of Cronbach’s alpha coefficient is > 0.7. Hypothesis testing used (path analysis) software LISREL 8.8. Path coefficient obtained by the result of correlation between variables: *The effect of organizational culture on financial reporting quality, The effect of organizational culture on good governance, The effect of financial reporting quality on good governance,* and *The effect of organizational culture through financial reporting quality on good governance*. Assessment is carried out if t-count > from t-table and significance is < 0.05, then *H1* is accepted and vice versa.

4. RESULTS

Of the 37 distributed questionnaires, only 30 questionnaires were returned, or about 81.2%. Here are the demographics of respondents.

Table 1. Respondents

Information	*Total (Person)*	*Percentage (%)*
Sex		
Male	24	80%
Female	6	20%
Age		
< 40 years old	14	46.7%
40–50 years old	11	36.7%
> 50 years old	5	16.6%
Educational level		
Bachelor’s degree (*S1*)	27	90%
Master’s degree (*S2*)	3	10%
Working type		
Full-time	30	100%
Part-time	-	-
Educational background		
Accountant	9	30%
Non-accountant	15	50%
Non-economic	6	20%

Based on Table 1, the gender of the majority of respondents were men (80%) with the age below 40 years old (46.7%), 36.7% were of age between 40 and 50 years old, and 16.6% were over 50 years old. The educational level of the majority of respondents was bachelor’s degree (*S1*) — 90% and post graduate (*S2*) — 10%. The 100% working station is full time. Based on educational background, 30% have an accounting education, 50% have non-accounting education, and the rest is non-economic.

Furthermore, the formula of Cronbach’s alpha was used to test reliability. The instrument measurement result was reliable and the acceptable minimum limit of reliability was a positive coefficient above 0.7. The data processed are shown in the following table:

Table 2. Reliability test of research instruments

Variable	*Reliability score*
Organizational culture	0.873
Good governance	0.786

Based on Table 2, the reliability value obtained was greater than the critical value of 0.7 for each organizational culture variable and the quality of financial reporting. The results of this test indicated that the measuring tool used is reliable, so it can be concluded that the measuring tool used has given consistent results.

4.1. Organizational culture

In this study, the organizational culture variable was measured by 14 indicators. From the research data obtained, respondents’ assessment for 14 indicators was used to measure the organizational culture variables in this study. It can be known that respondents’ assessment of organizational culture has a mean value (grand mean) of 4.33 and includes a good category because this value was in quartile 4 (Q4) or 4–5 intervals. Although already in the good category, the scores obtained did not reach the 100% expected. The average magnitude of 4.33 obtained was equivalent to 86.6% ($4.33/5 \times 100$). Between the ideal level expected with actual conditions, there was a gap of 13.4%. This gap shows organizational culture has not reached the ideal level. Item 6 on appreciation of *amil* achievement with a score of 3.83 included in enough criteria. These results indicated that the appreciation of the achievements of the employee was not yet fully implemented in the zakat organizational management. Award to employees (*amil*) who excelled is a reward that deserves to be carried out. While in the zakat organizational management was still a scarcity. Further, the responses of respondents on each indicator on each item statement. The results of the responses of respondents note that the average total score obtained from all statements that make up the organizational culture was 4.33 and included in either category.

4.2. Good governance

Good governance variable measured by 4 dimensions with 12 indicators can be known the respondent's assessment of good governance has a mean value (grand mean) equal to 3.82 and included category enough because this value was in quartile 3 (Q3) or interval 3–4. The range of scores obtained did not reach the 100% expected. The average magnitude of 3.82 obtained was equivalent to 76.33% ($3.82/5 \times 100$). Between the ideal level expected with actual conditions, there was a gap of 23.67%. This gap showed good governance before reaching the ideal level. Further responses of respondents on each indicator on each item statement.

4.2.1. Transparency

The results of respondents on the questionnaire statement dimension transparency can be seen in the following table.

Based on Table 3, the average total score obtained from all statements that make up the transparency dimension is 2.41 and is included in the less category.

Table 3. Recapitulation of respondents' responses to transparency

No.	Question		Score of responses (5)	(4)	(3)	(2)	(1)	Actual score	Ideal score	Average
1	TRN 1	F	5	3	8	8	6	83	150	2.77
		%	16.7	10.0	26.7	26.7	20.0			
2	TRN 2	F	1	1	9	10	9	65	150	2.17
		%	3.3	3.3	30.0	33.3	30.0			
3	TRN 3	F	0	2	11	11	6	69	150	2.30
		%	0.0	6.7	36.7	36.7	20.0			
Total								217	450	2.41
Category								Low		

4.2.2. Participation

The results of the respondents' responses to the questionnaire statement of participation dimensions can be seen in the following table.

In Table 4, it is seen that the average total score obtained from all statements that make up the participation dimension is 3.99 and is included in the sufficient category.

Table 4. Recapitulation of respondents' responses to participation

No.	Question		Score of responses (5)	(4)	(3)	(2)	(1)	Actual score	Ideal score	Average
1	PRT 1	F	19	10	0	1	0	137	150	4.57
		%	63.3	33.3	0.0	3.3	0.0			
2	PRT 2	F	9	7	6	4	4	103	150	3.43
		%	30.0	23.3	20.0	13.3	13.3			
3	PRT 3	F	7	18	3	1	1	119	150	3.97
		%	23.3	60.0	10.0	3.3	3.3			
Total								359	450	3.99
Category								Enough		

4.2.3. Accountability

The results of the responses of respondents to the questionnaire in terms of accountability dimensions can be seen in the following table.

In Table 5, it is seen that the average total score obtained from all statements that make up the dimension of accountability is 4.21 and it is included in either category.

Table 5. Recapitulation of respondents' responses to accountability

No.	Question		Score of responses (5)	(4)	(3)	(2)	(1)	Actual score	Ideal score	Average
1	AKT 1	F	15	11	1	3	0	128	150	4.27
		%	50.0	36.7	3.3	10.0	0.0			
2	AKT 2	F	25	1	2	0	2	137	150	4.57
		%	83.3	3.3	6.7	0.0	6.7			
3	AKT 3	F	7	13	8	1	1	114	150	3.80
		%	23.3	43.3	26.7	3.3	3.3			
Total								379	450	4.21
Category								Moderate (good)		

4.2.4. Integrity

The results of the responses to the questionnaire in terms of integrity dimensions can be seen in the following table.

In Table 6, it is seen that the average total score obtained from all statements in terms of integrity dimensions is 4.66 and it is included in either category.

Table 6. Recapitulation of respondents' responses to integrity

No.	*Questions*		*Score of responses*					*Actual score*	*Ideal score*	*Average*
			(5)	*(4)*	*(3)*	*(2)*	*(1)*			
1	*ITG 1*	F	22	8	0	0	0	142	150	4.73
		%	73.3	26.7	0.0	0.0	0.0			
2	*ITG 2*	F	28	2	0	0	0	148	150	4.93
		%	93.3	6.7	0.0	0.0	0.0			
3	*ITG 3*	F	11	17	2	0	0	129	150	4.30
		%	36.7	56.7	6.7	0.0	0.0			
Total								419	450	4.66
Category								Moderate (good)		

4.3. Financial reporting quality

The financial reporting quality variable was measured by 2 indicators: the auditor's opinion and timelines. The result of the assessment is shown in the following table.

The result of the grand calculation of respondent score on financial reporting quality (Table 7) of 3.9 was in quartile 3 (Q3) or interval 3–4 which falls into the "enough" category. This 3.9 obtained was equivalent to 78.0% ($3.9/5 \times 100$). The score size obtained did not reach the 100% expected so between the expected ideal level with the actual condition there was a gap of 22.0%. This gap showed the quality of financial reporting had not reached the ideal level.

The results of the responses to the statement can be seen in the following table.

Table 7. Recapitulation of descriptive scores of the financial reporting quality variable

Indicator/Dimension	*Actual score*	*Average score*	*Category*
Auditor opinion	141	4.7	Good
Timelines	93	3.1	Enough
Total	234		
Average (grand mean)		3.9	Enough

4.3.1. Auditor's opinion

The results of the responses to the questionnaire statement in terms of audit dimensions opinion can be seen in the following table.

In Table 8, it is seen that the average total score obtained from all statements that make up the auditor's opinion is 4.7 and included in either category.

Table 8. Recapitulation of respondents' responses to the auditor's opinion

No.	*Question*		*Score of responses*					*Actual score*	*Ideal score*	*(%)*
			(5)	*(4)*	*(3)*	*(2)*	*(1)*			
1	*OPA*	F	24	3	3	0	0	141	150	4.7
		%	80.0	10.0	10.0	0.0	0.0			

4.3.2. Timelines

The results of respondents on the questionnaire statement dimensions timelines can be seen in the following table.

In Table 9, it was known that the average total score of the auditors was 3.1 and included in the sufficient category.

Table 9. Recapitulation of respondents' responses to timelines

No.	*Question*		*Score of responses*					*Actual score*	*Ideal score*	*(%)*
			(5)	*(4)*	*(3)*	*(2)*	*(1)*			
2	*TML*	F	7	8	3	5	7	93	150	3.1
		%	23.3	16.7	10.0	16.7	23.3			
Category								Enough		

4.4. Normality test

The calculation of path analysis requires that the data have a normal distribution. Evaluation of data normality calculated using IBM SPSS Statistics version 20 software aid. In this study, the normality test was conducted using Kolmogorov–Smirnov test. The result of the normality test data obtained was as follows.

The results of the normality test data indicated that the data were normally distributed. This indicated that the data of organizational culture variable (X), financial reporting quality variable (Y), and good governance variable (Z) were scattered following a normal distribution.

Table 10. Results of the normality test

One-sample Kolmogorov–Smirnov test				
		X	***Z***	***Y***
No.		30	30	30
Normal parameters	Mean	41.6113	33.0600	5.0668
	Std. deviation	7.45456	5.65770	1.29747
Most extreme differences	Absolute	0.114	0.068	0.169
	Positive	0.086	0.048	0.129
	Negative	-0.114	-0.068	-0.169
Kolmogorov–Smirnov Z		0.624	0.373	0.923
Asymp. Sig. (2-tailed)		0.831	0.999	0.362

4.5. Hypothesis testing

Hypothesis testing used path analysis with the software LISREL 8.8. The path coefficient was obtained by the result of the correlation between variables. The result of path analysis (line coefficient) was as follows:

Table 11. Coefficient of paths *X*, *Y*, and *Z*

Variables			*Path coefficient*	*Reg. coefficient*	*S.E.*	*t-count*	*P*
Financial reporting quality (*Y*)	←	Organizational culture (*X*)	0.652	0.114	0.0249	4.555	0.000
Good governance (*Z*)	←	Organizational culture (*X*)	0.482	1.840	0.619	2.971	0.006
Good governance (*Z*)	←	Financial reporting quality (*Y*)	0.422	0.366	0.108	3.394	0.002

4.5.1. The effect of organizational culture on financial reporting quality

The effect of the organizational culture variable partially on the quality of financial reporting can be calculated by multiplying the coefficient value of the organizational culture path with the correlation of the organizational culture variable with the quality of financial reporting. The large effect of partial organizational culture (coefficient of determination) is 0.652 = 0.4256 on the quality of financial reporting as 0.652 or 42.56%. This meant that the contribution of organizational culture will improve the quality of financial reporting by 42.56%. To see the significance of the effect of the organizational culture variable partially on the quality of financial reporting statistical test was a t-test. Comparison results between t-arithmetic with the t-table can be seen in the following table.

Table 12. Hypothesis test of the effect of *X* on *Y*

Hypothesis	*Path coefficient*	*t-count*	*t-table*	*Sig. (p)*	*Statistical result*
Effect of *X* on *Y*	0.652	4.555	2.052	0.000	H_0 is rejected (significant)

The result of the comparison was t-count > t-table and a significance value was 0.000. Thus, the organizational culture had a significant positive effect on the quality of financial reporting.

4.5.2. The effect of organizational culture on good governance

The large effect of the organizational culture variable partially can be calculated by multiplying the coefficient value of organizational culture with the correlation of the organizational culture variable with good governance. The large influence of partial organizational culture (coefficient of determination) on good governance is $0.482 \times 0.757 = 0.3650$ or 36.5%. This meant that the contribution of organizational culture will increase good governance by 36.5%, the comparison between the t-count and the t-table can be seen in the following table.

Table 13. Hypothesis testing of the effect of *X* on *Z*

Hypothesis	*Path coefficient*	*t-count*	*t-table*	*Sig. (p)*	*Statistical result*
Effect of *X* on *Z*	0.482	2.971	2.052	0.006	H_0 is rejected (significant)

The result of the comparison was t-count > t-table with a significance value of $0.006 < 0.05$. Then, the conclusion obtained is that organizational culture had a positive and significant effect on good governance.

4.5.3. The effect of financial reporting quality on good governance

The effect of the partial financial reporting quality variable on good governance can be calculated by multiplying the coefficient value of the quality of the financial reporting pathway with a correlation of the variable of financial reporting quality with good governance. The large effect of financial reporting quality partially (coefficient of determination) was 0.736 = 0.3107 or 31.07%, on good governance as 0.422. This meant that the contribution of financial reporting quality increased to 31.07%.

To see the meaningfulness effect (significance effect) of the quality of financial reporting variable partially to good governance, a statistical test named "t-test" was carried out. The result of the comparison between the t-count and t-table can be seen in the following table.

Table 14. Hypothesis testing of the effect of *Y* on *Z*

Hypothesis	*Path coefficient*	*t-count*	*t-table*	*Sig. (p)*	*Statistical result*
Effect of *Y* on *Z*	0.422	3.394	2.052	0.002	H_0 is rejected (significant)

The result of the comparison t-count > t-table obtained and the significance value of 0.002 was smaller than 0.05, it was concluded that the quality of financial reporting had a positive and significant effect on good governance.

4.6. The effect of organizational culture through financial reporting quality on good governance

To examine the effect of organizational culture and good governance as an intervening variable, the Sobel test (Kline, 2011) was used, by multiplying the path coefficient of each relationship. Indirectly through the financial reporting quality, organizational culture gave the effect of 0.652 × 0.422 × 100% = 27 or 53% of good governance. Calculation result on the effect of the organizational culture on good governance through financial reporting quality clearly can be seen in the following table.

The result of the comparison is t-count > t-table and significance value equal to 0.006 smaller than 0.05. Thus, the statement that organizational culture affects good governance through the quality of financial reporting is accepted.

Table 15. Test results on the effect of organizational culture on good governance through the quality of financial reporting

Path coefficient	*Reg. coefficient*	*S.E.*	*Indirect effect*	*t-count*	*t-table (df = 27)*	*Sig. (p)*	*Statistical result*
P_{yx} = 0.652	0.114	S.E. P_{yx} = 0.0249	0.652 × 0.422 = 0.2753	2.7239	2.052	0.006	H_0 is rejected (significant)
P_{zy} = 0.422	0.114	S.E. P_{zy} = 0.366					

5. DISCUSSION

5.1. The effect of organizational culture on financial reporting quality

The testing result of the effect of organizational culture on financial reporting quality showed the value of t-count (4.555) > t-table (2.048), if the error level is 5% (α = 0.05), it was decided to reject H_0 and accept *H1*. This meant that organizational culture had a significant effect on the quality of financial reporting in zakat management institutions in DKI Jakarta and the West Java provinces. The magnitude of the effect of organizational culture on the quality of financial reporting was 42.56%. This quantity was included in the medium category. This demonstrated that organizational culture contributed considerably to improving the quality of financial reporting while has not reached the expected maximum level.

Zakat management organizations need to work more aggressively to create and market zakat programs and products to the community (*muzakki*). The uniqueness of the zakat program can attract the interest of *muzakki* to pay zakat through the zakat institution because the zakat management organization is a non-profit organization that can survive with public trust. The organization should maintain and improve public trust by offering various products of zakat that are able to awaken the Muslim community to zakat through zakat institutions so that the gap occurred between the potential and realization of zakat can be minimized and the mission of zakat institutions to establish *mustahik* can be achieved. Zakat management institutions need to reward the employees' achievements (*amil*) for them to feel appreciated and be able to carry out their duties properly.

The results of this study were in line with studies conducted by Noravesh et al. (2007), Hashim (2012), Inah et al. (2014), Solas and Ayhan (2008), and Tsakumis (2007).

5.2. Effect of organizational culture on good governance

Based on the result of the study, the effect of organizational culture on good governance showed the value of t-count (2.971) > t-table (2.052), then at a 5% error level (α = 0,05), it was decided to reject H_0 and accept *H1*. This meant that organizational culture had a significant effect on good governance in zakat management institutions in the provinces of DKI Jakarta and West Java.

The magnitude of the effect of organizational culture on the quality of financial reporting was 36.5%. This amount belonged to the low category. This showed that organizational culture contributed less to improving good governance. Organizational culture affects the application of good governance. This is because ethics become the basis in the implementation of good governance. Internally, ethics both in terms of values or norms, and become part of the organizational culture.

Zakat institutions as social and religious organizations have a vertical or horizontal responsibility. Zakat institutions should be able to provide information that is easily accessible and accountable to the public. Information easily accessed and accounted for will improve public trust, especially *muzaki*, so as to awaken them to zakat through zakat institutions. Field findings for good governance variables conducted by zakat institutions fall into "enough" categories. This condition can be descriptively seen from the average score generated which was equal to 3.82. Transparency has an average score of 2.41 with fewer categories, participation with an average score of 3.99 in the "enough" category, while the dimension of accountability and integrity were included in the good category. Based on this condition, the zakat institution is expected as a public institution to increase transparency that ensures access or freedom for everyone to obtain information about organizing the organization, that is information about policy, the process of manufacture and implementation, and the results achieved.

The results of this study were in line with the research conducted by Sari (2012) and Fadilah (2013), which concluded that organizational culture had a significant effect on good governance. Hanifa and Coke (2003) concluded that there was an existence of information disclosure (accountability) between organizational culture with corporate governance. Mulili and Wong (2011) state that each state will adopt a unique set of corporate governance procedures based on factors such as culture.

5.3. Effect of financial reporting quality on good governance

Based on the result of the study, the effect of the quality of financial reporting on good governance showed the value of t-count (3.394) > t-table (2.052), then the error level is 5% (α = 0.05), it was decided to reject H_0 and accept *H1*. This meant that financial reporting quality significantly affected good governance at zakat management institutions in DKI Jakarta and West Java provinces.

The magnitude of the effect of financial reporting quality on good governance was 31.07%. This amount belonged to the low category. This indicated that financial reporting quality contributed less to improving good governance. This condition can occur because the quality of financial reporting is only one factor that can affect good governance, while factors that affected good governance quite a lot not researched in financial reporting was a process undertaken to produce financial statements as a management accountability of resources used.

The concept of accountability and accessibility occupies a very important criterion related to organizational responsibility in presenting, reporting, and disclosing all activities and the extent to which financial statements contain all relevant information needed by users, and how easily the information is accessed by the public. The resulting financial statements must be qualified.

The results of this study were in line with Sloan (2001), who indicated that financial accounting is the main ingredient in the process of corporate governance. Imhoff (2003) states that accounting and auditing are components of a broader corporate governance system and can not be "fixed" in any way, without substantive changes in the overall governance process. Tasios and Bekiaris (2012) find that one of the major factors of trust the auditor to the low quality of financial reporting is poor governance.

5.4. Effect of organizational culture on good governance through the quality of financial reporting

Indirectly through the quality of financial reporting, organizational culture gave 27.53% affected good governance. The results of this study showed that organizational culture affected good governance through the quality of financial reporting.

Generally, managers shared the same view that financial reporting was the result of an organization's activity process reflected accountability to stakeholders. Therefore, culture is a set of shared values, beliefs, and norms that affected employees' thinking, feeling, and behavior toward each other and people outside the organization (George & Jones, 2010). Laudon and Laudon (2012) also said that culture is a powerful unifier that retains conflict and promotes common understanding and agreement on common procedures and practices.

Thus, the result of the comparison is t-count (2.7239) > t-table (2.052) and a significance value of 0.006 is smaller than 0.05. Thus, it is concluded that organizational culture affected good governance through the quality of reporting.

6. CONCLUSION

Organizational culture has a significant effect on the financial reporting quality with the effect of the medium category. It showed that organizational culture gave enough contribution to improving the financial reporting quality of the zakat institutions while not yet reaching the maximum level expected. In addition, organizational culture has a significant effect on good governance in the low category. This showed that organizational culture is less able to contribute to improving good governance, so as not to reach the maximum level expected. Furthermore, financial reporting quality has a significant effect on good governance with the effect in the low category. This indicated that the quality of financial reporting is less able to affect good governance in zakat institutions in the provinces of DKI Jakarta and West Java. Organizational culture has an indirect effect on good governance through the quality of financial reporting in the low category. This showed that the organizational culture is less able to affect good governance through financial reporting quality on the existing zakat institutions in the provinces of DKI Jakarta and West Java.

The existing zakat institutions in the provinces of DKI Jakarta and West Java should retain what has been done to the organizational culture. The quality of financial reporting has also been effective, especially in improving the appreciation of the *amil* achievement so that *amil* feels appreciated and can perform duties well. Additionally, by providing timeliness information so that it is useful in decision-making. Zakat institutions can improve good governance by increasing transparency. Zakat institutions as a function of service to the public or society should be able to provide information that can be reached by the public. This will increase public confidence, also the community (*muzakki*) has an awareness to pay zakat in zakat agency in order to reach the potential of zakat. Further studies can be carried out by looking at the effect of other variables that are not included in this study, for example, ethics, environmental uncertainty, company size, and others.

This research is important because zakat institutions are based on trust, so improving the quality of financial reports and good governance is important. Quality financial reports and good governance of zakat institutions will provide trust from both *muzakki* (zakat payers) and *mustahiq* (zakat recipients). *Muzaki* will feel comfortable because the handed-over zakat has been appropriately managed, and *mustahiq* feel comfortable because their rights as zakat recipients can be carried out properly. The quality of financial reports and good governance can minimize the gap between the potential and realization of zakat receipts.

The shortcomings of this research were only limited to zakat institutions in DKI Jakarta and West Java, which are parts of the Zakat Forum. Further research can expand the existing zakat institutions in Indonesia and compare them with zakat institutions in various parts of the world.

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