

# Governance and Trust in Zakat Institution

Erika Takidah and Ajeng Pratiwi

Accounting Education Department, Faculty of Economics, Universitas Negeri Jakarta Indonesia, Jakarta, Indonesia  
erikatakidah@unj.ac.id, ajengpratiwi14.ap@gmail.com

**Keywords:** Governance, Accountability, Transparency, Sharia Compliance, Trust, Zakat Institution.

**Abstract:** As one of the five basic pillars in Islam, zakat is an obligatory upon every adult, mentally stable, and financially-able moslem. As a result, millions of moslems donate their zakat through zakat institutions. In the management of zakat funds, it is very to obtain the trust from the zakat payers (muzakki). This paper seeks to explore the zakat payers perception of governance and its effect to the trust in a zakat institution. Perception of accountability, transparency and sharia compliance represents the governance of Badan Amil Zakat Nasional (Baznas), as a zakat management institution. The survey method was applied in this research and with quantitative approach. The paper examines relation among accountability, transparency, sharia compliance and 100 zakat payers' trust in Baznas. The result of this research showed that the accountability, transparency and sharia compliance influenced a muzakki's trust in Baznas. Sharia compliance performs the strongest influence on trust among the studied variables. The paper relies heavily depend on a muzakki perception of Governance and Trust. Selection of limited indicators for this research may affect the results of the study. This paper highlights the need of an increasing trust through relevant disclosure of accountability, transparency and sharia compliance information to build a muzakki perception based on the annual report of zakat institution.

## 1 INTRODUCTION

As the largest moslem country Indonesia has huge potential of zakat therefore the responsibility of paying zakat is part of worship and duties on each moslem. The research results of Badan Amil Zakat Nasional (BAZNAS) in 2015 stated that the potential of zakat in Indonesia reached Rp 442 trillion or equivalent to 3.4 percent of Indonesia's Gross Domestic Product (GDP). But in fact, the zakat that is absorbed and managed by zakat management institution until 2016 reaches only Rp 4.4 trillion or one percent of its potential. This shows that Muslims currently have less interest to pay zakat in zakat management institutions.

The development of zakat management institutions has not been accompanied by the increasing interest of the community to pay zakat in zakat management institution. The cause is optimisation of zakat institution and public trust to zakat management institution is still low. Muzakki trust is very influential to zakat collection targets. The creation of muzakki trust, is expected to increase muzakki both in terms of quantitative and qualitative, so that zakat collection targets are achieved.

Furthermore, muzakki trust will also lead to the purpose of zakat management, namely community empowerment and poverty alleviation.

Regard to zakat institution confidence issues, there are several factors that are considered on muzakki trust. The first factor is accountability. The management of zakat, infaq, and shadaqah are considered to have weaknesses in aspects of public accountability, accountability, transparency, and institutional arrangement (Shabri, 2014). That is why the government issued Undang-Undang No. 23 Tahun 2011 on the Management of Zakat. The current phenomenon, the issue of accountability and transparency is still the main problem that overwhelms most of the zakat management institutions in Indonesia, whether managed by the government or private.

The second factor that affects trust is transparency or openness. The phenomenon that often happens people have doubts to pay their zakat through zakat management institution because it is considered less transparent. Therefore, transparency of financial statements, management and attitudes is important to increase the trust of muzakki to zakat management institution (Mukhlis and Beik, 2013).

The third factor affecting trust is sharia compliance. Sharia compliance has become one of the important pillars in the development of sharia institutions (Sulaiman and Jamil, 2015). Violation of sharia compliance can occur due to weak supervision will adversely affect the image and credibility of sharia institutions, thus reducing public confidence.

The fourth factor affecting muzakki's trust is honesty and integrity. Integrity is an element of character that underlies the emergence of professional recognition. Integrity requires an Amil Zakat to be honest and objective without having to sacrifice the secrets of muzakki or mustahik.

The last factor is professionalism. The professionalism of zakat management institution requires a management organization that is filled by people who have the capacity, both managerial and scientific understanding of religious scholarship (Abdullah, 2010). In addition, management professionalism also needs to base itself on a good governance system as it has become a demand for the implementation of today's public governance management.

In accordance with the mandate of the Undang-undang to become a professional institution, zakat management institutions must have competence, totality in work, get payment (wages), always want to learn, awareness that all behavior and actions have social and religious responsibility. Through such a competent institution, zakat will be channeled appropriately and will influence the public trust.

### 1.1 Trust in Zakat Institution

Luarn and Lin (Ferrinadewi, 2008) define trust is a specific belief in integrity (honesty of trustworthy parties and ability to keep promises), benevolence (thoughtfulness and motivation believed to act in the interests of trust them), competency (ability of the trusted party to carry out the trusting needs) and predictability (consistency of the behavior of the trusted party).

According to Mayer and Davis (1999), the three dimensions of the trustee arise from the ten existing literature: ability, virtue, and integrity. This is reinforced by Gefen and Silver's theory that the belief dimension consists of: (1) Competence, the company has the ability to deliver its promises to clients; (2) Integrity, a company acts in a consistent, reliable, and honest manner when delivering on its commitment; (3) Kindness, a core company in the right place and putting the client's attention above his or her interests.

Muhammad and Saad (2016) examined the reliability and validity of trust's dimensions namely;

public governance's quality, quality of zakat distribution, zakat service quality and perceived board capital. The result shows that all the constructs are reliable measured of trust toward intention to pay zakat in Kano Nigeria

Ghazali et al. (2016) The commitment-trust theory is utilized as the underpinning theory. An extensive literature review found that shared values, communication, non-opportunistic behavior and perception on distribution are the potential factors that influence trust towards zakat institution.

### 1.2 Accountability and Trust in Zakat Institution

Barlow explains that accountability means an obligation to present and report all acts and activities performed in accordance with the mandate / mandate that it carries on to a higher party or superior. Strengthening the definition of accountability is also put forward by Patricia Douglas, the accountability of an organization implies (a) the availability of information about decisions / policies and actions taken during the operation, (b) asking external parties to review the information, and (c) taking corrective action if needed.

In the shariah accounting point of view, Tapanjeh (2009) defines that: Accountability is an attempt to generate correct, fair and transparent disclosures. The accountability of the disclosure is done first is for God. The fundamental concept of Islamic accountability is believing that all resources are available to individuals in the form of trust. Therefore, correct disclosure of financial facts, and accurate information must be freely available to the user.

Islamic accountability framework in the zakat funds management (Saad et al., 2014) accountability in the zakat fund management is driven by the Islamic foundation, which cannot be separated from the Islamic teachings and pathways. For this reason, the zakat contribution is essential, which all the Muslims have to abide by, through the shadowing of the intangible relations within the human beings i.e. Muslims and submission to Allah

The four main dimensions of accountability are strategic accountability, fiduciary accountability, financial accountability and procedural accountability. (1) Strategic accountability is associated with the core objectives, the disclosures include: organizational intentions, that is, their vision and mission; actions, that is, activities and programs to fulfill their intentions; and results that measure the impact of their actions and the extent to which their

intentions have been achieved. (2) Fiduciary accountability emphasizes honesty and compliance, and at operational levels, governance and control. (3) Financial accountability is concerned with their financial outlook and the main trends and factors underlying their financial development (Dhanani and Connolly, 2012). Hence the researchers assume that the accountability as apart of governance, ia a factor to build the muzakki trust towards zakat institution. Therefore, the following hypothesis is formed as below.

H1: Accountability should have a significant positive relationship with muzakki trust in zakat institution

## 2 LITERATURE REVIEW

### 2.1 Transparency and Trust in Zakat Institution

According to Andrianto (2007), public transparency is a genuine, thorough disclosure, and provides a place for the active participation of all levels of society in the process of managing public resources. Any policy issued by the organizer must be openly accessible by allowing sufficient space for the public to participate widely in it. Muhammad (2006), all Zakat Institution has implemented public accountability in the framework of transparency of zakat fund management in various forms such as preparing routine reports to muzakki, bulletins, and publications in the mass media.

Komite Nasional Kebijakan Governance (KNKG) 2005 define transparency is a condition where the institution provides material and relevant information in a way that is easily accessible and understood by stakeholders. Meanwhile, according to the National Committee on Governance, the managers are obliged to carry out the principle of openness in the decision process and in conveying information. Openness in conveying information means that the information submitted must be complete, correct and timely to all stakeholders. Indicators of transparency are formulated using several expert theories, the principle of transparency are: (1) Availability of adequate information on every process of formulation and implementation of public policy; (2) Access to ready, accessible, free and timely information.

Meanwhile Krina (2008) revealed, transparency indicators are: (1) Provision of clear information on responsibilities; (2) Establish a grievance mechanism in the event of any breach or demand for payment of

bribes; (3) Ease of access to information; (4) Increasing the flow of information through cooperation with mass media and non-government institutions.

According to Kamil and Ahmad (2002), Distrust toward zakat institution, especially in term of transparency and inefficiency in zakat distribution management. In congruence with above discussion, it is assumed that trnparency in zakat institution will determine muzakki trust. Thus proposed hypothesis is:

H2: Transparency should have a significant positive relationship with muzaki trust in zakat institution.

### 2.2 Shariah Compliance and Zakat Institution

Shariah Compliance Shariah compliance is the ability to follow Islamic sharia law. The meaning of Islamic law here is Al Qur'an and Al-Hadist which is a guideline for Muslims. One of the fundamental aspects that differentiates the sharia and conventional financial industry is the compliance with sharia principles (sharia compliance). One of the legal aspects of the sharia financial industry is the regulation of sharia compliance Yudha and Roby (2016). Shariah compliance is an important part for sharia financial industry in terms of management and operational. This is supported by the existence of Sharia Supervisory Board for every shariah-based financial institution.

Performance of Shariah compliance, legality and institutional measured six measures covering aspects related to the Sharia Supervisory Council (SSC), Vision and Mission, Organizational Structure, Employee Education Level, Regular Training Program, and the percentage of fulltime employees Shabri (2014)

The supervision of sharia by the Sharia Supervisory Board (SSC) is an inseparable part of Shariah compliance. In this context, the regulation of sharia supervision, of course, includes the existence of a sharia board, which is an important part of the framework of regulatory rules as sharia compliance. Based on the above-mentioned thinking, the study related to shariah supervisory institutions in sharia financial institutions, it is important to do. Wahab and Rahman (2011) argued that in the case of zakat institutions in a Muslim country like Malaysia, good governance is important since it may contribute towards efficiency and effectiveness in zakat funds. Closer examination of the various governance

mechanisms is important because zakat institutions control significant financial resources.

Consistent with the above argument, it is expected that a high level of shariah compliance would contribute to a greater trust in zakat institution. Therefore, the following hypotheses is offered :

H3: Shariah compliance should have a significant positive relationship with muzaki trust in zakat institution.

### 3 METHODOLOGY

Based on the review literature and previous research results the conceptual model in this study is shown in Figure 1.

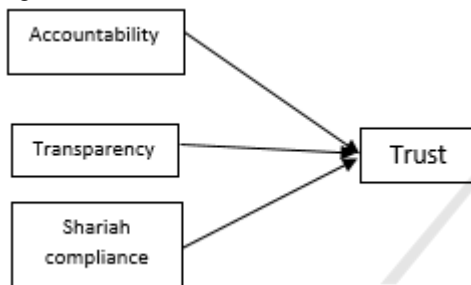


Figure 1: Conceptual model.

The model postulates that picture above shows that trust in zakat institution is influenced by governance: Accountability, Transparency and Shariah compliance. The framework also postulates that the independent variable are expected to have a direct positive influence on the dependent variable of this paper. This means that the greater accountability, transparency and shariah compliance, the higher the trust of muzakki in zakat institutions and vice versa.

The object of this research is the Badan Amil Zakat Nasional (BAZNAS) Jakarta. The method used in this research is survey method. The population in this study is all muzakki paying zakat in BAZNAS which amounted to 11,779 people. The sample in this research is 100 samples with sampling technique is purposive sampling. Sample criteria in this research are; (1) Muzakki BAZNAS domiciled in Jakarta; (2) Has been registered as Muzakki within a minimum period of 5 years; (3) Has paid zakat to BAZNAS more than 5 times; (4) Not including muzakki affected by autodebet salary or working in an agency that has partnered with BAZNAS through zakat payroll system.

Data collection was done by distributing questionnaires to the respondents. The questionnaire consisted of 4 variables, namely 1) a confidence

variable with 14 statement items, 2) shariah compliance variables with 8 statement items, 3) accountability variables with 16 statement items, 4) transparency variables with 11 statement items. The scale used is Likert scale with answer range 1 to 5. Data analysis method used in this research consisted of classical assumption test and hypothesis test.

### 4 RESULTS AND DISCUSSION

Based on table 1, the results showed a high and positive significant correlation between all constructs of governance (accountability, transparency and shariah compliance) and muzakki trust. coefficient value  $F = 95,576 > F_{table} = 3.09$  and significance number  $0,000 < 0,05$ . From these results can be said that accountability, transparency and shariah compliance were perceived as important to the trust in zakat institution. This is consistent with prior zakat literature (Ghazali, 2016; Wahab and Rahman, 2011) and also with the governance studies (Wahab and Rahman, 2011; Mukhlis and Beik 2013).

The framework also proposes a positive relationship between the independent and dependent variables such relationship is also supported by other scholars (Hasanah, 2013; Muhammad and Jaffri, 2016).

Tabel 1: F test.

ANOVA <sup>a</sup>					
Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	3375,596	3	1125,199	95,576	,000 <sup>b</sup>
Residual	1130,194	96	11,773		
Total	4505,790	99			

a. Dependent Variable: Trust

b. Predictors: (Constant), Accountability, Transparency and Shariah Compliance

As summarized at table 2, relationship between trust and governance as follow :

- Influence of accountability on trust;
- The value of the obtained path coefficient is positive at 0.302 and the significance value of 0.001 (0.001 < 0.005);
- The effect of transparency on trust;
- The value of the obtained path coefficient is positive at 0.297 and the significance value of 0,000 (0.000 < 0.005);
- Effect of Shariah compliance on trust;
- The value of path coefficient obtained is positive equal to 0.369 and significance value of 0,000 (0.000 < 0.005).

From these results it can be answer all of research Hypothesis: H1 accepted cause of accountability has a direct and significant influence on trust. H2 accepted because transparency has a direct and significant influence on trust. H3 can be accepted because that the shariah compliance has a positive and significant impact on trust. This result also consistent with Zainal et al. (2016), Kamil and Ahmad (2002) that Accountability, Transparency and Shariah Compliance has a positive and significant correlation with muzakki trust.

Tabel 2: T test.

Coefficients <sup>a</sup>					
Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	4,431	3,108		1,426	,157
Accountability	,271	,082	,302	3,305	,001
Transparency	,284	,073	,297	3,874	,000
Shariah Compliance	,857	,180	,369	4,763	,000

a. Dependent Variable: Trust

Tabel 3: Determination Coefficient.

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,866 <sup>a</sup>	,749	,741	3,431

a. Predictors: (Constant), Accountability, Transparency and Shariah Compliance

Table 3 showed that the overall explanatory factor of muzakki trust in zakat institution were statistically significant at 5% significant level with adjusted R-squared off 74,1% Hence with this condition it revealed that the independent explains 74.1% of the variance muzakki trust. This finding concurred with Zainal (2016) study where stakeholder trust influence by governance.

## 5 CONCLUSIONS

The results of data analysis and discussion can be concluded that governance which represented by accountability, transparency and shariah compliance has a significant effect on muzakki trust in zakat management institution. The highest influence coefficient (dominant) on trust among variables is sharia compliance. The issue of zakat management is argued in this paper as closely related to the governance relationships in the zakat institution. Differ from western understanding over accountability transparencies and shariah

compliances, Islamic governance framework proposed and analyzed here provides a broad and integrated understanding over the governance in zakat fund management that can help the relevant parties to manage the zakat fund more effectively and efficiently.

## REFERENCES

- Abdullah, R. B., 2010. Zakat Management In Brunei Darussalam : A Case Study Zakat Management In Brunei Darussalam : A Case Study Rose binti Abdullah. *Seventh International Conference*.
- Dhanani, A., Connolly, C., 2012. Discharging not-for-profit accountability: UK charities and public discourse. *Accounting, Auditing and Accountability Journal*. Vol. 25 Issue: 7, pp.1140-1169.
- Andrianto, N., 2007. *Good e-Government: Transparansi dan Akuntabilitas Publik Melalui e-Government*, Bayu Media. Malang.
- Ferrinadewi, E., 2008. *Merek dan Psikologi Konsumen*, Graha Ilmu. Yogyakarta.
- Ghazali, M. Z., Saad, R. A. J., Wahab, M. S. A., 2016. A Conceptual Framework for Examining Trust towards Zakat Institution International Journal of Economics and Financial Issues. *Special Issue for International Soft Science Conference (ISSC 2016)*. 6(S7) 98-102. 11-13 April 2016, Universiti Utara Malaysia, Malaysia.
- Hasanah, N., 2013 *Analisis Pengaruh Layanan Lembaga Amil Zakat Terhadap Kepercayaan Muzakki (Studi Pada Lembaga Amil Zakat Dompot Dhuafa Yogyakarta)*, Repository UGM. Yogyakarta.
- Kamil, M. I., Ahmad, M. A., 2002, Peranan sikap dalam gelagat kepatuhan zakat pendapatan gaji. *Analisis*. 9 (1-2), 171-191.
- Krina, 2008. *Indikator dan Alat Ukur Prinsip Akuntabilitas, Transparansi, dan Partisipasi*, Sekretariat Good Public Governance, Badan Perencanaan Pembangunan Nasional. Jakarta.
- Mayer, R. C., Davis, J. H., 1999. The effect of the performance appraisal system on trust for management: A field quasi-experiment. *Journal of Applied Psychology*. Vol 84 No. 1, pp. 123-136.
- Mukhlis, A., Beik, I. S., 2013. Analisis Faktor-faktor yang Memengaruhi Tingkat Kepatuhan Membayar Zakat: Studi Kasus Kabupaten Bogor. *Jurnal Al-Muzara'ah*. I (1), 83-106.
- Muhammad, R., 2006. Akuntabilitas Keuangan pada Organisasi Pengelola Zakat (OPZ) di Daerah Istimewa Yogyakarta. *Jurnal Akuntansi dan Investasi*. Vol. 7 No. 1, hal: 34-55.
- Noman, A., 2003. Imperatives of Financial Innovations For Islamic Banks. *International Journal of Islamic Financial Services*. Vol. 3.
- Muhammad, S. A., Jaffri, S. R. A., 2016. Determinants of Trust on Zakat Institutions and its Dimensions on Intention to Pay Zakat: A Pilot Study. *Journal of Advanced Research in Business and Management*

- Studies*. ISSN (online): 2462-1935 | Vol. 3, No. 1. Pages 40-46.
- Saad, R. A. J., Aziz, N. M. A., Sawandi, N., 2014. Islamic Accountability Framework in the Zakat Funds Management. *Procedia - Social and Behavioral Sciences*. 164 (August), 508–515.
- Shabri, H., (2014). Performance Comparison Amil Zakat Institutions Managed By The Government And Private Organization In West Sumatra Province, 103–117.
- Sulaiman, H., Jamil, N., 2015. Information security governance model to enhance zakat information management in Malaysian zakat institutions. *Conference Proceedings - 6th International Conference on Information Technology and Multimedia at UNITEN: Cultivating Creativity and Enabling Technology Through the Internet of Things, ICIMU 2014*.
- Tapanjeh, 2009. Corporate Governance from The Islamic Perspective: A Comparative analyse with OECD Principles Critical Perspectives on Accounting. *Elsevier- Critical Perspectives on Accounting*.
- Undang-Undang No. 23, 2011. *Tentang Pengelolaan Zakat*.
- Wahab, A. N., Rahman, A. A. R., 2011. A framework to analyse the efficiency and governance of zakat institutions. *Journal of Islamic Accounting and Business Research*. 2 (1), 43-62.
- Yudha, A. N., Roby, C., 2016. Manajemen Pelayanan Pemberdayaan Anak Yatim pada Lembaga Amil Zakat Yatim Mandiri di Surabaya. *Al Tijarah*. Vol. 2, No. 1.
- Zainal, H., Azizi, A. B., Ram, A. J. S., 2016. Reputation, Satisfaction of Zaka Distributuin and Service Quality as Determinant of Stake Holder Trus in Zakat Institution. *International Journal of Economics and FInancia Issues*. 2016 6(S7).