



Antecedents of *zakat* payers' trust in an emerging *zakat* sector: an exploratory study

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Abstract

Purpose – The purpose of this paper is to investigate and explain the factors underlying the inclination of *zakat* payers to trust a particular *zakat* institution.

Design/methodology/approach – Based on the literature review and experience survey, a context specific questionnaire was developed as the main method of quantitative data collection. The instrument was administered to a sample of Muslim professionals who observe religious seclusion in the last ten days of the Islamic fasting month (itqaf) in 12 purposely selected mosques across four states and the federal capital territory.

Findings – Drawn from the resource dependence and legitimacy theories, the study finds that board capital, disclosure practices, governmental model of *zakat* institution, and stakeholder management were identified through the use of structural equation modeling as being the antecedents of *zakat* payers' trust.

Originality/value – This paper is the first to report an empirically based model of *zakat* payers' trust.

Keywords Board capital, Disclosure practices, Stakeholder management, *Zakat* Payers' Trust, Islam, Stakeholders

Paper type Research paper

1. Introduction

The trust of *zakat* payers has helped the survival of private *zakat* institutions when the government introduced compulsory *zakat* collection in Pakistan (Mohammad, 1990). Therefore, understanding the behaviour of *zakat* payers is important to the *zakat* institutions (Islamic charities). This is because the success of compulsory *zakat* deduction is contingent upon the level of monetization of the economy, the proportion of apparent and non apparent assets held by Muslims and the degree of confidence reposed by people in official *zakat* institutions. The low-economic development in most Muslim countries (Peerzade, 2005) should reduce when *zakat* institutions understand ways to win the trust of *zakat* payers.

The available evidence from Pakistan and Malaysia suggests the existence of a problem of *zakat* payers' trust. For instance, *zakat* institutions in Malaysia adopt various marketing strategies, such as the giving of promotional gifts to entice *zakat* payers (Wahid *et al.*, 2008), while it is documented that *zakat* payers moved 9.86 per cent



of total savings bank balances to current accounts within two weeks before the month of Ramadan in 1982-1983 in order to avoid payment of *zakat* on the savings balances (Khan, 1990). Furthermore, in Nigeria, Maidugu (2003) finds that the majority of *zakat* payers in Zamfara State distribute their *zakat* directly to the poor and are reluctant to disclose their wealth for fear of tax repercussions. As an emerging sector, understanding factors that will encourage *zakat* payers to pay *zakat* through formal agencies will help the sustainability of the sector.

So far, most of the research efforts to understand the behaviour of *zakat* payers have been undertaken in the realm of interpersonal dyads (Idris and Ayob, 2001; Ahmad *et al.*, 2006; Wahid *et al.*, 2008). There has not been any systematic attempt to understand why *zakat* payers choose a particular institution to which they wish to pay their *zakat*. To fill this gap, four variables were derived through an extensive literature review and experience survey to develop a model of *zakat* payers' trust and use sample data to test the model. Given these findings and their practical application, the study represents a significant contribution to the body of knowledge in the non-profit literature. In addition, the findings will be very helpful to *zakat* institutions in Nigeria and other jurisdictions. The remainder of the paper is structured as follows: the next section provides the literature review section while Section 3 discusses the theoretical background and hypotheses development section. Section 4 reviews the methodology of the study while Section 5 provides details of the findings. Section 6 discusses the results, and Section 7 concludes the paper.

2. Literature review

Notwithstanding the sparse level of enquiry on trust among accounting scholars, emerging evidence suggests an increasing interest of accounting researchers on accounting issues relating to trust (Neu, 1991a, b; Seal and Vincent-Jones, 1997; Tomkins, 2001; Langfield-Smith, 2008; Baldvinsdottir *et al.*, 2003, 2011). These further suggest the interest among accounting scholars to explore interrelationship between accounting information, governance, and trust. For instance, in the study by Johansson and Baldvinsdottir (2003), it has been found that the trust people have in accounting figures is connected with the trust which the accountants have succeeded in winning from other people in the organisation. Similarly, formal accounting and contracting processes have also been found to engender trust and cooperative long-term relation (Seal and Vincent-Jones, 1997). In the like manner, trust and control mechanisms have been suggested as sources of confidence in strategic alliance (Das and Teng, 1998).

While there are studies reporting positive link between accounting information and trust, negative relationship between these two was also highlighted in the literature. A stream of research finds that trust is a primary determinant of collaboration success while some scholars suggest that control systems reduce trust among collaborators (Zaheer and Venkatraman, 1995; Coletti *et al.*, 2005). Furthermore, apart from the fact that most of the prior research relate to inter-firm relations, almost all the studies were carried out within commercial contexts. Wholesale adoption of findings to research in nonprofit organisations is not helpful, since charitable activities are not governed by the same calculus as that of commercial relationships (Sargeant and Lee, 2002a). Studies on trust in charity literature, therefore, provide a better alternative.

A number of studies on giving have been conducted in charity literature but research specifically addressing the factors determining trust in a particular charitable

institution is sparse (Handy, 2000; Sargeant and Lee, 2002b; Sargeant *et al.*, 2006; Torres-Moraga *et al.*, 2010). Handy (2000) proposes specific types of signals that charities can use to establish their trustworthiness to raise funds from the public and also uses data obtained from charities to verify the proposal. Among others, disclosure of information audited by a credible independent auditing firm, legal backing by way of enabling law or governmental approval, backing by board of trustees made up of reputable members, affiliation with reputable organisation, disclosure of visible past and current achievements, testimony from recipients or other donors, are highlighted as possible signals that can help build public trust in charities. These signals form the basis of most studies on trust in charities.

For instance, Sargeant and Lee (2002a) examine the factors that may lead to the improvement of trust in the voluntary sector. They find that judgement, attitude to beneficiaries, attitude to philanthropy, service quality and role competence are good predictors of the level of trust that a given individual will place in the voluntary sector. Although these factors relate to the sector, individual organisations seeking donor trust can achieve it by improving on all these five factors. Sargeant and Lee (2002b) provide a refinement to the findings from the study by Sargeant and Lee (2002a). As opposed to the five factors found in the earlier study, only four antecedents of trust were identified. The four factors include attitude to philanthropy, perceived organisational judgement, role competence, and service quality.

In addition, Sargeant and Lee (2004) explore the link between trust, relationship commitment and giving behaviour. More specifically, it extends the earlier studies by the authors by only testing the ability of trust in voluntary institutions to lead to giving behaviour and also to investigate the possibility of any mediating factor between trust and giving behaviour using trust behaviour; relationship investment, mutual influence, communication acceptance, and forbearance from opportunism. On the one hand, they find that an increase in trust tends to lead to enhancement in commitment, while on the other, their findings further suggest the existence of the mediating role of commitment in the relationship between trust and giving behaviour.

Sargeant *et al.* (2006) use the structural equation technique to investigate the perceptual factors that influence giving behaviour. Although the study is not specifically on trust, it is considered relevant because of the model of giving behaviour developed. Five factors – demonstrable utility, familiar utility, charity effectiveness, professionalism, and service quality – are used to predict giving in the model. Except for professionalism, which produces a negative relationship, the results support hypothesized positive relationships between the variables and giving behaviour. As indicated earlier, familiarity, service quality, perception of charity, used in this study, have been used as antecedents of trust in other studies. Impliedly, the finding suggests a possible link between trust in particular charity and donating into such institution.

In a similar vein, Sargeant *et al.* (2006) explore the factors of giving behaviour and the mediating roles of trust and commitment. The findings from this study reveal a number of interesting areas in donor behaviour. They find that emotional utility, familial utility and trust are positively related to relationship commitment while organisational performance and communication are positively related to trust. In addition, trust is found to be a strong predictor of commitment, while, in turn, it mediates the relationship between trust and of average gift giving. Indeed, commitment is found to have a strong relationship with giving behaviour.

In a departure from previous studies on trust that are based on data from developed countries, Torres-Moraga *et al.* (2010) use data from an emerging charity sector in a developing economy – Chile – to develop a model of donor trust to explain how donor trust is generated. They find a direct relationship between organisational reputation, donor’s familiarity, perception of the organisation’s opportunism and donor trust, while the relationship between the perception of the organisation’s communication effectiveness and trust is indirect. One thing that is common to all the studies, so far reviewed, is that they focus on charitable institutions in a non-Islamic environment. Therefore, it is unclear if the findings can be used to understand the behaviour of contributors to the Islamic charity – *zakat* institution. Obviously, this represents a gap in the literature and it is this void that the current study aims bridge by developing a model of *zakat* payers’ trust.

3. Theoretical background

The findings from prior studies have documented that transactions involving the use of agents, as we have in the case of donating to charitable institutions, is always associated information asymmetry. Consequently, donors require signals to convince themselves that a particular charity is trustworthy. Studies have shown that charities seeking public confidence use disclosure of audited information, engagement of reputable people as members of trustees, testimony from recipients or donors, disclosure of past and present achievement, and the receipt of assistance from the government as signals (Handy, 2000; Certo *et al.*, 2001).

In this paper, a proposed model of *zakat* payers’ trust is shown in Figure 1. The theoretical framework is based on the resource dependence and legitimacy theories. It attempts to explain the variance in the dependent variable (*zakat* payers’ trust) by the four independent variables of:

- (1) board capital;
- (2) disclosure practices;
- (3) stakeholder management; and
- (4) the model of *zakat* institutions.

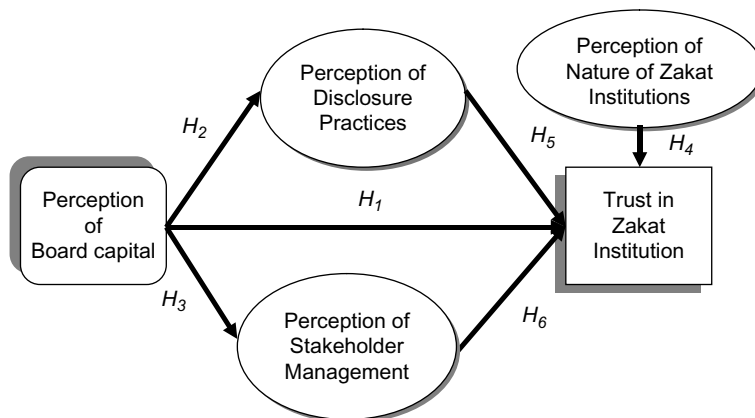


Figure 1.
Proposed model of
zakat payers’ trust

It is proposed that when a *zakat* institution has a board that comprises reputable members from different functional and educational backgrounds, it is likely that Muslims will see the board members as a signal that such an institution should be trusted to have the capacity and willingness to distribute their *zakat* in line with the dictates of *Shari'ah*. It is also proposed that when a *zakat* institution discloses information about its activities in an annual report or accounts that are certified by a reputable firm of auditors, prospective *zakat* payers should see the information disclosed as a signal of a transparent institution, and, therefore, should trust the institution.

Similarly, it is proposed that when a *zakat* institution is seen to treat *zakat* recipients and other stakeholders in a favourable way, it is likely that *zakat* payers view that as a signal of sound stakeholder management and should trust that such an institution will treat its stakeholders in line with *Shari'ah*. Finally, it is proposed that when government passes a law to establish a *zakat* institution or grant an approval to an organisation to manage *zakat* collection and distribution, it is likely that Muslims see such law or approval as a signal of legitimacy to operate. It is assumed that governmental ownership should evoke trust as *zakat* institutions are expected to be managed by an Islamic government.

The resource dependence theory infers that a firm's strategic options are determined to a great extent by the environment. Consequently, to reduce the impact of this environmental uncertainty on organisational performance, resource dependence theorists argue that it is necessary for organisations to develop and sustain an effective relationship with their external environment. The board of directors is seen as the main instrument in sustaining a fruitful relationship with the external environment. According to Pfeffer and Salancik (1978), four primary benefits that the board can provide include:

- (1) advice and counsel;
- (2) legitimacy;
- (3) channels for communicating information between external organisations and the firm; and
- (4) preferential access to the commitment or support from important elements outside the firm.

When a *zakat* institution has the right combination of members on the board, it is expected that the board will provide useful strategic advice, enhance the trust that the public has in it and link the institution to high net worth Muslims. In other words, if *zakat* payers perceive the quality of the board to be high, it may influence their perception about the management of *zakat* beneficiaries as well as their perception of the level of transparency of the institution, and, finally, their trust in the institution. This leads to the following hypotheses:

- H_1 . The higher the perception of the board capital (PBC) of a *zakat* institution, the higher the perceived *zakat* payer's trust.
- H_2 . There is a positive relationship between the PBC and the perceived disclosure practices.
- H_3 . The higher the PBC of a *zakat* institution, the higher the perceived quality of stakeholder management

It is acceptable that *zakat* institutions, by rule, should be run by an Islamic government. But private organisations can also run *zakat* institutions, either as sole *zakat* fund administrators where there is no Islamic government (Al-Qardawi, 1999) or co-exist with governmental institutions (Al-Qardawi, 1999; Faridi, 1990; Kahf, 1990; Mohammad, 1990; Hasan, 2007). However, the perception of the people regarding the performance of public and private sector organisations varies. There are differences in perceptions regarding the relative efficiency of both private and public organisations.

For example, Banfield (1975) asserts that governmental agencies spend more on reducing corruption than is gained in return, and are ineffective in their effort to reduce corruption as a result of strong central control. Similarly, Dahl and Lindblom (1953) comment that agencies under governmental control have more intangible goals, less incentive for cost reduction, and are more dysfunctional in terms of bureaucracy than the enterprises that are controlled by the markets. The attitude of Downs (1967) towards governmental control of organisations is not complementary. According to him, the political environment is more important, which has a serious influence on internal decisions. According to Wamsley and Zald (1973), public ownership and funding often subjects public organisations to unique political and economic environments as well as unique public expectations. For example, the political sentiment towards the agency becomes more important than the economic output.

The findings from other studies present a different picture in respect of the perception concerning both public and private establishments. Palmer and Dunford (2001) study the use of nine new organisational practices and observe that managers in government-owned commercial enterprises and private sector organisations have a similar view of the nature of their external environment, a similar level of use of these new practices. Within the context of *zakat* organisations, Hasan (2007) reports that non-governmental *zakat* institutions were better perceived by *zakat* payers in Bangladesh. Similarly, evidence was found in Malaysia (Scoth, 1985) where rice farmers were reluctant to pay to the non-Islamic government at the respective time due to fear of the inappropriate distribution of *zakat*.

Given the mixed findings from the studies of the public and private sectors and the limited studies in respect of *zakat* institutions, the perception of *zakat* payers concerning the efficiency and effectiveness of governmental *zakat* institutions is unclear. Indeed, the findings from prior studies may not be sufficient to justify any generalization across countries. Therefore, there is a need for empirical evidence to provide insight into this phenomenon in a country like Nigeria with an emerging *zakat* sector. Both governmental and non-governmental *zakat* institutions exist in Nigeria. Hence, there is dire need to understand the perception of *zakat* payers towards each model of *zakat* institutions. This leads to H_4 :

H_4 . The more positive the perception of governmental ownership of *zakat* institutions, the higher the perceived trust in governmental *zakat* institutions.

According to Deegan (2006), most research under the banner of legitimacy theory centres on the role of public disclosure of information to create or regain organisational legitimacy. Information disclosure policies are considered as one important means by which management of organisations can influence the external perception about their organisations (Suchman, 1995). When an organisation's legitimacy is threatened, the legitimacy theory suggests that such an organisation should use disclosure to influence

the perception of its stakeholders. Within the context of *zakat* institutions, it is proposed that when the information that is disclosed by *zakat* institutions is perceived to be of high quality, it will enhance the public's trust in such an institution. In the USA and the UK, there has been intense pressure for more disclosure of activities of charities to restore the declining public trust and confidence instigated by the recent financial scandals involving both corporations and charities (Morris, 2005; Cordery and Baskerville, 2007; Jetty and Beattie, 2009).

These calls, therefore, suggest a form of relationship between information disclosure and trust. This link is made more evident in classification of theoretical motivation for disclosure by Gray *et al.* (1995). According to them, organisations disclose information based on:

- decision-usefulness;
- economic theory; and
- socio-political theories.

Brammer and Pavelin (2004) assert that, based on decision-usefulness, information disclosure removes uncertainty between the transacting parties and builds trust. Empirical studies on for-profit organisations focus on the environment of disclosure, the impact of the disclosure, attributes of the disclosure and determinants of the disclosure (Wiedman, 2000; Raffournier, 1995). However, studies on charities concentrate more on the information needs of the users and the type of information disclosed by the charities. There is, therefore, an urgent need for empirical studies to be conducted on the implications of information provided by the charities. This, therefore, results in H_5 :

H_5 . The higher the perception of the quality of the disclosure practices of a *zakat* institution, the higher the perceived trust by the *zakat* payers.

The legitimacy theory is based on the notion of social contract, which is a set of expectations a society holds about how an organisation should conduct its operations. Organisations are expected to comply with the (terms) expectations embodied within the social contract. In the context of *zakat* management, a *zakat* institution complies with the expectation of the society when *zakat* is distributed in accordance with *Shari'ah*. Alam (2006) asserts that the success of modern organisations depends on their sustainability, which can be achieved through effective stakeholder management. Scholars have attempted to establish links between the stakeholders' management and reputation. According to them, organisational reputation connotes the perception of the organisation's characteristics and distinctive features by the outsiders (Dhalla, 2007).

It is also viewed as the people's perceptions of an organisation's honesty and concern for its stakeholders (Doney and Cannon, 1997). Reputation can serve as an estimator of an organisation's capability to perform consistently (Herbig and Milewicz, 1995 in Torres-Moraga *et al.* (2010)). Indeed, it can be said that a company with effective stakeholders' management strategies is likely to command a positive reputation in the eyes of the donors. Therefore, if *zakat* payers perceive a *zakat* institution as a good manager of *zakat* beneficiaries, it will positively affect the reputation of such an institution. A charity organisation needs such a reputation to stimulate the trust of donors as well as that of other stakeholders (Bennett and Gabriel, 2003).

Moreover, studies have established positive relationships between reputation and consumer's trust (Doney and Cannon, 1997; Kim *et al.*, 2008; Anderson and Weitz, 1989). This leads to H_6 :

H_6 . The higher the perception of the quality of the stakeholder's management practices of a *zakat* institution, the higher the perceived trust by the *zakat* payers.

4. Research methodology

4.1 Operationalising the constructs

Perceptions of zakat payers' trust. Although scholars operationalized trust based on the focus or phase of trust, they endeavour to study (Rousseau *et al.*, 1998), Morgan and Hunt (1994) remark that trust exists in the presence of the cognitive component, such as belief. Thus, in the non-profit context, Bennett and Barkensjo (2004) assert that trust involves the belief that the trusted party will not only fulfil the associated obligation but the fulfilment should fully satisfy the trusting party. They further remarked that trust is evident when an organisation is perceived to be credible, reliable, sincere, and honest. Accordingly, perception on trust in *zakat* institution (PTZ) is operationalized as a series of beliefs regarding the attributes that *zakat* payers may or may not trust a *zakat* institution to exhibit. However, in developing a scale to measure trust, the attitudinal statements used to measure trust by Sargeant and Lee (2002a, b), and Bennett and Barkensjo (2004) are adapted.

Perception of board capital. Board capital is regarded as the sum of an individual director's human and social capital and a proxy for the ability of a board to engage in board roles, such as the provision of resources for the firm. Therefore, PBC is operationalized as a set of attributes that *zakat* payers expect from the boards of *zakat* institutions to ensure that they demonstrate competence, effectiveness, and fairness in their relationship with stakeholders.

Perception of disclosure practices. The general purpose of financial reporting is to provide information that is useful to a variety of users. For charities, contributors represent a key shareholder group whose primary source of information is the published financial statements. Since *zakat* institutions are a typical charity, perception of disclosure practices (PDP) is operationalized as a type of broad based information that *zakat* payers expect *zakat* institutions to disclose in order to be legitimate.

Perceptions of model of stakeholder management. The goals that non-profits pursue serve as signals of what they consider important, and, through these signals, potential contributors may be induced to invest their time, energy and resources (Minkoff and Powell, 2006). Attention to stakeholders is important throughout the strategic management process because the survival of public organisations depends on satisfying key stakeholders according to their definition of what is valuable (Alam, 2006). Therefore, perception of stakeholders' management (PSM) is operationalized as a series of activities that *zakat* payers expect *zakat* institutions to carry out to ensure fairness to all stakeholders and guarantee their legitimacy.

Perceptions of the nature of zakat institutions. *Zakat* institutions, by rule, should be run by an Islamic government. However, private organisations can run *zakat* institutions either as sole *zakat* fund administrators where there is no Islamic government (Al-Qardawi, 1999) or coexist with government institutions (Al-Qardawi, 1999; Faridi, 1990; Kahf, 1990; Mohammad, 1990; Hasan, 2007). People's perceptions regarding the performance of public and private sector organisations vary.

Some people have the feeling that private organisations are more efficient than government organisations while there are a few who do not share this assumption (Analoui, 2009). Therefore, perception of governmental model of *zakat* institution (PNZ) is operationalized as a set of perceptions of *zakat* payers regarding the ability and importance of government *zakat* institutions.

4.2 Measurement of constructs

The items that are used to tap each of the underlying constructs are based on the literature review. Accordingly, the six items that measure the underlying components of perceived PTZ were adapted from questionnaire items developed by Sargeant and Lee (2002a), and Bennett and Barkensjo (2005), which measured donors' trust. Of the five items measuring perceived board capital, three were adapted from the study of Hillman and Dalziel (2003) who were the first to coin the concept of board capital. One out of the remaining two items was derived from Al-Qardawi (1999) while the fifth item was derived from Callen *et al.* (2003). The four items that measure the underlying components of perceived nature of formal *zakat* institution are adapted from Al-Qardawi (1999) and Kahf (2000). The three items used to measure perceived disclosure practices, which reflects *zakat* payers' perception of information that may promote public acceptance of *zakat* institutions, were adapted from the findings of Hyndman (1991), Greenfield and Larkin (2000). The four items used for stakeholders' management, which depicts actions that *zakat* payers perceive as a measure of importance and are attached to each stakeholder group, were adapted from the scale for stakeholder orientation developed by Yau *et al.* (2006).

4.3 Instrument development

Although *zakat* institutions may appear similar to conventional charity organisations, ideologically, they are poles apart. Therefore, it was considered appropriate to develop new scales, specifically for use in the current Islamic context. To accomplish this, the researchers followed the suggestion of Churchill (1979) and Green and Webb (1997). Thus, the study was based on a literature review and experience survey (conducting exploratory interview with experts). Accordingly, the review and survey resulted in a number of factors posited to influence donor selection of a particular charity organisation and an extensive list of items used to measure these factors. Based on the review, and in line with Green and Webb (1997), specific definitions for each construct of interest were developed. Using these definitions as the starting point, a pool of 44 items was generated to tap the underlying constructs measuring factors influencing payment of *zakat* to a specific *zakat* institution.

A panel of judges comprising two faculty members, three doctoral students, and a member of management in one of the Nigerian *zakat* institutions was formed. In line with the suggestion of DeVellis (1991), the judges were to determine the relevance of each item to the specific construct, comment on the fitness of individual items, and evaluate each item's clarity and conciseness. Each judge was provided with working definitions of each construct and asked to categorise each item according to these definitions. Following the suggestion of DeVellis (1991) and the approach of Sargeant and Lee (2002a), the panel members were also required to evaluate each item for its appropriateness and clarity based on the rating scale from 1 to 5. A consensus of a minimum of 4 in respect of categorisation, appropriateness and clarity ratings was

used to admit items to the final pool. At the end of this process, 12 items were eliminated from the initial pool resulting in the retention of 32 items.

4.3.1 Questionnaire development and pilot study. After the final 32 items were certified as good candidates for the questionnaire by the panel of judges, they were randomly ordered and incorporated into a questionnaire. The purpose of the pilot study was to provide empirical evidence concerning the validity and reliability of the instrument. Two pilots were conducted. The first pilot study led to a further reduction of items to 27 items. The reliability test on these items resulted in the elimination of an additional four items leaving 23 items for the second pilot test. The Cronbach's coefficient α for all the constructs ranged from 0.74 to 0.90, which is above the acceptable benchmark of 0.7 (Nunnally, 1978).

To further refine the items, the results of the second pilot study were factor analysed with the aid of statistical package for the social sciences version 18. The results of the rotated factor analysis using varimax was the elimination of two more items leaving 21 items loaded against five factors. Despite the results of the factor analysis, 22 items were incorporated into the final questionnaire because of the practical significance of the one item added (Please refer to Appendix 1 for the final research instrument). The reliability analysis confirmed the internal consistency of the scale. The size of the response for the pilot study did not permit further scale purification as recommended (DeVellis, 1991; Pritchard *et al.*, 1999). However, the level of reliability coefficients for all the constructs compensated for this limitation.

4.4 Sample and data collection

Since 1953, the political elites in Nigeria have realised the political value of census figures and have been using it accordingly (Okolo, 1999). Consequently, it is difficult to rely on official figures without some caution. After unsuccessful attempts to get a reliable sample frame, Muslim professionals who observe religious seclusion in the last ten days of the Islamic fasting month (*itqaf*) were considered as the best alternative Muslims who will voluntarily pay *zakat*. Twelve mosques were purposively selected. With the help of leaders of these worshippers in each of these selected mosques, a list of professionals was prepared. From the list, 480 respondents were randomly selected; 390 usable questionnaires were obtained from the total of 415 questionnaires that were returned representing a response rate of about 86 per cent. The distribution of the respondents on a professional basis is given in Table I.

Profession	No.	Public sector	Private sector
Law	36	12	24
Banking and accounting	63	11	52
Lecturing	57	46	11
Engineering and ICT	66	27	39
Medical and allied	56	37	19
Architecture and allied	33	14	19
Others	79	35	44
Total	390	182	208

Table I.
Characteristics
of the sample

4.5 Dimensionality of construct

An exploratory examination based on factor analysis using principal components and varimax rotation was conducted (Hair *et al.*, 1998; Torres-Moraga *et al.*, 2010). Five factors were identified: PTZ, PBC, PNZ, PDP, and PSM. The total variance explained by the five factors was 69.19 per cent (Appendix 2). The exploratory factor analysis is followed by a model generation analysis as propounded by Joreskog (1993) using structural equation modeling (AMOS version 18). The model generation analysis is a strategic framework for exploratory approach in which, upon rejection of the initial hypothesized model, researchers decide to carry out *post hoc* analysis and re-estimate revised models before a final model is eventually considered as fit. The result of the model generation analysis shows that virtually all the constructs have acceptable loadings (Appendix 3).

4.6 Reliability

Three reliability tests were conducted to assess the reliability of the constructs: composite reliability coefficient (CRC) (Joreskog, 1971), average variance extracted (AVE) (Fornell and Larcker, 1981), and Cronbach's α (Cronbach, 1951). The results show that the measures are above the minimum recommended in all the constructs except for PBC, which is marginally below the 0.5 recommended as a benchmark for AVE.

4.7 Construct validity

The validity of the construct was assessed in terms of convergent validity and discriminant validity (Hair *et al.*, 2010). For convergent validity, AVE and absence of cross loading were the criteria used (Appendix 2 and 4). There is reasonable evidence to suggest convergent validity. Except for PBC with AVE of 0.464, the results for all other constructs in respect of convergent validity were above the minimum benchmark. This reasonably demonstrates that the measure harmonises with another measure (Bryman and Cramer, 2009). In the case of discriminant validity, the test for variation in fitness of constrained and base line models was used (Appendix 5). The indices obtained from the three constrained models are clearly distinct from those obtained from the base line model. The absence of cross loading, as seen in Appendix 2, is also an indicator of distinct identity in the constructs (Hair *et al.*, 2010).

5. Findings

5.1 Structural equation model

As indicated above, the aim of the study is to investigate and explain the factors underlying the inclination of *zakat* payers to trust a particular *zakat* institution, a structural equation model (SEM) analysis was, therefore, performed to test the hypotheses. The results shown in Table II suggest acceptable fit indices: χ^2 (71, $n = 390$) = 124.509 $p \leq 0.000$; GFI = 0.958; CFI = 0.981; IFI = 0.982; NFI = 0.958; RMSEA = 0.044; Normed $\chi^2 = 1.754$ and PCFI = 0.766. χ^2 , GFI, and

Table II.
Model fit indices

χ^2	Absolute fit indices			GFI	RMSEA	Incremental fit indices			
	df	p	Normed χ^2			CFI	NFI	IFI	PCFI
124.509	71	0.000	1.754	0.958	0.044	0.981	0.958	0.982	0.766

RMSEA are regarded as absolute fit indices as their calculation does not require a comparison with a baseline model whereas CFI, IFI, and NFI are classified as incremental fit indices as their calculation involves comparison with the baseline model (Byrne, 2010). PCFI is, however, a member of indices regarded as parsimony fit indices, as they introduce a penalty for inclusion of unnecessary variable.

The χ^2 is relatively low but its p -value indicates statistical significance suggesting that the predicted model is not congruent with the observed data. However, the ratio of χ^2 to degrees of freedom falls within the recommended range of 2 and 3 and the value of normed χ^2 is below the maximum ceiling of five confirming the model adequacy. In addition, the values of CFI, NFI, and IFI are far above the minimum acceptable threshold of 0.9 thereby providing support for the model fitness. In terms of freedom from unnecessary parameters, the PCFI of 0.766 falls in the range of expected values (Byrne, 2010).

5.2 Testing of the hypotheses

Having determined that the model in Figure 2 is appropriate for explaining the behaviour of *zakat* payers, and then the results of its analysis, as shown in Table III, are now used to test the proposed hypotheses. H_1 examines the link between the PBC and perceived PTZ; the path coefficient is found to be positive and significant at 0.22 ($p < 0.01$). There is, therefore, a positive link between the PBC and PTZ. H_2 examines the relationship between PBC and perceived broad disclosure practices by *zakat* institutions; the hypothesis is supported, as there is a significant and positive relationship (0.46, $p < 0.01$) between PBC and broad disclosure practices. H_3 focuses

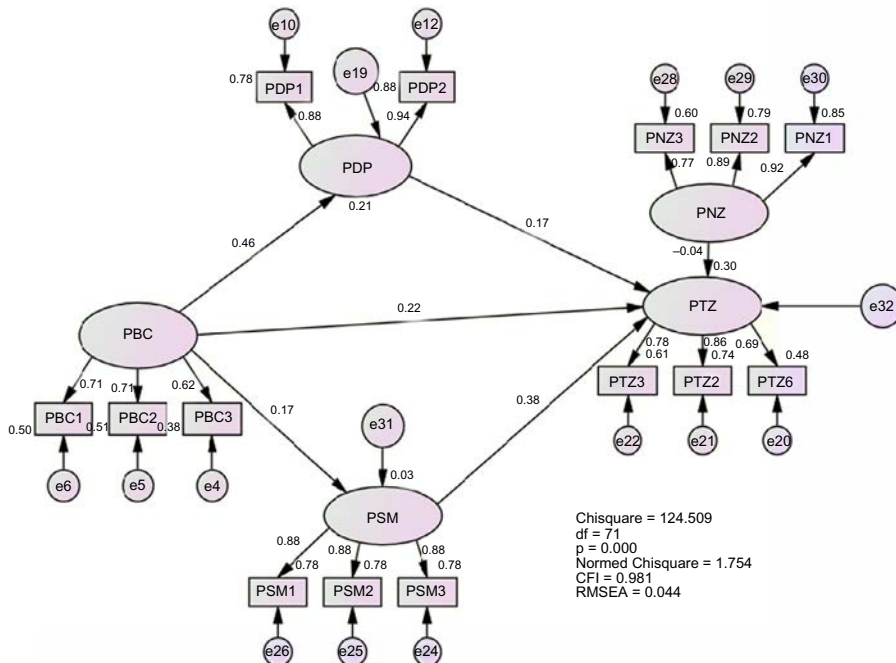


Figure 2.
Structural model
of *zakat* payers' trust

Table III.
Results from SEM

Model	PBC	PDP	β		PBC	PDP	B		R^2
			PSM	PNZ			PSM	PNZ	
<i>Direct</i>									
PTZ	0.22	0.17	0.38	-0.04	0.35	0.18	0.23	-0.04	0.30
PDP	0.46				0.71				0.21
PSM	0.17				0.47				0.03
PNZ	-				-				-0.04
<i>Indirect</i>									
PTZ	0.14				0.23				
<i>Total</i>									
PTZ	0.36	0.17	0.38	-0.04	0.58	0.18	0.23	-0.04	
PDP	0.46				0.71				
PSM	0.17				0.47				

on the relationship between the PBC of a *zakat* institutions and the perceived quality of stakeholder management; the path coefficient is found to be significant at 0.17 ($p < 0.01$).

This shows a positive link between the PBC and perceived quality of stakeholder management. H_4 examines the link between the perception of efficiency and the effectiveness of governmental *zakat* institutions and perceived trust in governmental *zakat* institutions; the hypothesis is not supported, as no significant relationship is found (0.04). H_5 looks into the link between the perception of the quality of the disclosure practices of a *zakat* institution and the perceived PTZ; the hypothesis is supported as there is a significant positive link (0.17, $p < 0.01$) between perception of quality of disclosure practices of *zakat* institutions and perceived trust. Finally, it is posited that a higher perception of the quality of the stakeholder's management practices has a positive relationship with the perceived PTZ. As the link is positive and significant (0.38, $p < 0.01$), H_6 is, therefore, supported.

6. Discussion

This study develops an initial model of *zakat* payers' trust and examines the relationship between trust and its postulated antecedents using the data derived within the context of a multi-religious country. The results support our conceptual model that PTZ is a multi-dimensional construct, consisting of the PBC, PDP, PSM and perception of governmental ownership *zakat* institutions.

From the findings, PTZ appears to be significantly affected by their board capital, disclosure practices and quality of stakeholder management but not by the governmental ownership. In other words, trust is created when a *zakat* institution is perceived to have a board that is made up of members that can contribute meaningfully to decision-making processes, to disclose broad based information and to treat all its stakeholders fairly. This result is consistent with the findings of Abd Wahab and Abdul Rahim (2011) and Farber (2005) in that board composition is a principal factor that determines the efficiency of *zakat* institutions. A similar result was found in the study where Certo *et al.* (2001) discovered the readiness of investors to pay a premium on initial public offers simply because the board members had a reputation for outstanding performance.

Apart from its direct impact on trust, the results indicate that board capital influences both disclosure and stakeholder management practices. This means that when a *zakat* institution consists of the right mix of members, it will be expected to formulate policies that will lead to disclosure and stakeholder management practices that will be acceptable to *zakat* payers. This finding indicates the overarching influence of board capital on *zakat* payers' PTZ because strategic decisions are regarded as measures of organisational capacity (Lusthaus *et al.*, 1995) and further emphasizes the need to pay special attention to the selection of board members.

From the findings, the perception of governmental ownership *zakat* institutions appears to have no influence on trust in governmental *zakat* institutions. This finding appears to be at variance with the views expressed in the prescriptive literature that it is the responsibility of an Islamic government to manage the collection and distribution of *zakat* (Kahf, 1990; Al-Qardawi, 1999; de-Zayas, 2008). In effect, *zakat* payers place higher value on board capital, disclosure, and stakeholder management practices over ownership by government that is perceived to be effective. Hence, it is implied that as long as the other three factors are adequately addressed, *zakat* payers are indifferent to both governmental and nongovernmental *zakat* institutions.

7. Conclusion

Based on the literature review and decision of experts, four factors were identified to influence *zakat* payers' trust: perceived board capital, perceived disclosure practices, perceived stakeholders management, and the nature of the relevant *zakat* institutions. A survey instrument was developed and a pilot study was tested before it was finally administered. The results show that three factors have a direct impact on *zakat* payers' trust while perception of governmental ownership of *zakat* institutions has a negative impact on *zakat* payers' trust suggesting apparent indifference of *zakat* payers to the ownership of *zakat* institutions.

The findings of this study constitute a significant contribution to the existing body of knowledge and *zakat* management practices. In the area of academic contribution, a model of *zakat* payers' trust with four components is developed. The model developed was tested to be valid and reliable. Apart from that, it will provide a useful foundation on which further theoretical and empirical studies in the field of *zakat* management can be built. The findings will greatly assist *zakat* managers in the discharge of their divine responsibilities. They will be more informed on how to reposition their organisations to achieve improved *zakat* collections, and, ultimately, be able to serve wider beneficiary groups.

In addition, it will help in providing a guide on relevant expenses to be incurred and on relevant information, which may bring positive results to their organisations. The results of the relationship between trust and perceived nature of *zakat* institution are instructive. It may be necessary to carry out a survey on *zakat* preference regarding their preference on the type of *zakat* institutions rather than forcing a particular type based on normative prescription. The outcome of this survey is expected to assist the policy makers in establishing a *zakat* institution that will be perceived as legitimate by the public.

Notwithstanding that this study has provided insights into a relatively new area of study in *zakat* management by developing a model to understand the behaviour of *zakat* payers, it is important to point out a few limitations of the study. The findings are

based on cross-sectional data as opposed to panel or longitudinal data. This explains the reason for the avoidance of a causal link in the relationship between the constructs. Longitudinal data will provide more insights into the probable causation.

It is assumed in this study that only conscious Muslims will pay *zakat* as a religious duty. Therefore, the use of religious professionals as a target sample is appropriate. Furthermore, an invariance of the model has been separately tested in other papers and found to have general applicability across the region and between the actual and potential *zakat* payers. The exclusion of religious Muslims who are farmers and artisans represents another limitation, as it is not unlikely that they would respond differently.

The current study is an initial attempt to build and test a model of *zakat* payers' trust. Therefore, the findings are indicative rather than being conclusive. In this respect, it will be useful to assess the generalization of the model developed in this study to other Muslim and non-Muslim countries. It is believed that any replication of this model will lead to a more comprehensive model of *zakat* payers' trust. Factors, such as familiarity with the institution and affiliation with a particular school of thought, may be considered in future studies. The major challenge at the early stage of the study was the paucity of study on the behaviour of *zakat* payers. As such, studies on the segregation of *zakat* payers based on demographic and psychometric factors are a promising area of research. This stream of research will aid in item generation. It has also been documented that trust leads to organisational commitment. Commitment is regarded as a degree of self-sacrifice. This may influence the *zakat* payers decision concerning the allocation of *zakat* between direct disbursement and payment through an agency. Therefore, the relationship between *zakat* payers trust and commitment is a fertile area for future research.

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Appendix 1. Scale items: five-point scales were employed ranging from 1 – totally disagree to 5 – totally agree

- (1) Perception of board capital:
 - A board of *zakat* should have members with different professional background.
 - Presence of a member, well known for his honesty, on the board of *zakat* institution is important.
 - It will be very helpful to have a *Shari'ah* scholar on the board of *zakat* institutions.
 - There is need for influential persons to be on the board of *zakat* institution.
 - At least, a representative of *zakat* payers may need to be on the board of *zakat* institution.
- (2) Perception of governmental model *zakat* institution:
 - Government should run *zakat* institution successfully.
 - NGOs may not effectively run *zakat* institution in Muslim majority country.
 - Government may add to the legitimacy of *zakat* institutions.
 - Government ownership will positively influence the effectiveness of *zakat* board of trustees.
- (3) Perception of disclosure practices:
 - *Zakat* institutions should disclose full financial information in the audited report.
 - *Zakat* institutions should disclose their achievements in audited report.

- Diverse professional experiences of board members may have a positive influence on the scope of information disclosed by *zakat* institutions.
- (4) Perception of model of stakeholder management:
 - *Zakat* institutions may systematically assess the satisfaction of *zakat* payers on a regular basis.
 - *Zakat* institutions should give close attention to after disbursement monitoring of *zakat* recipients.
 - Diverse professional experiences of board members may have a negative influence on attention given to the poor by *zakat* institutions.
 - The management of *zakat* institutions may seek information on all its stakeholders.
- (5) Trust in a *zakat* Institution:
 - The institution can be relied on to disclose information on *zakat* funds honestly.
 - The institution can be relied on to act in line with *Shari'ah* in all its activities.
 - The institution can be relied on to have a board that has reputable members.
 - The institution can be relied on not to allocate *zakat* funds for other services.
 - The institution can be relied on not to exploit the *zakat* payers.
 - The institution can be relied on not to exploit the *zakat* beneficiaries.

Appendix 2

Construct	Items	Factor loading	Variance explained	Cumulative variance	Eigen value
Trust in <i>zakat</i> institution	PTZ1	0.642	15.696	15.696	3.296
	PTZ2	0.824			
	PTZ3	0.800			
	PTZ4	0.589			
	PTZ6	0.736			
	PNZ1	0.896			
Perception of governmental model of <i>zakat</i> institution	PNZ2	0.854	14.958	30.654	3.141
	PNZ3	0.925			
	PNZ4	0.855			
	PSM1	0.875			
Perception of stakeholders' management	PSM2	0.850	14.370	45.024	3.018
	PSM3	0.800			
	PSM4	0.752			
	PBC1	0.798			
Perception of board capital	PBC2	0.712	13.408	58.432	2.816
	PBC3	0.742			
	PBC4	0.693			
	PBC5	0.666			
	PDP1	0.858			
Perception of disclosure practices	PDP2	0.841	10.763	69.195	2.260
	PDP3	0.668			

Table AI.
Exploratory factory analysis

Appendix 3

Antecedents of
zakat payers'
trust

Construct	Items	Standardized coefficient
Trust in <i>zakat</i> institution	PTZ3	0.78
	PTZ2	0.86
	PTZ6	0.69
Perception of governmental model of <i>zakat</i> institution	PNZ1	0.92
	PNZ2	0.89
	PNZ3	0.77
Perception of stakeholders' management	PSM1	0.88
	PSM2	0.88
	PSM3	0.88
Perception of board capital	PBC1	0.71
	PBC2	0.71
	PBC3	0.62
Perception of disclosure practices	PDP1	0.88
	PDP2	0.94

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Table AII.
Results of model
generation approach

Appendix 4

Construct	CRC	AVE	Cronbach's α
Trust in <i>zakat</i> institution	0.745	0.608	0.780
Perception of board capital	0.749	0.426	0.716
Perception of disclosure practices	0.759	0.553	0.849
Perception of stakeholder management practices	0.735	0.774	0.914
Perception of governmental model of <i>zakat</i> institution	0.748	0.744	0.895

Notes: Threshold: CRC \geq 0.7, CA \geq 0.7, AVE \geq 0.5; AVE \geq 0.5 is an evidence of convergent validity

Table AIII.
Evidence for reliability
of the constructs

Appendix 5

Constrained path	χ^2	Normed χ^2	CFI	Comment
PBC < > PDP	276.549	3.788	0.929	Evidence of discriminant validity
PBC < > PSM	332.383	4.553	0.910	Evidence of discriminant validity
PBC < > PNZ	356.302	4.881	0.902	Evidence of discriminant validity
Unconstrained	124.509	1.754	0.981	Base line indices

Table AIV.
Evidence of
discriminant validity

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