

# ANTECEDENTS OF ZAKAT PAYERS' TRUST IN AN EMERGING ZAKAT SECTOR: AN EXPLORATORY STUDY

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## Abstract

*The main objective behind the establishment of effective governance in organisations is to ensure mutual trust among the stakeholders. Incidentally, virtually all studies on organisational trust have not investigated the role of governance in trust building. The aim of this paper is to report the mediating role of trust in the selection of zakat institutions by Nigerian zakat payers. Such knowledge will help zakat managers to influence zakat payers' trust and patronage. The study explores antecedents of trust; and develops measurement scales which are used to explore the relationship between trust and the factors. Four factors: board capital, disclosure practices, nature of zakat institutions, and stakeholder management, were identified through the use of structural equation modeling as being the antecedents of trust. The implications for zakat institutions in building trust of zakat payers are also discussed. The zakat payer's trust model represents the main contribution of this study.*

**Keywords:** Board capital, *Disclosure Practices*, Stakeholder management, *Zakat Payer*

## Introduction

*Zakat* institution is the third pillar of Islam which is designed by Allah *s.w.t.* to ensure, among others, that no one suffers due to lack of means to acquire the essential need-fulfilling goods and services. It involves compulsory transfer of a determined amount of wealth of the rich to be distributed among the poor. Since the time of the first Islamic State in Medina, government was solely responsible for the collection and distribution of *zakat*. However, without trust in the sincerity of the government, enforcement could not have yielded significant results since a proportion of wealth could only be known to the owners. The government management suffered

a serious setback when several parts of the Muslim world fell due to the military and cultural colonisation during the nineteenth century. The long departure from the ideal *zakat* management practices which resulted in various models coupled with the propaganda on the misuse of *zakat* funds had eventually lead to public distrust in the whole *zakat* institutions and practices.

Revolving around the significance of trust in the development of *zakat* institutions, researchers have attempted to identify demographic, socioeconomic and psychographic variables that influence *zakat* payment and the choice of *zakat* distribution channels (Idris and Ayub, 2002, 2003; Nor, Wahid and Nor, 2004; Mohammad, 2008; Wahid, Ahmad, and Kader, 2008; Raedah, Noormala and Marziana (2011)) The results from these studies have been equivocal. Like what has been achieved in the case of researches into charitable donations, there is a need for a model that will synthesise findings from various research efforts. The purpose of this paper is to bridge that gap by reporting the study which was conducted to develop and validate an initial model for the trust of *zakat* payers(donors of Islamic charity institution) in *zakat* institutions.

The importance of trust was reported by Mohammed (1990). According to him, as a result of *zakat* payers' trust, the *zakat* collection by reputable non-profit organisations in Pakistan was not affected by the compulsory *zakat* law introduced by the government. Because of the importance of the role of *zakat* payers in the success of *zakat* institutions, it is inevitable to understand the factors which led to the *zakat* payers' trust.

Understanding the donors is important to the *zakat* institutions (Islamic charities) because many Muslims today consider that the majority of their governments have political agenda in setting up charitable organizations. Eventually these Muslims do not trust them again (Benthall and Bellion-Jourdan, 2003). This typical attitude against the governmental institutions leads to the emergence of voluntary agencies which filled the gap by collecting and distributing *zakat* along side with other humanitarian donations (Kratess, 2005). Besides, proliferation of voluntary agencies is a serious challenge to the non-governmental charities. Jordan, for instance, has over 650 registered voluntary societies while in Egypt is about 14000. This resulted in the competition for the available limited *zakat* and other donations (Benthall and Bellion-Jourdan, 2003).

This unprecedented upsurge in *zakat* organisations may be a reason for the adoption of various marketing strategies, such as the giving of promotional gifts, as well as heavy investment in technology to gain the loyalty of the *zakat* payers. These practices are prevalent in countries like Malaysia and Singapore. The wholesale adoption of marketing strategies by *zakat*

institutions without adequate understanding of the relevant factors which engender trust in these institutions may constitute a share waste of *zakat* payers' money. For instance, the actual impact of technology on *zakat* payment was found to be insignificant (Wahid et al., 2008).

Based on this premise, knowledge of the antecedents of *zakat* payers' trust will assist managers of *zakat* institutions to attract and retain *zakat* payers for long term sustainability of their organisations. Although there are related studies on the determinants of *zakat* compliance, to the best of the knowledge of the researchers, there is no single study on the factors which directly influence the trust of *zakat* payers in *zakat* institutions. As mentioned earlier, the aim of the paper is to fill this particular gap. Given this findings and its practical application, the study represents a significant contribution to the body of knowledge in the literatures concerning voluntary organizations. In addition, the findings will be very helpful not only to the Nigerian *zakat* institutions but also the *zakat* institutions facing legitimacy problem in other jurisdictions.

The remainder of the paper is structured as follows: The next section provides some background on the emerging *zakat* sector in Nigeria, a discussion of the current situation of *zakat* management in Nigeria. This is followed by the literature review section. The fourth section is the discussion of the theoretical background and hypothesis development section. The fifth section reviews the methodology of the study while section six discusses the results. Section seven concludes the paper.

## **1.0 Background to Management of Zakat in an Emerging Zakat Economy**

The re-emergence of organised *zakat* institutions in Nigeria, after it was declared illegal by the colonial authority, can be traced to two factors. First, the high incidence of poverty among the Nigerian Muslims has led to the emergence of Kano *Zakat* Council in the northern region in 1982 (Aliyu, 2002) and the Muslim Welfare Fund by 1997 in the western region of Nigeria. This marked the beginning of private *zakat* institutions in Nigeria. The second factor was the declaration of the Islamic legal system in Zamfara state in 1999. The Zamfara State *Zakat* and Endowment was established as one of the structures for implementation of a Shariah legal system. Eleven other states in the northern region also established *zakat* institutions with different levels of implementation. The establishment of these institutions increased the awareness about formal *zakat* management in Nigeria. *Zakat* and Sadaqah foundation also came

on board in 2000. Despite this publicity, two major issues feature prominently in the Nigerian *zakat* management landscape. First, a majority of *zakat* collection by governmental institutions is from the farmers (based on the preliminary exploratory findings) while the level of collection by both governmental and non-governmental is grossly low compared with the *zakat* payment potentials of Muslims. Indeed, the year 2002 study conducted by Aminu Ibrahim and Co Chartered Accountants confirmed a wider gap between the actual *zakat* performance and the *zakat* payment potentials of Muslims resident in Kano state. This study only identified the problem of low *zakat* collection and proffered solution but failed to investigate the cause of the poor *zakat* collection by Kano state *zakat* institutions. The audited report of the other three major *zakat* institutions also confirms poor *zakat* collection scenario. In 2008, it was reported by a British broadcasting corporation Bauchi that the rich in the state give their *zakat* to the poor in their neighbourhood. One possible reason for the behaviour of the rich in Nigeria may be lack of trust in the formal *zakat* institutions. Therefore, knowledge of the antecedents of trust among the Nigerian *zakat* payers will surely help the sustainability of *zakat* institutions in Nigeria.

## **2.0 Literature Review**

The existing marketing literatures repeatedly suggest that trust is a crucial factor in the shift from discrete market transactions to continuous exchange relationships (Dwyer, Schurr and Oh 1987). It is valued as a powerful tool in commercial relationships, particularly in firm-to-firm and firm-to-customer marketing and business relationships (Berry, 1996; Morgan and Hunt, 1994). There is also a general agreement that trust is important in a number of ways; it promotes cooperative behaviour Gambetta (1989, cited in Raimondo (nd)), reduces uncertainty and risk in people's relationship, decreases transaction costs, and facilitates formation of ad hoc work groups (Doney and Cannon, 1997).

A number of studies on trust have been carried out in the fields of sales management and channel management, where the attempt is to understand how trust develops between the supplier firm and the buying firm or the distributor. In recent times, marketing researchers have also considered the trust concept in the area of consumer marketing focusing on the relationships between firms and final consumers. This is particularly the case of studies aimed at analysing the

constructs involved in the customer's purchasing behaviour, such as satisfaction, brand image and customer loyalty (Blois, 1999; Berry, 1995; Fletcher and Peters, 1997; Gruen, 1995) .

Indeed, a reasonable amount of work is done on trust in marketing research but the conceptualisation of the construct and its dimension is certainly one of the most controversial issues in the studies about the topic. Moreover, most authors have offered a conceptualisation of the trust in terms of multi-dimensionality, but there is no agreement as to the number and nature of these dimensions yet. In fact, there is no universally accepted scholarly definition for the term 'trust' (Rousseau et al, 1998). The implication of this confusion is far reaching for research on trust.

On the dimensionality of trust, early marketing studies recognised trust as one component of construct (Swan and Nolan, 1985; Swan, Trawick and Silva, 1985; Hawkes, Strong and Winick, 1996; Dwyer and Oh, 1987). Later researchers, however, began to view it from wider perspectives of multi-dimension. Andaleeb (1992) identifies motivation and ability as two dimensions of trust. Similarly, Ganasan (1994) proposes credibility and benevolence as two dimensions of trust. On the other hand, Castaldo (1995) cited by Raimondo (n.d), proposes a conceptualisation of tri-dimensional for the construct, taking into account both the dimensions originally identified in the studies of social psychology, that is the predictability of the behaviour, and the dimensions identified by Andaleeb (1992): the perceptions about ability and the perceptions about motivations of the firm. In a study of the relationships between the providers and the users of market research, Moorman, Zaltman and Deshpande (1992) identify cognitive and behavioural dimensions of trust. The cognitive dimension consists of the belief in the partner's fairness, reliability or credibility arising from his motivation and knowledge. The behavioural dimension concerns the behavioural intention, which is the concrete act of placing trust in the partner. Morgan and Hunt (1994) observe that trust also exists in the presence of the cognitive component alone and that the behavioural dimensions may not be necessary.

Controversies also exist in marketing literatures as to antecedents and consequences of trust. Many authors, in their definition, have identified some elements as determinants while in other studies, the same set of elements are treated as consequences. Among the antecedents found in the relevant literatures include personal characteristics of the partner, such as honesty, sincerity, moral integrity, frankness, empathy, reliability and affinity with the trustor (Swan and Nolan, 1985; Swan, Trawick and Silva, 1985; Moorman, Deshpande and Zaltman, 1993; Doney

and Cannon, 1997), shared values which the partners pursue (Morgan and Hunt, 1994), goal congruence (Anderson and Weitz, 1989), reputation (Anderson and Weitz, 1989; Ganesan, 1994; Doney and Cannon, 1997), partners' organisational structure and culture and the degree of complexity and difficulty of expressing certain evaluations of a given transaction (Moorman, Desphande and Zaltman, 1993).

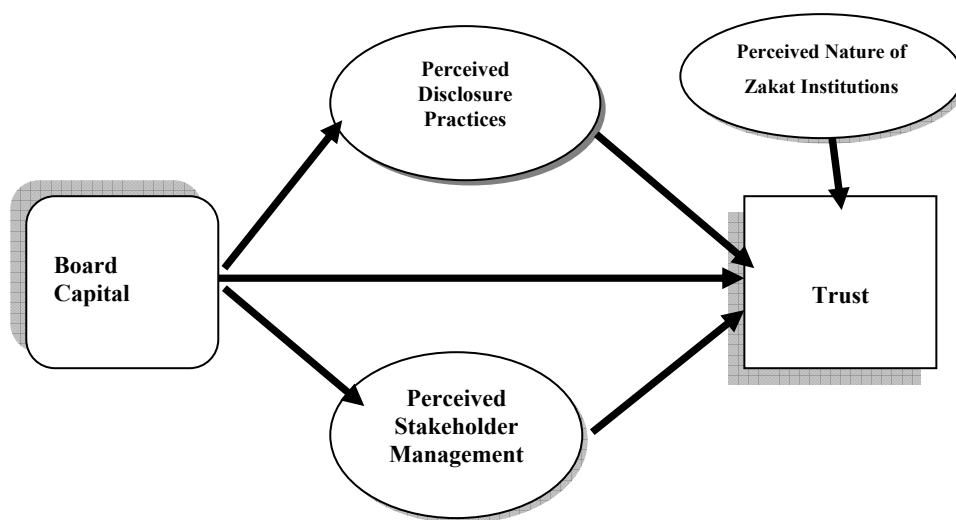
Within the same context, some of the consequences of trust which were found in the literatures include commitment, reflecting the effort that individuals make to maintain a relationship (Moorman, Zaltman and Desphande, 1992; Morgan and Hunt, 1994; Ganesan, 1994; Nielson, 1998), the level of conflict (Anderson and Narus, 1990; Morgan and Hunt, 1994), greater probability of allocating resources in favour of parties who are trusted (Anderson, Lodish and Weitz, 1987; Nielson, 1998), reduction of transactions costs (Zaheer and Venkatraman, 1995), greater ease in influencing the partner (Swan and Nolan, 1985; Swan, Trawick and Silva, 1985) and consequently greater sales (Crosby, Evans and Cowles, 1990; Dion, Easterling and Miller, 1995; Dahlstrom and Nygaard, 1995) and continuity of the relationship (Anderson and Weitz, 1989; Crosby, Evans and Cowles, 1990; Ganesan, 1994; Mohr and Speckman, 1994; Kumar, 1996).

Lack of clarity in the conceptualisation of trust in marketing research makes it difficult to generalise the findings of marketing research to charities. Researchers on charities have therefore identified the need for context specific studies with the view to clearly understand why and how donors place trust in charity. Studies specifically addressing the role of trust in fostering donations are rare (Sargeant and Lee, 2002a 2002b) but there are positive development in this direction. A review of literatures on voluntary donation reveals limited studies on trust. Burnett and Wood (1988), Guy and Patton (1989), Bendapudi and Bendapudi (1996) and Sargeant (1999) developed models of giving behaviour that, to the mind of the researchers, serve as a foundation to the development of models for trust. More specifically, Sargeant and Lee (2002a) examine the factors that may lead to improvement of trust within the voluntary sector, Sargeant and Lee (2002) look into the antecedents of donor trust in the voluntary sector, Sargeant and Lee (2003) develop a model of donor trust, Sargeant and Lee (2004) study the relationship between the donor's trust and their relationship commitment, Sargeant, West and Ford (2004) study the factors that determine the amount which the individual donor may give to a particular charitable organisation, Sargeant, Ford and West (2006) investigate the mediating role of trust and

commitment in giving behaviour and Torres-Moraga, Vasquez-Parraga and Barra (2010) explore the antecedents of donor trust in an emerging charity sector.

Despite the increasing interest in understanding the role of donor's trust on giving behaviour in both developed and emerging charity sectors, there is no single study on *zakat* payers's trust even in a country like Malaysia where *zakat* management is relatively more advanced. This paper is an attempt to bridge this knowledge gap.

### 3.0 Theoretical Background



**Figure 1:** Initial Model

Figure 1 represents the initial model on which this study is based. The theoretical framework is based on resource dependence and legitimacy theories. It attempts to explain the variance in the dependent variable (*zakat* payers's trust) by the four independent variables of (1) board capital, (2) disclosure practices, (3) stakeholder management, and the nature of models of *zakat* institutions. The concept of board capital was introduced in strategic management literature by Hillman and Dalziel (2003) as the sum of the human and social capital of the board of directors. It is operationalised as a set of attributes which *zakat* payers expect from board members of *zakat* institutions to ensure their competence, effectiveness and fairness to the stakeholders of these *zakat* institutions. Disclosure is operationalised as a type of information which the *zakat* payers

expect the *zakat* institutions to report to ensure public acceptance and trust. Stakeholder management is operationalised as series of activities which the *zakat* payers expect the *zakat* institutions to carry out to ensure fairness to all stakeholders and the continuous public support and trust. Nature of models of *zakat* institutions is operationalised as a set of perceptions of *zakat* payers regarding governmental *zakat* institutions. The dependant variable trust is operationalised as a series of beliefs which *zakat* payers hold regarding the attributes of a *zakat* institution that will be fair to its stakeholders.

Resource dependence theory also infers that a firm's strategic options were 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 commitments 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 which the public has in it and link the institution to high net worth Muslims. In other word, 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 lead to the following hypotheses:

**H<sub>1</sub>:** The higher the perception of the board capital of a *zakat* institution, the higher the perceived *zakat* payer's trust

**H<sub>2</sub>:** The higher the perception of the board capital of a *zakat* institution, the higher the perceived quality disclosure practices

**H<sub>3</sub>:** The higher the perception of the board capital 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 (Qaradawi, 1999; Islam, 1999) or co-exist with governmental institutions (Qaradawi, 1999; Faridi, 1990; Kahf, 1990; Mohammad, 1990; Hassan, 2007). The perception of the people regarding the performance of public and private sector organisations however vary. 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 the governmental control have more intangible goals, less incentive for cost reduction, and possess more dysfunctions of bureaucracy than the enterprises which 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 and this has serious influence on internal decisions. 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 toward the agency becomes more important than the economic output. In a study of donation to universities, Briechle (2003) discovers higher percentage of financial support to private institutions than public institutions.

Findings from other studies present different pictures in respect of perception on both public and private establishment. 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* organisation, Hassan (2007) reports that non-governmental *zakat* institutions were better perceived by *zakat* payers in Bangladesh. Similarly, experience 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 inappropriate distribution of *zakat*.

Given the mixed findings from the studies of public and private sectors and the limited studies in respect of *zakat* institutions, it is unclear with regards to the perception of *zakat* payers

on the efficiency and effectiveness of governmental *zakat* institutions. Indeed, findings from prior studies may be not sufficient to justify any generalisation across countries. There is, therefore, a need for empirical evidence to provide insight into this phenomenon in a country like Nigeria with an emerging *zakat* sector. Both the 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 the fourth hypothesis.

**H<sub>4</sub>:** The higher the perception of the efficiency and effectiveness of governmental *zakat* institution, the higher the perceived trust in governmental *zakat* institutions

According to Deegan (2006), most researches under the banner of legitimacy theory center 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, legitimacy theory suggests that such organisation should use disclosure to influence the perception of its stakeholders. Within the context of *zakat* institutions, it is proposed that when the information which is disclosed by *zakat* institutions is perceived to be of high quality, it will enhance public's trust in such institution. In the United states of America and the United Kingdom, 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 corporation 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, Kouhy, and Lavers (1995). According to them, organisations disclose information based on (i) decision-usefulness (ii) economic theory and (iii) 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). On the other hand, studies on charities concentrate more on 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 the fifth hypothesis:

**H<sub>5</sub>:** The higher the perception of the quality of the disclosure practices of a *zakat* institution, the higher the perceived trust by the *zakat* payers

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 the Shari'ah. Alam (2006) asserts that the success of modern organisations depends on its 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 (Dutton, et al. 1994, Whetten and Mackey, 2002a, b, as cited in 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 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 institution. A charity organisation needs such reputation to stimulate the trust of donors as well as that of other stakeholders (Bennet and Gabriel, 2003). Moreover, studies have established positive relationships between reputation and consumer's trust (Doney and Cannon. 1997; Kim, Ferrin and Rao, 2008; Anderson and Weitz, 1989). This leads to the sixth hypothesis:

**H<sub>6</sub>:** 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

## **4.0 Research Methodology**

### **4.1 Methods**

#### *Measurement*

Scholars operationalise trust differently, depending on the focus of trust they study (Rousseau et al., 1998). Therefore, the key antecedents of *zakat* payers' trust were based on the literatures. The six items which measure the underlying components of perceived trust in *zakat* institutions were adapted from questionnaire items developed by Sargeant and Lee (2002) 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 Qaradawi (1999) while the fifth item was derived from Callen, Klein and Tinkelman (2003). The four items which measure the underlying components of perceived nature of formal *zakat* institution are adapted from Qaradawi (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) and Vergne (In Press). The four items used for stakeholders' management which depicts actions which *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, Chow, Sin, Tse, Luk and Lee (2007).

### **4.2 Instrument development**

Although *zakat* institutions may appear similar to conventional charity organisations, their ideological poles are 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 (1977) that the first step to scale development is the review of pertinent literatures. Accordingly, the review 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 of 3 doctoral students, 2 faculty members and a management staff 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, 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 (2002), the panel members were also required to evaluate each item for its appropriateness and clarity based on the rating scale from 1 – 5. A consensus in respect of categorisation, appropriateness and clarity ratings of minimum of 4 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. The judges were also to determine the substitutability of marketing constructs with appropriate accounting concepts. At the end, perceived board capital, perceived disclosure practices, and perceived stakeholders management respectively substituted reputation, perceived communication effectiveness and perceived opportunism. Attitude toward philanthropy and beneficiaries of the organisation were not considered particularly relevant because *zakat* is a religious obligation. There was no consensus on the substitutability of familiarity with the perceived nature of *zakat* institutions. However, it was agreed to include the later in the study.

#### *Questionnaire Development and Pilot Study*

After the final 32 items were certified as good candidates for 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 on the validity and reliability of the instrument. Two pilots were conducted. The first pilot study led to further reduction of items to 27 items. To further refine the items, the result of the second pilot study was factor analyzed with the aid of SPSS (Statistical Package for the Social Sciences) version 18. The result of the rotated factor analysis using varimax was the elimination of six more items leaving 21 items loaded against five factors in ratio 5:3:3:4:6. Despite the result of the factor analysis, 22 items were incorporated into the final questionnaire because of the practical significance of the one item

added. The reliability analysis using Cronbach's (1951) alpha was conducted to assess the internal consistency of the scale exceeding an acceptable standard of 0.70 (Nunnally, 1979). The size of the response for the pilot study did not permit further scale purification as recommended (De Vellis, 1991; Pritchard, Havitz and Howard ,1999). However, the level of reliability coefficients for all the constructs was compensated for this limitation.

### 4.3 Sample and Data Collection

Since 1953, the political elites in the Nigeria have realised the political value of census figure and they have been doing everything to resort to it (Okolo, 1999). Accordingly, it is difficult to rely on official figures without reservations. In the same footing, attempts were made to obtain reliable list of potential respondents to serve as sampling frame by collating the list of Muslim accountants from the directory of members of the Institute of Chartered Accountants of Nigeria (ICAN), which the researcher is also a member. This exercise proved unhelpful as most of the contacts addresses were outdated. Similar experience was expected from other institutions that were not as organised as ICAN, therefore, Muslim professionals who observe religious seclusion in the last ten days of the Islamic fasting month (*itqaf*) were considered as the best alternative. 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.

Demographically, the entire sample is 100% male , 53.3% were workers in the private, 56.7% were actual *zakat* payers, 22.3% were 30 years old and below, 43.8% were between 31 and 40 years, 25.1% were between 41 and 50 years old while 8.7% were above 50 years old. 61.5% of the actual *zakat* payers paid directly to the needy, 31.7% paid to NGOs, while 6.8% paid to the government. Apart from that, 28.7% were holders of masters degree and above, 51.3% were holders of first degree or its equivalent and 20% were holders of ordinary diploma certificate or its equivalent. In addition, 59.7% fell in the upper middle income category while 40.3% fell in the categories of middle income and below. The distribution of the respondents on professional basis is given in Table 1.

<b>Table 1. Characteristics of the sample</b>			
<b>Profession</b>	<b>No.</b>	<b>Public Sector</b>	<b>Private Sector</b>
<b>Law</b>	36	12	24
<b>Banking and Accounting</b>	63	11	52
<b>Lecturing</b>	57	46	11
<b>Engineering and ICT</b>	66	27	39
<b>Medical and Allied</b>	56	37	19
<b>Architecture and Allied</b>	33	14	19
<b>Others</b>	79	35	44
<b>Total</b>	390	182	208

#### 4.4 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: Perceived trust in *zakat* institution (PTZ), Perceived board capital (PBC), Perceived nature of formal *zakat* institution (PNZ), Perceived disclosure practices (PDP) and Perceived stakeholders' management (PSM). The total variance explained by the five factors was 69.19% (Appendix 1). 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 rather than confirmatory approach when the initial hypothesized model is rejected and the researchers decide to carry out post hoc analysis and re-estimated 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. (See Appendix 2)

#### 4.5 Reliability

Three reliability tests were conducted to assess the reliability of the constructs: composite reliability coefficient (Joreskog, 1971), average variance extracted (AVE) (Fornell and Larcker, 1981) and Cronbach alpha (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 .5 recommended as benchmark for AVE.

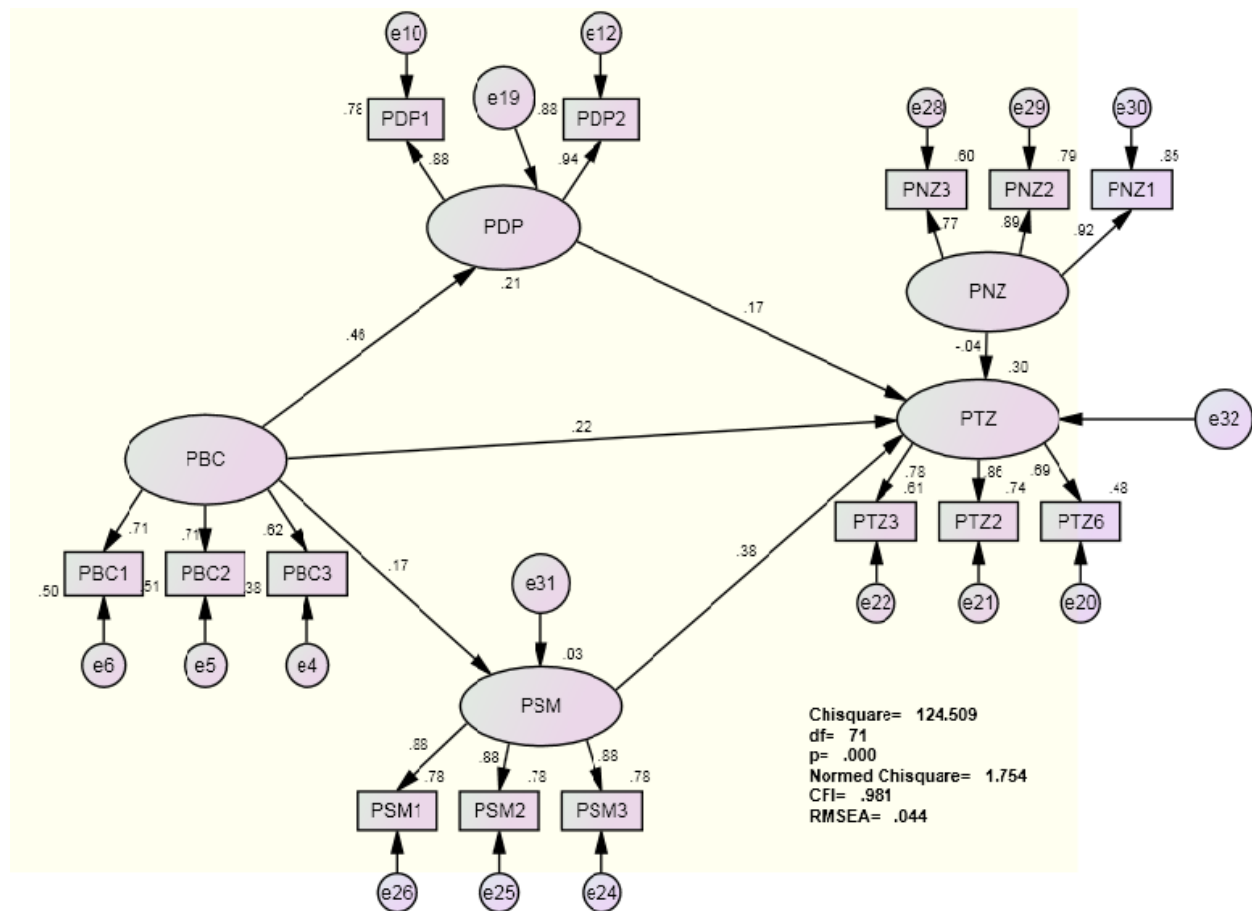
#### 4.6 Construct validity

The validity of the construct was assessed in terms of convergent validity and discriminant validity (Hair, Black, Babin and Anderson, 2010). For convergent validity, AVE and absence of cross loading were the criteria used (See appendices 1 and 3). In the case of discriminant validity, the test for variation in fitness of constrained and base line models was used( See appendix4) (Hair, Black, Babin and Anderson, 2010). There is reasonable evidence to suggest convergent validity. Except for PBC with AVE of .464, the results for all other constructs in respect of convergent validity were above minimum bench mark. This reasonably demonstrates that the measure harmonises with another measure (Bryman and Cramer, 2009).

### 5.0 Discussion and Results

Table 2: Model Fit Indices									
Chi-sq	Df	Normed Chi-sq	CFI	GFI	IFI	RFI	NFI	RMSEA	
124.509	71	1.754	.981	.958	.982	.946	.958	.044	





**Figure 2:** Structural Model of *Zakat* Payers' Trust

TABLE 3 Results from Structural Equation Model									
	$\beta$				B				
Model	PBC	PDP	PSM	PNZ	PBC	PDP	PSM	PNZ	R <sup>2</sup>
<b>Direct</b>									
PTZ	.22	.17	.38	-.04	.35	.18	.23	-.04	.30
PDP	.46				.71				.21
PSM	.17				.47				.03
PNZ	-				-				-.04
<b>Indirect</b>									
PTZ	.14				.23				
<b>Total</b>									
PTZ	.36	.17	.38	-.04	.58	.18	.23	-.04	
PDP	.46				.71				
PSM	.17				.47				

## 5.1 Results

The hypotheses were tested using structural equation modeling. The results show acceptable fitting indices:  $\chi^2$  124.509 (71)  $P \leq 0.000$ ; CFI 0.981; IFI 0.982; GFI 0.958; NFI 0.958; RFI 0.946; RMSEA 0.044; Normed  $\chi^2$  1.754 ( see table 9). As shown in figure 2, the perceived board capital, perceived disclosure practices and perceived stakeholders management have direct and positive relationship with *zakat* payers' trust in *zakat* institutions. This result supports H<sub>1</sub>, H<sub>5</sub> and H<sub>6</sub>. Further, the perceived board capital is positively related to perceived disclosure practices and perceived stakeholders management in support of H<sub>2</sub> and H<sub>3</sub>. Finally, the perceived nature of *zakat* institution has a negative but very weak relationship with perceived trust in *zakat* institutions suggesting that the higher the perception of the efficiency and effectiveness of governmental *zakat* institution may not necessarily translate into *zakat* payers' trust. This does not support H<sub>4</sub>.

## 5.2 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 findings support our literatures model that trust in *zakat* institutions is a multi-dimensional construct, consisting of perceived board capital, perceived disclosure practices, perceived stakeholders management and perceived nature of *zakat*. The four variables, PBC, PSM, PDP and PNZ explain 30% of variation *zakat* payers trust (PTZ). There is a positive and significant relationship between PBC and PTZ and likewise, there is a positive and significant relationship between PSM and PTZ. Nevertheless, there is a positive but weak relationship between PDP and PTZ. This may relate with the disposition of *zakat* payers to various published information medium from *zakat* institutions. The results show that the perceived board capital impacts positively on disclosure. The impact of diverse board on stakeholder management is weak. The impact of PNZ on PTZ is negative and weak.

The effect of apparent contradictory impact of the board capital on disclosure and stakeholders management complies with the theoretical and empirical evidences. Boards dominated by lawyers, economists, analysts are found to support strategic model of stakeholder

management and also to use disclosures strategically. The apparent contradictory impact of the board on disclosure and stakeholder management implicates the governance system of *zakat* institutions. If the board with diverse members will favour broader accountability but may not pay attention to the needs of the beneficiaries, then, an external independent body may be established to monitor the performance of the management and the board. The direction and magnitude of the relationship between PNZ and PTZ reflects that *zakat* payers may be indifferent to ownership of *zakat* institutions if efficiency is assured.

## **6.0 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.. Survey instrument was developed and pilot study was tested before it was finally administered. The results show that two factors have direct impact on *zakat* payers' trust. While perceived disclosure practices have a weak direct impact on *zakat* payers trust, perceived effectiveness of governmental *zakat* institution has negative impact on *zakat* payers' trust suggesting that not only perceived effectiveness of governmental *zakat* institutions may lead to *zakat* payers' trust.

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. Notwithstanding that most of the factors linked to *zakat* payers' behaviour were not included due to their inconsistencies, the model developed was tested to be valid and reliable. Apart from that, it will provide useful foundation on which further theoretical and empirical studies in the field of *zakat* management can be built.

Further, the findings will greatly assist *zakat* managers in the discharge of their divine responsibilities. They will be more informed on how to reposition their organisation 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 result of the relationship between trust and perceived nature of *zakat* institution is 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 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 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 target sample is appropriate. Besides, an invariance of the model has been separately tested in other paper and found to have general applicability across 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 that regard, it will be useful to assess the generalisation 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 segregation of *zakat* payers based on demographic psychometric factors is a promising area of research. This stream of research will aid in item generation.

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#### **Appendix I : Exploratory Factory Analysis**

<b>Construct</b>	<b>Items</b>	<b>Factor Loading</b>	<b>Variance Explained</b>	<b>Eigenvalue</b>
Perceived Trust in Zakat Institution	PTZ1	.642	15,696	3.296
	PTZ2	.824		
	PTZ3	.800		
	PTZ4	.589		
	PTZ6	.736		
Perceived Nature of Formal Zakat Institution	PNZ1	.896	14.958	3.141
	PNZ2	.854		
	PNZ3	.925		
	PNZ4	.855		
Perceived Stakeholders’ Management	PSM1	.875	14.370	3.018
	PSM2	.850		
	PSM3	.800		
	PSM4	.752		
Perceived Board Capital	PBC1	.798	13.408	2.816
	PBC2	.712		
	PBC3	.742		
	PBC4	.693		
	PBC5	.666		
Perceived Disclosure Practices	PDP1	.858	10.763	2.260
	PDP2	.841		
	PDP3	.668		

**High loadings are proof of convergent validity**



## Appendix 2: Evidence of Confirmatory Factor Analysis and validity Analysis

Construct	Items	Standardized Coefficient
Perceived Trust in Zakat Institution	PTZ1	.83
	PTZ2	.81
	PTZ3	.60
Perceived Nature of Formal Zakat Institution	PNZ1	.71
	PNZ2	.89
	PNZ3	.92
Perceived Stakeholders' Management	PSM1	.88
	PSM2	.88
	PSM3	.81
Perceived Board Capital	PBC1	.71
	PBC2	.71
	PBC3	.62
Perceived Disclosure Practices	PDP1	.88
	PDP2	.94

## Appendix 3 : Evidence for Reliability of the Constructs

Construct	Composite Reliability Coefficient (CRC)	Average Variance Explained(AVE)	Cronbach Alpha (CA)
Perceived Trust In Zakat institution	.745	.608	.780
Perceived board Capital	.749	.426	.716
Perceived Disclosure Practices	.759	.553	.849
Perceived Stakeholder Management	.735	.774	.914
Perceived Nature of Zakat Institution	.748	.744	.895
<b>Note: Threshold: CRC <math>\geq .7</math>, CA <math>\geq .7</math> and AVE <math>\geq .5</math></b> <b>AVE <math>\geq .5</math> is an evidence of converaliditygent</b>			

#### Appendix 4: Evidence of Convergent Validity

Paired Constructs	Chi-sq	Normed Chi-sq	CFI	Comment
Base Line Indeces	124.509	1.754	.981	
PBC<>PDP	276.549	3.788	.929	Evidence of Convergent Validity
PBC<>PSM	332.383	4.553	.910	Evidence of Convergent Validity
PBC<>PNZ	356.302	4.881	.902	Evidence of Convergent Validity