

The Conceptual Paper on Factors Influence Compliance Behavior among Business Zakat Payers in Kedah

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ABSTRACT

Zakat is crucial in Muslim society. From the Islamic perspective, every Muslim has an obligation to pay zakat. The reason why Muslim needs to pay zakat is to alleviate poverty, protect the poor and the needy, and to balance the country, socioeconomic. Business zakat is compulsory to every Muslim and it is issued from business property or earnings, whether based on manufacturing, fishing, agriculture, supply, shipping, services or for trading purposes, whether in the form of personal business or partnership (fellow Muslims or non-Muslims) business, cooperative business and so on. The study aims to investigate the factors that influence compliance behavior of business zakat payers in Kedah. Therefore, the study aims to investigate the factors that influence compliance behavior of business zakat payers in Kedah. At last, the study will suggested a few recommendations that can be implemented by Lembaga Zakat Negeri Kedah for further improvements.

Keywords: Compliance Behavior, Governance, Trust, Service Quality, Business Zakat

INTRODUCTION

Zakat is crucial in Muslim society. From the Islamic perspective, every Muslim has an obligation to pay zakat. The reason why Muslim needs to pay zakat is to alleviate poverty, protect the poor and the needy, and to balance the country, socioeconomic (Nadzri et al, 2012; Hayeeharasah et al, 2012; Zulfikar, 2012; Razimi et al, 2016; Ali et al, 2017). In al-Quran, the importance of zakat have been mentioned repeatedly and it illustrates that the prayers and zakat are aligned and

interconnected, which mean both are important in the context of becoming true Muslim, they need to perform prayers five times per day and so do they need to pay zakat every year.

The function of zakat in the economy needs to be seen in a broad context and not just limited to collecting and distributing zakat money conservatively (Baba et al 2010; Razimi et al, 2016). Besides that, zakat is one of the methods to clean Muslims wealth, to teach Muslims to live a humble life and to get blessings from Allah S.W.T. In Malaysia, the collection and distribution of zakat are managed by an authorized body called State Islamic Religion Councils (SRICs). This institution plays an important role in collecting and distributing zakat money in fair and effective ways (Mohd Sharil et al, 2016).

Business zakat is compulsory to every Muslim and it is issued from business property or earnings, whether based on manufacturing, fishing, agriculture, supply, shipping, services or for trading purposes, whether in the form of personal business or partnership (fellow Muslims or non-Muslims) business, cooperative business and so on (Baba et al, 2010). According to JAKIM (2012), a business company is obliged to pay zakat when it meets the following conditions: (1) a business is owned by Muslims, (2) a business is owned by an independent Muslim, (3) perfect ownership over the property, (4) enough *nisab* (minimum amount of wealth a Muslim must have before they are eligible to pay zakat), (5) enough *haul* (year of business must exceeds one year for that company to become eligible to pay zakat, that is 354 days or 365 days according to Islamic calendar), (6) the rate of zakat on the company is 2.5%, and (7) for the partnership business between Muslims and non-Muslims, it is mandatory for Muslims partner to pay zakat based on the net income earned depending on the number of shares owned by that Muslims only.

Therefore in Malaysia, every business engages with Muslim people must comply with the rules and regulation as stated in sharia laws. Business zakat is very important for Muslim countries, because it helps the country to growth its economy, reduce poverty among the society and to ensure the society to have peaceful and harmonious life. The institutions that are appointed to manage zakat holds an important responsibility to carry out fair management of zakat. However, the process of collection and distribution in Malaysia still have lacking in many areas, such lacking have arisen the issues of governance, transparency, trust, compliance of the zakat payers and etc. (Wahab and Rahim Abdul Rahman, 2011; Ahmad and Ma'in, 2014; Al Jaffri Saad et al, 2015; Razimi et al, 2016; Haq and Abd Wahab, 2017; Ali et al, 2017). Due to reason, this paper

intends to further discuss the governance of Zakat institution in Kedah and compliance behavior of the business zakat payers.

PROBLEM STATEMENT

The zakat function is very important in developing Islamic economics and it is a very effective social security system from ancient society to date. However, the services provided by zakat institutions are still unsatisfactory. The findings of the study by Saad, Wahab and Hussain (2018) on Muslim traders in Malaysia show that out of 9 aspects of service quality only 3 aspects are assessed well and the rest are poorly rated by respondents. The quality level of services provided and provided by zakat institutions greatly influences the effectiveness of zakat payers to pay zakat. Similarly, there is no provision inhibiting the payer of zakat from paying directly to the person entitled to receive zakat (asnaf) funds. This phenomenon can create inequalities in socio-economic development between one country and another. One of the possible causes for this phenomenon is the poor service quality of zakat institutions (Wahab, Zainol, Abu Bakar, 2017).

Total zakat collections recorded increases in recent years. However, payment of zakat through zakat institutions among Muslims is less satisfactory. This is because Islamic zakat payers prefer to pay directly to the Asnaf. Zakat payers prefer to make zakat payments via unofficial channels. In other words, zakat payers make payments directly to the recipient of zakat. This is because the issue of potential zakat recipients is unlikely to be identified and identified by amil because their residential settlements are scattered in villages, districts or states and cause bureaucratic problems in zakat applications. (Muhahammad Syukri, 2002).

Even in the study by Wahid et al (2009) as stated in Ghazali, Saad and Wahab (2016) states why society prefer to pay directly to the Asnaf is because they do not trust the distribution of zakat by zakat institutions. This is supported by Sinar (2014) as stated in Ghazali, Saad and Wahab (2016) that zakat payers have issues of trust in zakat institutions in their ability to assist people in need. One of them is due to the inefficiency of zakat center governance system (Wahid et al., 2017). Recently, there has been an issue of abuse of zakat funds by agents appointed by the State Islamic Council (MAIN) as zakat fund raising. This problem has caused the zakat payer's

confidence in zakat funds management system to decline, thus contributing to the issue of evolving zakat payers to pay zakat directly to zakat institutions in Malaysia (Ali et al, 2017).

In addition, the issue of transparency and uncertainty over the way of zakat distribution is a major cause of non-payment of zakat payers to zakat institutions in Malaysia is also emphasized by Wahid et al., 2009). Another problem faced by zakat management in Malaysia is also studied by Wahid et al. al (2010) is the recipient of zakat recipients with zakat collectors where the settlement of zakat distribution will be a solution to this problem because he thinks that in the long run, this placement process can produce better results such as good governance.

Findings from research conducted by Halim et. al (2011) shows that the lack of knowledge and attitude of zakat recipients also contributes to the success and failure of zakat aid packages. It is also supported by a study by Sarif (2014) that found that based on the procedures for collection and distribution of zakat, zakat institutions do not have sufficient knowledge to administer and utilize funds effectively.

THE CONCEPTUAL FRAMEWORK

Figure 1 below describe the conceptual framework, which contains the dependent variable (compliance behavior of business zakat payers) and the independent variables (governance, trust and service quality).

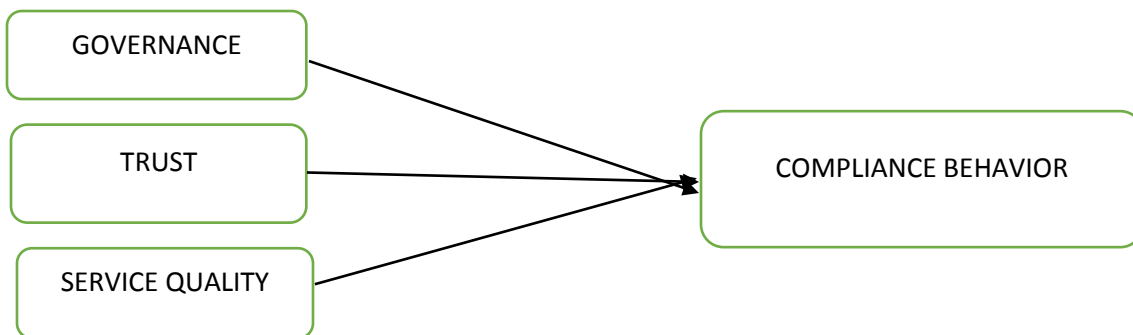


Figure 1 Conceptual Framework

LITERATURE REVIEW

The Concept of Compliance Behavior

Compliance is the act of obeying a rule or request. In Islam, zakat is compulsory for every Muslim, they need to comply with the rules and regulations stated in Sharia Laws. In Malaysia, failure to pay any types of zakat would exposed the person to fines and imprisonment. Behavior on the other hand, means an actions or attitude that individual possess whether it is positive or negative acts towards something (Al Jaffri Saad et al, 2015).

Factor Influencing Compliance Behavior among Business Zakat Payers

In the case of business zakat, business owners are viewed in the context of his ability, knowledge and resources he has to influence his behavior to pay zakat to the zakat institutions. This situation shows that the decision of the business owners to pay zakat are influenced by the internal factors (knowledge and self-efficacy), and external factors (service quality and Interaction) that exists in the business zakat environment, where all these factors have a positive influence on business zakat compliance behavior. For instance, the knowledge of business owners regarding the method of assessment for business zakat is quite complicated to be determined, so for those business owners who have knowledge about zakat are more easy and willing to pay zakat rather than the business owners that have less knowledge about zakat. Self-efficacy in zakat view is about how the business owner feels confidence and certain about the calculation of business zakat, the higher their self-efficacy, the more likely for them to pay business zakat. Likewise, the service quality have an effect on the compliance of business zakat payer, high service quality leads to high satisfaction of its customers, thus it is more likely for the business zakat payers to pay zakat because they are satisfied with the service provided by zakat institutions. Same goes with interaction, business owners need to be aware and always reminded about their responsibility to pay zakat, therefore, the more interaction made between zakat institutions with the business owners, the greater the compliance of business zakat payers to pay zakat every year (Al Jaffri Saad et al, 2015).

The Concept of Governance

Governance are related to how an organization are being rule or control. An organization or institutions should have good principles such as accountability, fairness, transparency and strong

leadership in order to stay efficient and effective. Good governance in Zakat institutions may contribute to the efficiency and effectiveness in zakat funds and indirectly leads to the increase of business owner's trust and compliance towards paying zakat at zakat institutions (Wahab and Abdul Rahman, 2011). Muslim countries such as Malaysia have shown many drawbacks of the zakat institutions, especially in managing distribution of zakat and poor governance mechanisms. The main factors that influence the business owners to pay zakat informally is the satisfaction of the distribution and the efficiency of zakat management. The results from the previous studies have proven that the feeling of satisfaction towards zakat center management was positively related to the payment of zakat to formal institutions (Wahab and Abdul Rahman, 2011). Hasan and Mohd Shahnaz, 2005 stated that the management systems in zakat institutions influenced business owners in paying the business zakat.

Besides that, lack of trust towards zakat institutions especially in the aspect of distribution transparency and inefficiency of zakat management results in non-compliance. This means that satisfaction is playing a role in determining where the zakat payment is made (Nor Azmi, 2002; Ahmad and Ma'in, 2014). The more satisfied the business owners towards zakat institutions management or governance, the higher the degree of compliance of business owners to pay zakat at the zakat institutions (Sanep et al, 2003). Furthermore Baba et al (2010), found that, 45% of business zakat payers pay zakat direct to asnaf, compared to zakat institutions (26%) and amil (28%), this shows that the majority of the business owners feel less confident and dissatisfied with the role of zakat institutions in redistributing zakat to the asnaf.

Other than that, according to Mohd Sharil et al (2016), the efficiency of zakat institutions are affected due to some reasons such as lack of human resource, outdated information communication technology (ICT), poor corporate governance, few number of branches and old and ineffective collection method.

The Concept of Trust

Trust is important in life and to gain trust from people is not easy. Rotter (1967) as cited in Zainal, Bakar, & Al Jafri Saad (2016) stated that trust is a word or promises in written or verbal form stands the individual or group is reliable. Another scholar Mayer et al (1995) as cited in Zainal, Bakar, & Al Jafri Saad (2016) defined trust as a desire of a party to look in advance to

another party to do something urgent for him without any control of that party, which also supported by Curall and Inkpen (2002) said that trust is the willingness and without a pressure of an individual to accept the intentions or conduct of any other person which beyond his control.

In addition, McKnight and Chervany (2001); Nunkoo et al (2012) as cited in Noor, & Al Jafri Saad (2016) defined trust as a belief of a person that will act, as expected in a responsible way which will meet the expectation of another person who trust them. Mikami and Inoguchi (2008) and Vigoda-Gadot (2006) as cited in Zainal, Bakar, & Al Jafri Saad (2016) stated that trust is based on the perception of a person itself. Trust is also can be include as a cultural norm to make space and gap and more opportunities to interact and communicate with people. Therefore, from the multiple version of trust definition, it will be a failure factor in a group or individual if there is no trust amongst each other.

Trust in Zakat

Even though the total collection of zakat has been increased over the past decades, the zakat payment through its institution amongst Muslim business owners remains less encouraging. RM470 million was collected from the business segment in 2012 and it was the second largest contributor of the total zakat collection. Alias (2013) as cited in Ghazali, Al Jafri Saad, & Wahab, (2016) stated that there is 20% of its potential zakat revenue from this segment and the remaining 80% of uncollected zakat for about RM 1.85 billion remains as a huge potential for the authorities to have their share. This is because some of the Muslim payer opt to pay directly to the recipients.

Based on the National Council of Fatwa, it is a compulsory for the Muslim to pay the zakat to the institution while any direct distribution of zakat to the eligible recipients is permissible. But however, it is sinful for disobeying the country's Islamic government decision. Wahid et al (2009) as cited in Ghazali, Al Jafri Saad & Wahab (2016) stated that, the failure of paying zakat direct to distribution because as zakat payers have been dissatisfied with the inefficiency of zakat distribution by the institution. This can be supported by Sinar (2014) as cited in Ghazali, Al Jafri Saad & Wahab (2016) said that zakat payers have low trust towards the institution especially in its capability to help the poor and destitute.

Therefore, the payers are preferring to pay their zakat to and transfer their contribution to the indirect channel (Muhammad et al, 2015; Wahid and Ahmad, 2014; Ismail et al, 2011 as cited in Ghazali, Al Jafri Saad & Wahab, 2016). This is a concern towards the integrity of Zakat Institution in managing public's fund.

The Concept of Service Quality

Service quality is an increasingly important criteria at present. Satisfaction also depends on the quality of products and services which can lead to the high quality service. Service quality can be defined as fitness for use, conformance to requirements and freedom from variation (Kotler et al., 2013). Definition of service quality has been introduced and its measurement has become a major discourse subject among academic researchers. For example, an approach to define and measure the quality of services is by Parasuraman et al (1985; 1988), which suggests that service quality can be measured by assessing the difference between user perception on service expectations.

Johnson et.al (1995) describes the quality of service is something that is intangible. The quality of services can be defined as a comparison between customer expectations of services offered and customer perceptions of service performance based on the experience gained (Gronroos, 1982; Sasser, Olsen & Wyckoff, 1998). Lovelock and Wright (2007) have stated that the company's service delivery has a customer's cognitive long-term valuation relationship. Therefore, the quality of service can be understood as a measurement method for evaluating service delivery performance in terms of customer experiences and perceptions that are formed through the service received or subscribed. Traditionally, zakat institutions strive to provide high quality services in terms of zakat management and customer service. In an effort to do so, this institution needs to see the community as their ultimate customer and strive to maximize their satisfaction based on the services provided.

METHODOLOGY

In this study, researchers use a mixed method research which consists of quantitative and qualitative research methods. For the purposes of this study, researchers have decided to use surveys and interviews as a method of collecting data. Data will be collected from questionnaires distributing to respondents from business owners (Muslims) in Kedah. The researches conduct interview technique with officers and heads of departments at Lembaga Zakat Negeri Kedah. In other words, the respondents for this study comprise two groups, namely SME business owners in Kedah and also officers from Lembaga Zakat Negeri Kedah.

RECOMMENDATION

Zakat institutions should raise awareness of the Muslim society, not only to business owners, but also to their spouses and family members. Religious talks either through the mass media or direct face to face lecture, zakat awareness programs and other aggressive promotions should be mobilize in a comprehensive manner so that the message of obligatory responsibility reaches the community so that it can help to increase business zakat awareness among Muslim Society. If the understanding of Muslim society increases, then it will directly influence business owners to have strong intentions to pay zakat. Furthermore, the transparency of the zakat institutions in the execution of the collection and distribution of zakat should be taken seriously so it will not cause the business owners to lose faith over zakat institutions. If the society has high trust towards zakat institutions then, more business owners will pay zakat and this will further increase the collection of business zakat in the future (Al Jaffri Saad et al, 2015).

CONCLUSION

As a conclusion, the governance of zakat institution does affect the compliance behavior of business zakat payers. Even though the collection of business zakat has increased every year, but still they are many business owners that are reluctant and avoiding to pay zakat. Furthermore, previous study has revealed that majority of Muslim Society are willing to pay directly to asnaf rather than paying at zakat institution, this shows that the governance of zakat institution are still lacking in many areas especially in the trust and transparency of the zakat management (Wahab

and Rahim Abdul Rahman, 2011; Zulfikar, 2012; Al Jaffri Saad et al, 2015). Thus, zakat institutions shall improve the governance and develop strategic plan to increase the awareness and the compliance of business zakat payers.

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