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Article

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Enhancing zakat compliance through good governance: a conceptual framework

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Abstract

Purpose – This paper aims to construct a conceptual framework which explains the relationship between governance of zakat institutions and zakat payment compliance by using the organisational legitimacy theory.

Design/methodology/approach – This paper adopts content analysis and a review of multidisciplinary literature that primarily relate to zakat institutions, public governance and compliance behaviour.

Findings – The paper has developed a model, adapted from Abioye *et al.* (2013), concerning the influence of governance mechanisms on zakat payers' compliance using trust as a moderator. The model comprises four governance mechanisms which influence zakat payment compliance. The four mechanisms include the board and leadership attributes, transparency and disclosure practices, stakeholder management practices and procedural justice. Trust has a moderating effect on the relationship between governance and zakat compliance.

Research limitations/implications – This model is applicable to regulated zakat systems, where the state has established zakat institutions and regulations for the collection and distribution of zakat, such as Saudi Arabia, Pakistan, Sudan and Malaysia.

Originality/value – This paper proposes a model, based on Abioye *et al.* (2013), to explain the influence of governance on zakat payment compliance. The novelty of the study is the addition of one new critical variable, procedural justice, to the Abioye *et al.*'s (2013) framework. Secondly, the model is proposed for regulated zakat jurisdictions.

Keywords Compliance model, Governance, Trust, Zakat compliance, Zakat institution

Paper type Conceptual paper

Introduction

Zakat in Arabic refers to a monetary religious obligation paid by wealthy Muslims to the poor and other needy categories, as defined in the holy Qur'an. Zakat has significant economic purposes besides purification of the souls and wealth of zakat payers. Hence, the



act of paying zakat is a fulfilment of Allah's commands even in the absence of zakat authorities at the state level. The institution of zakat has played a crucial role in the socio-economic, moral and spiritual development of Muslim societies throughout Islamic history. Zakat has been an integral part of the Islamic economic system because of its sizable impact in achieving social harmony and preserving decent living standards for the needy segments of Muslim communities. The success of zakat was recorded throughout the early days of Islam. It reached its height during the rule of 'Umar ibn 'Abd al-'Azīz, the Umayyad Caliph. For the entire duration of his rule, there was a surplus of zakat revenues to the extent that zakat workers could hardly find a needy person to receive the zakat money (Al-Omar, 1996). History documented that the early caliphs and zakat administrators were men of credibility and were hardworking, creative, just and caring (Uqlah, 1985). The trustworthy management of zakat had encouraged an excellent giving and caring behaviour from the public, which allowed them to easily comply with the payment of zakat. Therefore, the notable success of zakat during this period was possible, among other things, thanks to good governance and payment compliance of the Muslim public.

Despite these enormous achievements in the past, the role of zakat institutions in contemporary Muslim countries has been modest. Zakat, in addition to other charitable organisations, has not been given the attention it deserves to realise its potential of boosting economic prosperity among Muslim communities (Al-Qaraḍāwī, 2002; Shihata, 2006). This is evidenced by the fact that the Muslim world is still largely affected by widespread poverty and increasing income and wealth disparity among its citizens. Several studies have documented the challenges that zakat institutions face, which have hampered their ability to effectively play their role in enhancing the socio-economic development of Muslim societies. These challenges include regulatory framework (Al-Omar, 1990; Abdullah, 1995; Powelt, 2009), management (Guermat *et al.*, 2003; Farhan, 2008; Htay and Salman, 2014; Ram al Jaffri *et al.*, 2016), human resource quality (Adnan *et al.*, 2013), efficiency and use of technology (Abd Wahab and Abdul Rahman, 2011b), performance (Noor, 2012; Said *et al.*, 2012; Fadilah, 2013), trust (Abioye *et al.*, 2013; Syafei, 2015; Muhammad and Saad, 2016a), governance (Kaslam, 2009; Abd Wahab, 2013; Saad *et al.*, 2017) and payment compliance (Ahmad *et al.*, 2011; Khamis *et al.*, 2011; Saad and Haniffa, 2014). Among these challenges, the latter two (governance and compliance) can be considered as the primary challenges while the rest are secondary ones. This is because all the other secondary challenges relate directly or indirectly to these two, governance and compliance. Yet, the relationships among these challenges relative to compliance have not been adequately discussed in the case of zakat. For instance, the regulatory framework varies in different jurisdictions in Muslim countries. In most Muslim countries, zakat institutions have remained unregulated. There are few countries such as Saudi Arabia, Sudan, Pakistan and Malaysia that have established regulated zakat systems. Yet, having such regulatory framework in place does not guarantee payment compliance.

Studies in these four countries show that there is a significant gap between the estimated potential of zakat proceeds and the actual zakat collection through formal zakat institutions (Shirazi and Amin, 2006). The same situation is also reported in other countries imposing mandatory zakat payment, where zakat compliance still remains a common challenge facing zakat administrators (Shirazi and Amin, 2006; Saad and Haniffa, 2014; Shaikh, 2016). Furthermore, there are studies that have documented the relationship between these secondary challenges and governance. For example, there are studies on the relationship between governance and performance (Fadilah, 2013); governance and efficiency (Abd Wahab and Abdul Rahman, 2011a; Mubtadi and Susilowati, 2018); and governance and zakat payers' trust (Abioye, 2013; Ghani *et al.*, 2018). It would be interesting to compare

governance to compliance in the context of zakat. Enhancing the role of zakat institutions would require good governance, which is central to ensuring payment compliance on the part of zakat payers. Yet, the relationship between governance and zakat payment compliance has received little attention from zakat researchers. Accordingly, this paper attempts to identify the gap in the literature using the content analysis approach and develop a theoretical model that explains the role of governance mechanisms of zakat institutions in influencing zakat payment compliance, particularly in a regulated zakat system.

The rest of this paper is structured as follows: the second section provides a review of the relevant literature. The third section introduces the underlying theory used to support the model proposed in this paper. The fourth section discusses the governance mechanism and its influence on zakat payers' compliance. The fifth section presents the governance compliance model that is developed in this paper. The final section concludes the paper and provides suggestions for future research.

Review of related works

As discussed in the introduction, there is a dearth of literature that has examined and developed a model incorporating the role of zakat institutions, particularly their governance mechanisms, in influencing zakat payment compliance. The present section surveys the relevant literature to identify this research gap. The review will begin with works on zakat payment compliance followed by studies on zakat governance mechanisms.

Literature on zakat payment compliance

Zakat compliance can be defined as the payment of zakat in accordance with zakat regulations imposed by zakat authorities based on zakat principles in Shari'ah (Islamic law) (Khamis *et al.*, 2011; AlSaad, 2013). This definition has been chosen to suit the context discussed in this paper, where zakat is regulated and imposed by the state laws and its public institutions, such as in Saudi Arabia, Sudan, Pakistan and Malaysia. The discussion on zakat payment compliance, particularly in regulated zakat systems, has some similarities with tax compliance literature, although tax and zakat differ significantly in their nature, principles and objectives. One of the aspects that differentiate zakat compliance from tax compliance is the legal implications of certain financial planning activities which lead to reducing the amount of tax due. Such activities are legal and widely acceptable in tax payment, while they can be immoral and improper from a Shari'ah perspective (Khamis *et al.*, 2011). In addition, unlike tax compliance, zakat is an obligation whose compliance is imposed by two authorities: the lawgiver (Allah, the Almighty) and the state (on behalf of the lawgiver). Hence, any failure in paying zakat to the state officials or zakat authorities does not exonerate the payer from compliance. He or she would still have to pay it directly to zakat beneficiaries (Abu Bakar and Abdul Rahman, 2007).

Past studies have proposed a few models regarding zakat payment compliance. For example, using the theory of reasoned action (TRA), Saad and Haniffa (2014) examined the factors influencing the intention of compliance with business zakat payment to the formal zakat institutions in Malaysia. The study aimed to determine whether attitude and subjective norms were determinants of the intention of zakat compliance. It was found that the TRA was relevant in explaining the behaviour of zakat payers. Meanwhile, other researchers included additional factors besides the factors prescribed in the TRA, such as religiosity (Haji-Othman and Fisol, 2017; Mokhtara *et al.*, 2018). Findings from recent studies suggested significant relationships between religiosity and zakat payment compliance (Mokhtara *et al.*, 2018; Bin-Nashwan *et al.*, 2019; Mukhibad *et al.*, 2019).

Muhammad (2016) also examined the determinants of business zakat compliance. He included, in addition to attitude in the TRA model, the following variables: the role of zakat administrators, business profitability and the length of business establishment. The findings revealed that only attitude and business profitability significantly influenced compliance, whereas the role of zakat administrators and the length of business establishment did not show significant influence in the relationships.

Khamis *et al.* (2011) proposed a zakat compliance model based on two economic theories, notably the rational choice theory and the expected utility theory. The model comprised six factors that could influence zakat compliance behaviour, namely:

- (1) the level of religiosity;
- (2) the level of knowledge;
- (3) the length of business operations;
- (4) the organisational factor;
- (5) government incentives; and
- (6) the law enforcement factor.

Similarly, Ahmad *et al.* (2011) developed a zakat compliance model for formal institutions. The authors identified seven factors influencing zakat compliance, namely:

- (1) law enforcement;
- (2) religious commitment;
- (3) knowledge of zakat;
- (4) access to a payment system;
- (5) trust in the formal zakat institution;
- (6) perception of the tax system; and
- (7) the reference group's effects or the environment's effects.

The model proposed by Ahmad *et al.* (2011) was based on multiple theories used in the tax compliance literature, such as rational individual, reference group, social exchange and attribution theories. Evidently, developing a zakat compliance model requires some adjustments that suit the nature of zakat obligations and accommodate Islamic values. Overall, the literature on zakat compliance behaviour has not focused much on the role of zakat organisations in influencing zakat payment compliance, particularly in regulated zakat systems.

Literature on governance of zakat institutions

According to Abd Wahab and Abdul Rahman (2011a), governance of zakat institutions refers to the organisational structures and mechanisms that are intended to maintain proper and accountable management of zakat collection and distribution. It is argued that for zakat institutions to be accountable, they need to show transparent management to ensure sufficient access to information for all related parties. Although governance can have a significant impact on the performance of zakat institutions, there have been few studies that have discussed this aspect. For example, Fadilah (2013) investigated the relationship between governance and organisational performance in zakat institutions in Indonesia. Also, Abd Wahab and Abdul Rahman (2011a) and Mubtadi and Susilowati (2018) investigated the relationship between governance and efficiency, while Abioye *et al.* (2013) and Ghani *et al.* (2018) explored the relationship between governance and zakat payers'

trust. There is common agreement that there is an urgent need for zakat institutions to embrace good governance to optimise their performance and reinforce trust among zakat stakeholders.

Muhammad and Saad (2016b) argued that perceptions of good governance can influence zakat payers' intentions concerning the payment of zakat, while deficient governance can adversely affect zakat compliance behaviour. Accordingly, the authors proposed a conceptual model where trust moderates the relationship between the intention to pay zakat and the public governance quality, accountability and effectiveness of zakat institutions. In a similar context, Abioye *et al.* (2013) investigated the antecedents of zakat payers' trust towards a particular zakat institution. Drawn from the resource dependence and legitimacy theories, the authors identified four factors as antecedents of zakat payers' trust, namely, perceived board capital, perceived disclosure practices, perceived stakeholder management and the legal position of zakat institutions. Accordingly, the influence of these variables on zakat payers' trust was examined through a survey instrument on zakat payers in Nigeria. The findings revealed that the first three factors were found to be determinants of zakat payers' trust, suggesting that the perception of the institutional model has no effect (Abioye *et al.*, 2013). Although these factors mentioned in both studies can be significant in building zakat payers' trust, they may not cater for different legal systems of zakat. For example, in countries imposing compulsory zakat collection, it is important to consider the impact of zakat regulations and collection procedures in influencing zakat payers' compliance. Asiri and Yamani (2017) discussed several legal and accounting issues that frequently cause disputes between zakat authorities and zakat payers in Saudi Arabia. Similarly, AlSaad (2013) found that the legal and accounting issues that exist in the Saudi zakat regulations have contributed to zakat evasion or zakat avoidance cases.

Despite the fact that regulated zakat systems have shown better results in terms of zakat collection, they have yet to achieve their zakat potential. Therefore, there is a need for a broader governance model which provides a theoretical understanding of the influence of governance mechanisms of zakat institutions on zakat payment compliance. The developed model can help zakat organisations optimise their performance and preserve their legitimacy and credibility in the eyes of zakat stakeholders. By identifying governance mechanisms that would influence zakat payers' compliance, zakat administrators can maximise zakat contributions and enhance the effectiveness of zakat institutions.

Theoretical underpinnings

The organisational legitimacy theory can provide theoretical support to the association between the legitimacy of an organisation – zakat institutions in this case – and public recognition and acceptance of its role, represented by compliance with zakat regulations. Legitimacy can be seen as “the right to rule and the recognition by the ruled of that right” (Jackson *et al.*, 2012, p. 1). Legitimacy has also been defined as “a generalised perception or assumption that the actions of an entity are desirable, proper or appropriate within some socially constructed system of norms, values, beliefs and definitions” (Suchman, 1995, p. 574). Being legitimate is an important factor for the success of authorities or organisations because influence cannot be exerted solely by the use of power. Thus, legitimacy encourages voluntary compliance because people feel they are obligated to obey the law as a moral commitment to do the right thing (Tyler, 2006).

Organisational legitimacy is determined by the methods through which corporates conduct their operations. In addition, legitimacy is determined by the outcomes as well as the activities and objectives of organisations. When an actual or potential disparity emerges between the value system of the corporate and that of the society, organisational legitimacy

may be threatened, which could take forms of legal, economic or social sanctions (Suchman, 1995). Therefore, the legitimacy of authority is not only the obligation to obey, but also the moral alignment with a broader set of beliefs, ideas and values of the society. According to Tyler (2006), the legitimacy trait of public authorities is important because governing society by power alone requires enormous resources to monitor public behaviour and enforce compliance with the law. Institutions' moral alignment with social values and norms is a crucial element for eliciting people's internal motivation, which is more effective than guiding behaviour through power and sanctions. A system of self-control can reinforce external control by authorities as the desire to act according to the law becomes internalised because of the shared values and social norms (Dowling and Pfeffer, 1975).

To use the organisational legitimacy theory in the context of zakat institutions, it is important to demonstrate their legitimacy through embracing good governance practices to achieve the Sharī'ah objectives of zakat. Abioye *et al.* (2013) assert that the early practices of Prophet Muhammad (SAW) and his pious successors set the best example to follow to gain legitimacy and acceptance among Muslim societies. Accordingly, they illustrate the trust-building mechanisms derived from the early practices concerning the institution of zakat, which include: trusted leadership, accountability of the management, employment of trustworthy workers, maintaining integrity among zakat workers, respectable treatment of zakat payers and respectable treatment of zakat beneficiaries.

Role of governance *vis-à-vis* zakat compliance

The concept of governance is assumed to reflect a comprehensive system that best serves the interested parties and fulfils the objectives of the organisation. International agencies such as the International Federation of Accountants and the Chartered Institute of Public Finance and Accountancy have developed a framework for governance of the public sector which aims to promote robust public sector governance. The framework identifies several principles of good governance, namely, integrity and the rule of law, participation or stakeholders' engagement, clarity of strategic vision, efficiency and effectiveness, capacity development, risk management and internal control and transparency and accountability. However, it is noted that the challenge remains in implementing such codes and principles (IFAC and CIPFA, 2014).

In the context of zakat institutions, several studies have adopted similar principles in studying the role of governance and its impact on performance (Fadilah, 2013) and efficiency (Abd Wahab, 2013). Moreover, Al-Najrani (2017) argued that there can be a convergence between governance principles and Sharī'ah objectives, known as *maqāsid al-Sharī'ah*, particularly in terms of means and mechanisms. He further explained how governance principles – namely, the rule of law, participation, consensus orientation, responsiveness, efficiency and effectiveness, transparency, accountability and fairness – can be used in the context of zakat collection. Al-Najrani (2017) also highlighted Sharī'ah support for the good governance principles and provided evidence from the practice of the early administration of zakat. Accordingly, the principles of good governance should be embraced to maintain proper and accountable management of zakat institutions.

As mentioned earlier, Abioye *et al.* (2013) developed a governance framework for the institution of zakat derived from the early practices. Their model can be used in developing a zakat governance-compliance model in this paper; however, some adjustments are needed to include other factors that can influence zakat compliance in regulated zakat systems. Accordingly, the authors in this paper have added procedural justice to the three mechanisms in the Abioye *et al.*'s (2013) model, which are the board and leadership attributes, transparency and disclosure practices and stakeholder management practices. These four mechanisms are discussed below.

Board and zakat organisations' leadership attributes

The role of leadership is seen as the most influential factor which shapes organisational culture and dynamics. Leadership is responsible for ensuring the alignment of the organisation and its commitment to the values and vision that it intends to pursue. The board's leadership also has a significant role in enacting the vision and values of their organisations and ensuring the implementation of optimum strategies to achieve them (Drath *et al.*, 2008). The board of directors is a mechanism that enables interactions between the owners of entities and the management, aiming to monitor their activities, protect investors' interests and ensure fair returns on their investments. Board members provide oversight over the management, who are supposed to execute the board's decisions (West *et al.*, 2015).

Similarly, public sector boards have an important role in improving organisational performance (Chambers *et al.*, 2013). There has been an increasing number of studies investigating the relationship between the board's effectiveness and the organisation's effectiveness. Corporate governance literature has discussed several theories explaining the board's functions in various contexts. For example, most governance studies draw on agency theory, which still holds primacy in governance theories. Agency theory emphasises the separation between the ownership and management of corporations. The managers are agents and the owners are the principals, and the interests of these parties do not necessarily align. The latter elects the board of directors to act as a monitoring mechanism to control the problems which may arise from managers' opportunistic behaviour (Chambers *et al.*, 2013). However, applying agency theory to the public and non-profit sectors may be difficult because of the ambiguity of defining the principals or the owners. Still, it can be argued that public entities are at risk of mismanagement from managers pursuing self-interest and misusing public resources. Thus, the agency relationship is relevant as the role of the board is to monitor the management and protect public interests (Chambers *et al.*, 2013).

Contrary to agency theory, stewardship theory assumes that the board has a cooperative role with the management as their goals are aligned. In this governance model, the board may develop closer ties and strategic partnership with the management. It is assumed that such a relationship could potentially produce more effective governance regimes (Cornforth, 2003). The main function of the board based on this theory is performance improvement through developing strategies and adding value to big decisions. Hence, the board consists of members having expertise and relationships with important parties, which bring value to the organisation's decisions (Chambers *et al.*, 2013). Overall, there are two primary dimensions of the board's role, namely, conformance and performance. Conformance involves two functions: accountability and supervision. Accountability is concerned with ensuring compliance with legal requirements and being accountable to shareholders or other stakeholders. In addition, supervision involves providing oversight to the management through monitoring the performance and ensuring the adequacy of internal control. The other dimension concerns performance, which drives the organisation towards accomplishing its mission and goals. Performance also involves two main functions, namely, policy formulation and strategic vision for the organisation's development. Notably, the conformance function of the board matches the agency theory perspective while the performance function relates to stewardship theory (Chambers *et al.*, 2013).

Other theories relating to the board's role in an organisation are stakeholder theory and resource dependence theory. Stakeholder theory presumes a representative board, through which the board members represent various stakeholders in the organisation. According to stakeholder theory, managers are seen as the agents for all stakeholders and not just the owners. It is argued that an exclusive emphasis on shareholder interests may not lead to

good corporate governance and effective accountability. Evidently, the modern culture of consumer rights, employee activism and media monitoring supports the assumption that shareholders are not the only capable body for monitoring corporates' activities. So, the board plays a political role in negotiating and resolving issues arising from potential conflicts of stakeholders' interests. On the other hand, resource dependence theory assumes that organisations can be interdependent with their environment as their survival may depend crucially on other actors or organisations for resources. Thus, the board plays a coordinating role through managing and maintaining external relationships with key stakeholders to leverage influence and resources. The board is perceived as the mediator between the internal and external parties, and thus members are selected for their background, contacts or skills (Wan Yusoff and Alhaji, 2012). Overall, it is evident that each theory carries a different emphasis on the role and composition of the board.

The influence of the board and leadership on compliance behaviour has been investigated in the context of tax compliance. Particularly, studies have examined the influence of perceptions towards tax authorities or governments in general on taxpayers' compliance behaviour (Chambers and Cornforth, 2010). It is argued that the complex nature of the tax contract between governments and taxpayers requires a mutual relationship between the contractual parties. Accordingly, when taxpayers view public services provided by the government as equitable, they tend to react positively to tax laws by reflecting increasing tax compliance (Damayanti *et al.*, 2015; Rosid *et al.*, 2017). Empirical studies have found that the perceptions of taxpayers towards their governments can influence their intentions to comply with tax regulations. Moreover, political scientists and researchers of other fields such as psychology and sociology have long considered legitimacy as an important quality of organisational leaders and authority. When people perceive authority as legitimate, they tend to comply with leaders' edicts and institutions' regulations voluntarily (Sunshine and Tyler, 2003).

Likewise, the perceptions of zakat payers towards board members and managers of zakat organisations are also likely to influence zakat payment compliance. Hasanuzaman (1991) asserted that the character and integrity of zakat collectors and administrators would have a great influence on the nature of public response towards the zakat levy. Dishonest and untrustworthy officials can harm the popularity of zakat administrators. The Prophet (SAW) used to teach and advise zakat collectors on moral conduct before sending them on their missions, which included assessing, collecting and dispersing zakat. Any complaints from zakat payers during the early zakat administration were taken into consideration, which may have resulted in relieving the concerned zakat officer in case of violation of zakat rules. For instance, 'Alā' ibn al-Ḥāḍramī was withdrawn from Bahrain because of zakat payers' complaints, and Abu Bakr (may Allah be pleased with him) recalled his zakat officer from Ḥāḍramawt after complaints of misbehaviour. Moreover, the integrity of zakat officials and collectors are of great importance to protect the sanctity of zakat money. This is evident in the Prophet's (SAW) warning of zakat collectors against accepting zakat payers' gifts (Hasanuzaman, 1991).

Studies investigating the relationship between the attribute of the board and leadership of zakat organisations and zakat payment compliance are scarce. However, Abioye *et al.* (2013) have examined the relationship between the board's capital and zakat payers' trust in the context of Nigerian zakat institutions. It was found that the board's attributes of competence, benevolence and integrity are important constructs for gaining zakat payers' trust. However, the latter study looked into zakat payers' trust rather than their behaviour, which could be suitable in a voluntary zakat system, where zakat bodies are categorised as charitable organisations. Nonetheless, it can be hypothesised that the quality of zakat institutions' leaders and the board of directors significantly influence zakat payment compliance.

Transparency and disclosure practices

Political economy theorists perceive corporate disclosure as a social, economic and political tool for building and maintaining organisational legitimacy. Transparency has been defined as “the characteristic of governments, companies, organisations and individuals of being open in the clear disclosure of information, rules, plans, processes and actions” (Transparency International, 2009, p. 44). Transparency is seen to assume three dimensions: information transparency, participatory transparency and accountability transparency. Information transparency refers to making relevant information accessible to stakeholders in an accurate, timely and balanced manner. Participatory information refers to the engagement of stakeholders in identifying the information they need and reporting them in a balanced manner. Accountability transparency refers to clarity in the definition of responsibilities, which leads to holding people accountable for their actions (Rawlins, 2008).

Disclosure is an abstract concept that is linked to the perceptions of transparency exhibited by an entity. It covers a wide array of forms of information and data produced by companies, including financial and non-financial, quantitative and qualitative, mandatory and voluntary and through formal and informal vehicles. The disclosure of information may take various means, such as annual reports, press releases, investor relations, periodic reports, brochures and websites (Hassan and Marston, 2010).

The influence of transparency and disclosure on compliance behaviour has been examined in the tax compliance literature. Tax transparency refers to the accessibility of information to taxpayers and the public regarding tax revenues and processes. It is assumed that increased tax transparency would encourage voluntary compliance of taxpayers as they trust their governments are directing tax revenues towards achieving desired outcomes. However, the issues of disclosure and tax compliance behaviour can be controversial. The argument in favour of disclosure by tax authorities is underpinned by the principles of transparency, accountability and fairness. The argument against disclosure is based on the principle of privacy. The issue of privacy in the context of tax compliance is debatable because it involves the participation of both parties, i.e. tax authorities and taxpayers, in publicly disclosing tax records. It is argued that such disclosures may have advantages relating to enhancing tax compliance and policing corporate governance. Also, disadvantages may arise from the issue of privacy and excessive power to the government. Hence, some scholars favoured partial disclosure which creates a balance between the two approaches (Devos and Zackrisson, 2015).

In the context of zakat institutions, the early practices of Prophet Muhammad (SAW) and his pious successors exhibited transparent treatment of zakat proceeds, particularly with regard to their storage and disbursement. For example, proceeds of zakat in most cases were distributed among the local communities where it was collected. Several reports mentioned that zakat workers often returned to Madinah from zakat missions empty-handed. Also, it was reported that the pious caliphs maintained the integrity of zakat institutions by separating the functions of zakat workers from the collectors of other sources of income (Kahf, 1999). In addition, Al-Najrani (2017) argued that transparency should be embraced by zakat authorities and zakat payers. Zakat payers are expected to be transparent with zakat collectors by revealing their wealth subjected to zakat. This obligation is evident in reports from the Prophet (SAW) warning zakat payers against hiding zakat wealth from the collectors, even to the extent of a small needle (*mikhyat*). On the other hand, zakat authorities should also demonstrate their transparency by disclosing detailed information regarding the collection and distribution of zakat (HasanuZaman, 1991; Al-Omar, 1996).

Disclosure should include revealing information related to zakat institutions' activities through annual reports and verifying zakat accounts by trustworthy auditors. When zakat

payers see the information disclosed, mutual trust may reinforce their sincere compliance towards zakat payment. [Abioye et al. \(2013\)](#) explored the influence of disclosure practices on zakat payers' trust in the context of Nigerian zakat institutions. They found that disclosure of information, including financial and non-financial data, in audited reports was considered important in building zakat payers' trust. However, studies examining the relationship between disclosure practices of zakat authorities and zakat payment compliance are rare, which represents a knowledge gap in zakat management and governance literature. Nonetheless, the literature reviewed can support the hypothesis that the transparency and disclosure practices of zakat authorities significantly influence zakat payment compliance.

Stakeholder management practices

The success of organisations requires the consideration of the interests of all stakeholders throughout the strategic management process. Stakeholder management is derived from stakeholder theory developed by Freeman (1984) [as cited in [Freeman \(2004\)](#)]. It assumes that various stakeholders may have an influence on the organisational performance and, thus, it should reflect on the way organisations operate. Moreover, according to stakeholder theory, value creation is viewed as the primary objective of firms or organisations. Managers are required to make compromises with different stakeholders to deliver the value promised to their constituencies ([Magd and Curry, 2003](#); [Iqbal and Mirakhor, 2004](#); [Laan, 2009](#)). Similarly, the management of stakeholders in the public and non-profit sectors is important because failure to acknowledge stakeholders' interests may lead to disaster ([Freeman, 2004](#)).

Effective stakeholder management requires identifying organisations' stakeholders, recognising their needs and ranking the importance of those needs in achieving the organisations' objectives. Freeman (1984) defined the term stakeholder as "any group or individual who can affect or is affected by the achievement of the organisation's objectives" ([Freeman, 2004](#), p. 229). This definition suggests two types of relationship between firms and stakeholders regarding who affects whom. In the first case, stakeholders can affect a firm's capability to achieve its objectives. This relationship implies that the firm has a stake in the behaviour of its stakeholders and, thus, it constitutes an instrumental value to its survival or success. Attention to stakeholders' interests can help avoid the risk of resources being withheld by stakeholders who control them. In this case, stakeholder management is an integral part of the firm's strategies, which influences the decision-making process. The second case suggested in Freeman's definition is where stakeholders are affected by the firm's decisions and strategies to achieve its objectives. In this case, attention to stakeholders' interests is a moral obligation on the firm which grounds its managerial approach ([Freeman and Mcvea, 2001](#)).

The influence of stakeholder management on compliance behaviour has been investigated in some aspects, such as the service quality provided by tax authorities. It is argued that treating taxpayers with respect, providing services and allowing participation would likely encourage citizens' compliance with tax regulations. Service orientation of tax authorities can be perceived through education of taxpayers on recordkeeping, reporting, providing information accessibility, etc. Accordingly, empirical studies suggest that perceived service orientation of public organisations is seen to facilitate cooperation with public authorities and boost citizens' trust and confidence ([Gangl et al., 2013](#)).

In the context of zakat institutions, stakeholder management is concerned with the way zakat organisations treat and manage the interests of zakat stakeholders. However, identifying zakat stakeholders can be a challenge to zakat administrators. According to the

framework of zakat stakeholders developed by [Abioye \(2013\)](#), stakeholders can be classified into five groups, as depicted in [Figure 1](#) and described below:

- (1) The definitive stakeholders, whose claims are legitimate and urgent and who have the power to pursue their interests, such as the government and the boards of zakat organisations.
- (2) The dangerous stakeholders, who possess power and urgency but lack a legitimate claim, for example the media.
- (3) The dominant stakeholders, including zakat administrators and zakat payers.
- (4) The dependent stakeholders whose claims are legitimate and urgent but who lack power. These are the zakat beneficiaries.
- (5) The discretionary stakeholders, which include fatwa committees and mosque committees.

This framework of zakat stakeholders can serve zakat administrators in identifying the importance and needs of each party and, thus, allocating the time and resources to them.

Stakeholder management demonstrated a trust-building mechanism during the early management of zakat, administered by the Prophet (SAW) and his pious caliphs. The Prophet's (SAW) consideration of zakat stakeholders is evident in his advice to Mu'adh, his messenger to Yemen, not to take the best of zakat payers' possessions. Besides, zakat workers ought to go to zakat payers, as practised by the early zakat administration. It is reported that zakat collectors were sent to multiple regions and tribes to assist zakat payers with the assessment and payment of their zakat obligations. Moreover, zakat administrators should make effort to search for zakat recipients and identify their needs. According to Al-Nawawi, it is the responsibility of the imam (the leader of public authorities), who undertakes the task of collecting zakat, to identify zakat recipients, acknowledge their needs and estimate their rights from zakat proceeds ([Al-Najrani, 2017](#)).

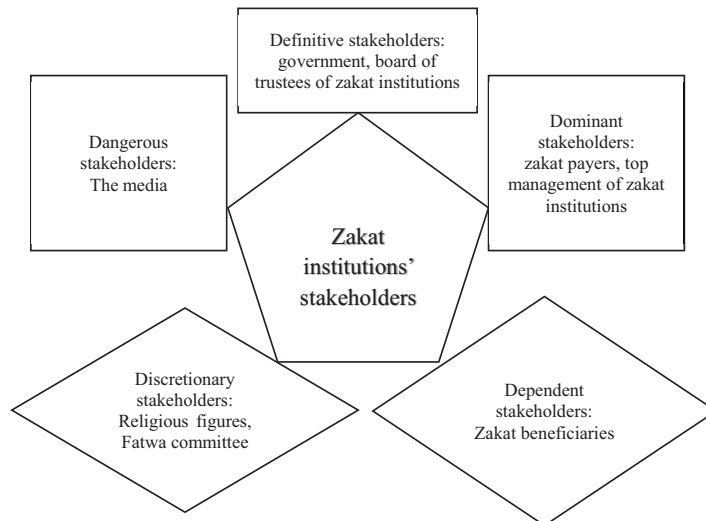


Figure 1.
Classification of zakat stakeholders

Source: Abioye (2013)

Furthermore, zakat stakeholders should be involved in the collection and distribution of zakat. For example, zakat organisations can use support from local committees and charitable institutions which are more familiar with the needs of zakat recipients (Al-Omar, 1996). As zakat institutions' survival depends on the support from the public and zakat payers, stakeholder management can be a crucial mechanism to build a good reputation and reinforce trust of zakat organisations. The influence of stakeholder management practices on zakat payers' trust has been examined in Abioye *et al.* (2013). The results indicate a positive relationship between the two constructs. Particularly, it is found that zakat institutions' attention to satisfying zakat payers, supervising the disbursement process and seeking out information on zakat stakeholders is important in gaining zakat payers' trust. Although the impact of zakat stakeholder management on zakat compliance has not been examined, it can be hypothesised that stakeholder management practices of zakat authorities significantly influence zakat payment compliance.

Procedural justice

Procedural justice of zakat authorities, particularly in regulated zakat systems, can play a significant role in influencing zakat compliance. The term procedural justice has been defined as "the perceived fairness of the procedure involved in decision-making, and the perceived treatment one receives from a decision maker" (Murphy, 2005, p. 566). The procedural justice perspective assumes that the legitimacy of authority is associated with public perception of the fairness of the process of exercising power and making decisions. A positive perception of the legitimacy and fairness of authority would likely encourage more cooperative behaviour and acceptance of the decisions made. On the contrary, a negative perception may lead to alienation, resistance and non-cooperative behaviour (Sunshine and Tyler, 2003).

The association between procedural justice and legitimacy has been documented in several studies. Procedural justice has been viewed as an antecedent of legitimacy. Empirical evidence has demonstrated the impact of procedural fairness on trust, which leads to improving compliance and acceptance of decisions made by the legitimate authority. Also, it is found that perceived unfairness is more likely to incite challenge and resistance to a decision or situation that seems unfair. Sunshine and Tyler (2003) found that procedural justice shapes the perception about the legitimacy of the police. People are more likely to accept actions by the police and less likely to resist when they view the police as legitimate. The police can gain favourable evaluations by improving the way they interact with the public and embracing fair and respectful disposition rather than by adopting a "command and control orientation" (Sunshine and Tyler, 2003, p. 520). Moreover, tax literature has commonly incorporated procedural justice as a determinant of taxpayers' compliance (Murphy, 2005; Hartner *et al.*, 2008; Faizal *et al.*, 2017). Murphy (2005) argued that maintaining compliance through sanctions and punishment as a strategy can undermine the perceived legitimacy of tax authorities. His study found that taxpayers who have been penalised were more likely to hold negative judgments about the legitimacy of the tax authority, particularly when they feel that they have been treated unfairly. Similarly, Faizal *et al.* (2017) found that the perceived procedural justice of the tax system and trust of the tax authority can improve taxpayers' compliance.

Procedural justice is particularly relevant in a compulsory zakat collection system. Zakat authorities are expected to implement zakat principles and follow zakat administrative procedures in a fair manner. A negative perception regarding the procedural justice of the zakat authority can significantly undermine zakat payers' compliance. However, the term "procedural justice" has limited recognition in zakat literature. The dearth of literature

addressing this term in the context of zakat can be attributed to the lack of zakat regulations in current Muslim countries or to their ineffectiveness. Zakat payment is perceived as a voluntary payment despite its compulsory legal status in some Muslim countries because of the absence of enforcement mechanisms of zakat authorities.

Alosaimi et al. (2016) discussed the concept of fairness in the context of zakat payment compliance. According to the authors, equity theory can be used to address zakat fairness. This theory suggests that the input–outcome balance determines the perception of fairness. Accordingly, it is argued that the input of zakat payers is the zakat due, while the outcome for zakat institutions is zakat payers' compliance. With regard to zakat administrative bodies, their input is the fair assessment, fair procedures and fair distribution of zakat proceeds, which are also the output of zakat payers. Any imbalance in the input–outcome may lead either party to bring equity back by the following means: changing their input or outcome, manipulating the other party's input/outcome, quitting the situation or changing the objects of comparison [Cook and Hegtvedt (1983) as cited in *Alosaimi et al. (2016)*].

Although the impact of procedural justice on zakat compliance has not been investigated, a few studies have highlighted the importance of zakat collection procedures on zakat payers' compliance in Saudi Arabia. For example, the ambiguity of zakat assessment and collection procedures was found to be an important factor that leads to zakat evasion cases (*AlSaad, 2013*). Similarly, *Asiri and Yamani (2017)* suggested that the issues in the procedures of assessing and calculating business zakat by the Saudi Zakat Authority have led to many disputes and zakat avoidance cases among Saudi zakat payers. Such issues may be perceived as unfair to zakat payers, such as the calculation and exemptions of certain real estate assets, loans, bonuses or allowances paid by business entities. Thus, it can be hypothesised that the perceived procedural justice of the zakat system significantly influences zakat compliance.

Proposed conceptual model

Based on the literature discussed above, this paper proposes a zakat governance compliance model which emphasises the influence of governance on zakat payment compliance. The proposed model is adapted from the governance model for building zakat payers' trust developed by *Abioye et al. (2013)*. Accordingly, this model comprises four governance mechanisms:

- (1) attributes of the board members and organisational leaders of zakat institutions;
- (2) transparency and disclosure practices;
- (3) stakeholder management practices; and
- (4) procedural justice.

The first dimension of governance relates to the influence of the board and leadership attributes on zakat compliance. Characteristics of trustworthy board members and leaders suggested in the literature include integrity, competence and benevolence. The second dimension is transparency and disclosure practices which can be observed through several indicators. These include publishing annual reports that contain sufficient information, conducting financial auditing and providing adequate information about the treatment of zakat funds and the distribution process. The third dimension is stakeholder management practices, which can also be observed through several aspects, such as providing educational and informative materials regarding zakat assessment and regulations, providing easy zakat payment systems, engaging with the public and the media in awareness campaigns and providing detailed information about the distributed funds.

The fourth dimension is the procedural justice of zakat authorities. This dimension can be observed through zakat stakeholders' perceptions about the fairness of zakat assessment and collection procedures, the treatment of zakat payers by zakat workers and the fairness of the distribution process.

With regard to the mediating variable of trust, it can be assumed that the perceptions of trust towards zakat institutions can have a significant influence on zakat compliance. Trust can be defined as a positive expectation held by individuals or groups that the trusted party is acting based on ethical principles [Hosmer (1995) as cited in [Siahaan \(2013\)](#)]. Trustworthy organisations should have features of credibility, accountability and competence.

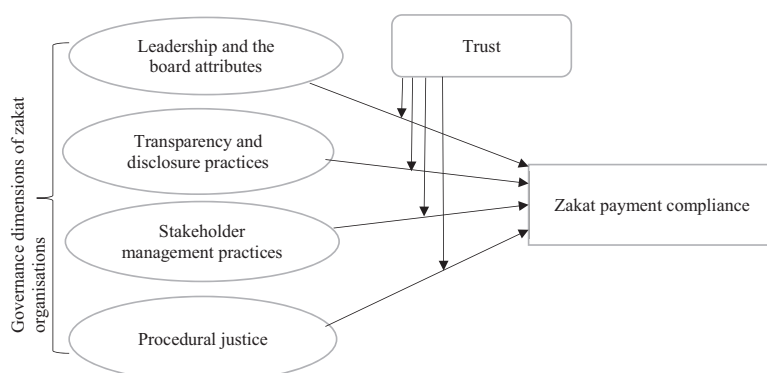
The dependent variable in this model is zakat payment compliance. Compliance has been divided into two categories, namely, administrative compliance (i.e. paying on time) and technical compliance (i.e. paying the correct amount) ([OECD Committee of Fiscal Affairs, 1999](#)). Although the latter classification of compliance involves tax compliance, it can also be used in the context of zakat, particularly in a compulsory zakat collection system. [Figure 2](#) depicts the conceptual framework of this study.

Overall, the developed model can explain how the perceived governance of zakat institutions influences zakat payment compliance. By doing an extensive review of multidisciplinary literature, this model identifies four governance-related factors that should be enhanced to improve zakat payment. Besides, it suggests that trust has a mediating effect on the relationship between the perceived governance quality, represented by four factors, and zakat payment compliance.

Conclusion

Regulated zakat systems have proven to be more effective in pursuing zakat objectives. However, challenges remain in optimising the efforts of zakat management and attracting greater financial resources from zakat payers. Maintaining a high level of zakat compliance is essential for achieving the potential role of zakat. This article attempts to provide a theoretical understanding of the role of governance mechanisms of zakat organisations in zakat payment compliance in regulated zakat systems. It is argued that the perceived legitimacy of zakat institutions is critical for encouraging zakat payers' compliance through trust.

Accordingly, this paper proposes a conceptual model which identifies governance mechanisms of zakat institutions that can influence zakat payers' compliance. The proposed



Source: Authors' own

Figure 2.
Proposed zakat governance compliance model

model is adapted from the governance model developed by Abioye *et al.* (2013), which has deduced trust-building mechanisms during the early management of zakat. A reasonable adjustment has been added to suit the study's context concerning zakat compliance in regulated zakat systems. It is proposed that governance mechanisms – namely, the board and leadership attributes, transparency and disclosure practices, stakeholder management practices and procedural justice – influence zakat compliance. Also, trust moderates the relationship between governance mechanisms and zakat compliance.

The proposed model is based on an extensive review of various areas of the literature concerning compliance behaviour in tax and zakat contexts. It is suggested that zakat institutions should embrace good governance practices to demonstrate their legitimacy and achieve a high level of zakat compliance. Future studies should examine this developed model in various jurisdictions, where zakat institutions are regulated and overseen by the state. However, it is possible that other variables or factors that influence zakat compliance emerge in certain jurisdictions, such as the perceived effectiveness of the management and distribution of zakat. Therefore, the proposed model could be used as a basis for extending potential latent variables of zakat governance and compliance, thereby charting a new direction of research on the effectiveness of zakat institutions.

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