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Can disclosure practices and stakeholder management influence zakat payers' trust? A Malaysian evidence

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Abstract: This study examines whether disclosure practices and stakeholder management play an important role in influencing the zakat payers' trust in the zakat institutions in Malaysia. A regression analysis was performed to examine the relationship between disclosure practices and stakeholder management of the zakat institutions on zakat payers' trust. Using questionnaire survey on 184 zakat payers, this study shows that the disclosure practices do influence the zakat payers' trust in the zakat institutions. However, it is revealed that stakeholder management does not influence the zakat payers' trust in zakat institutions. The findings in this study imply that the zakat institutions should focus on the transparency of disclosure practices. The findings in this research could assist the zakat institutions to increase the trust level of the zakat taxpayers towards them and assist the policy makers in establishing zakat institutions which would be perceived by the public as legitimate.

JEL Classifications: G30, G34, M40

Keywords: Zakat payers' trust level, disclosure practices, stakeholder management, zakat institutions

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1. Introduction

Over the years, zakat institutions in most Muslim countries have recorded a low amount of zakat collection in comparison to the income tax collection. Such low amount of zakat collection could be due to the lack of trust in zakat institutions among the zakat payers (Salleh, 2006; Ahmad & Main, 2014). The lack of trust is evidenced by the small amount of zakat collection in relative to total Muslim populations in Malaysia. For example, Lembaga Zakat Selangor, a zakat institution, in 2010 obtained zakat contributions from only 142,029 contributors out of the 5.4 million Muslim populations; an amount that represents only a small percentage of the total Muslim populations. Studies have suggested that the small amount of zakat collection is attributed by the zakat payers' lack of trust in the zakat institutions (Abioyea et al., 2011).

Trust plays an important role in the zakat institutions as their survival depends on the amount of zakat collections from the zakat payers. This is consistent with Sargeant & Lee (2002) who argue that donors' trust plays a significant role in charitable organisations in which the donation would ensure the activities be run and, eventually, lead to sustainability of the charitable organisations. Trust involves a trusting party that believes

the trusted party would perform their given obligations efficiently (Bennet & Barkensjo, 2005). Similarly, zakat institutions can only survive if there is continuity in the zakat payment and effective distribution to the asnafs (beneficiary groups who are eligible to receive the zakat). More than a thousand years ago, evidence showed that during the dynasty of Umar bin Abdul Aziz, poverty was reduced to zero due to the effective collection and distribution pattern (Muhammad & Saad, 2016).

Although zakat in Islam is mandatory for all Muslims, whoever owned an asset that is above the minimum amount of Nisab threshold (Saad & Haniffa, 2014), it is up to the zakat payers whether they prefer to pay their zakat through zakat institutions or pay directly to the asnaf. Hence, the absence of zakat payers' trust in zakat institutions would undermine the effectiveness of the zakat institutions in collecting zakat since the zakat payers tend to choose their trusted channels. Zakat payers have various choices to choose as their preference, which include collection channels either through governmental or voluntary zakat institutions. With the increasing numbers of charitable organisations, competition for limited zakat and other donations becomes intense. Therefore, understanding the zakat payers' compliance behaviour is central to the development of zakat institutions because their effectiveness will help with the future development of zakat institutions (Abioyea et al., 2011).

This study aims to examine whether disclosure practices and stakeholder management, influence zakat payers' trust on zakat institutions. The findings in this study could assist the zakat institutions to increase the trust level of the zakat taxpayers towards them and assist the policy makers in establishing zakat institutions which would be perceived by the public as legitimate. The remainder of this paper is structured as follows. The Section 2 provides the literature review. Section 3 provides the research framework and hypotheses of this study. Section 4 follows with the outline of the research design. The results of the data analyses and discussions are shown in Section 5. The last section concludes this study.

2. Literature review

Trust is a powerful tool in any commercial relationships, business to business deals or trade between firms and customers (Morgan & Hunt, 1994; Berry, 1995). Trust is important in promoting cooperative behaviour, reducing uncertainty and risk in people's relationship, decreasing transaction costs and facilitating formation of ad hoc work groups (Meyerson et al., 1996; Doney & Cannon, 1997). Sargeant & Lee (2002, p. 1) defined trust as a "central, distinctive, component of the nature of the charity sector; imposes moral, ethical and legal obligations upon individuals to act selflessly in holding assets, resources and the aspirations of others 'in trust', ensure that in each case the 'trust' is directly fulfilled in relation to the objects of the charity". In the context of zakat, the issue of trust could be an excuse for reluctant zakat payers to pay zakat to zakat institution (Wahid et al., 2009). However, there is a lack of study that has examined the factors influencing the zakat payers' trust in zakat institutions. This study focuses on two factors namely, disclosure practices and stakeholder management of the zakat institutions in Malaysia.

2.1. Disclosure practices

A financial statement is a credible information source for the financial statements users to determine the performance of the management and the company's financial position

(Gunardi, 2014). It generally provides information that is useful to a variety of users (Honggowati, Rahmawati, Aryani, & Probohudono, 2017). The financial reporting quality is required to produce a quality financial report, thus should be supported by internal control over quality financial reporting (Deloitte & LLP, 2004). Quality financial statement is suitable with generally accepted accounting principles and meets the existing rules. Therefore, it is the responsibility of the zakat board of management to ensure the credibility of the financial statements (Karim & Ahmed, 1990). For charity institutions, contributors or donors are key shareholders who may demand published financial statements as their main source of information. Zakat payers require wide-based information from zakat institutions to be disclosed which include financial as well as other related matters. The information is important to prove that such institutions are legitimate (Mustafa et al., 2013). A study conducted in Indonesia by Mediawati (2016) noticed the difference between the potential zakat fund and actual zakat received by the Zakat Management Organisation (ZMO) in Indonesia. Allegedly, the difference or shortage of zakat funds occurred due to lack of public trust in ZMO that resulted from the quality of the financial information that were presented by ZMO. The information would be useful if it is able to support the community's decision-making in entrusting their zakat to ZMO as an institution whose mandate is to receive, utilise and distribute zakat that is entrusted by the community (Mediawati, 2016).

Taha et al. (2015) explore the needs of zakat institutions to disclose zakat information. They find that zakat information, especially in the financial report, are sometimes hardly accessible for public viewing. The study aims to show the importance of information disclosure to hinder public misconception towards the management of zakat institutions. They find that zakat institutions do organize and prepare relevant information, especially financial statements. However, such information is confidential due to autocracy matters. As a result, the study reveals that there is a general misconception towards zakat institutions due to undisclosed information. Moreover, there is an inconsistency in reporting accessibility among zakat institutions in Malaysia. A quantity of zakat institutions gives consents for public viewing and a few for internal access only. Zakat institutions should realize the importance of providing a clear picture to the public on the financial reporting of zakat funds. It is important not only for the image of zakat institutions, but also to encourage payers to pay zakat through the zakat institutions (Taha et al., 2015).

International organisations such as AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions) and IFSB (The Islamic Financial Services Board), as well as local standard setting bodies such as MASB (Marketing Accountability Standards Board) have provided the accounting guidelines and standards for the transparency of the companies. However, no guidelines have been issued for the financial reporting aspect of zakat institutions. Thus, Htay & Salman (2014) propose the best practices of financial information disclosure for zakat institutions. It is essential to have a comprehensive guideline on best practices of financial accounting and reporting for zakat institutions.

Zakat institutions are recommended to disclose the information on accounting policies and changes, board of trustees, risk management, statement of internal control, important highlights on zakat collection and distribution as well as statement of cash flow. These disclosures are essential to gain more public confidence in the future. The public will be able to understand and appreciate the role of zakat institutions. Hence, existing and potential zakat payers should realize that the audited and certified information disclosed are powerful signs of transparent institutions. These will be meaningful as they will enable to encourage and enhance trust among zakat payers towards such noble institutions. As a

result from the enhanced trust, zakat payers will have the willingness to pay through these formal institutions (Mustafa et al., 2013; Htay & Salman, 2014).

2.2. Stakeholder management

There are two models of stakeholder management namely, the normative model (intrinsic stakeholder commitment) and the instrumental model (strategic stakeholder management). The intrinsic stakeholder commitment model acknowledges that organisational strategy should not be separated with corporate ethics. This model also suggests that, all stakeholders should be treated equally according to their interest. Meanwhile, the instrumental model argues that organisations are often under pressure to strategically place several stakeholders' interests over others not only to achieve higher financial performance, but also for survival (Abioyea et al., 2011; Rokhmawati & Gunardi, 2017). Jawahar & McLaughlin (2001) state that organisations are likely to favour certain stakeholders depending on the degree of dependence of those stakeholders for resources critical to the organization's survival. In voluntary institutions such as zakat institutions, managers are dealing with donors (zakat payers) and beneficiaries. They are different types of donors with different interests. Therefore, managers should be able to strike a balance in their stakeholders' orientations and policies. In the context of zakat institutions, normative prescriptions are suggested as more suitable where most zakat payers will expect better treatment of the zakat towards the zakat beneficiaries (Mustafa et al., 2013).

According to Alam (2006), public organizations' survival depends on the key stakeholders' satisfaction. Therefore, attention should be carefully given to stakeholder's interest to gain their trust. Within the context of zakat institutions, zakat payers expect zakat institutions to treat all stakeholders fairly and accordingly. Favourable treatment of stakeholders provides a positive sign that the institutions have sound stakeholder management and lead to the legitimacy of the zakat institutions.

3. Research framework and hypotheses

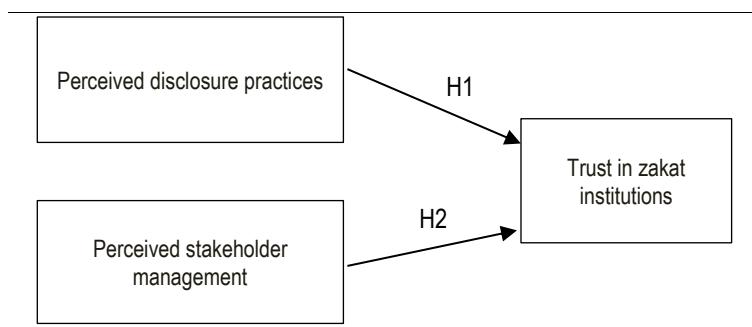
Figure 1 depicts the research framework of this study. The research framework attempts to explain relationship between the independent variables and the dependent variable. The independent variables are perceived disclosure practices and perceived stakeholder management whilst zakat payers' trust on zakat institutions is the dependent variable in this study.

The legitimacy theory postulates that institutions need to have goals which are congruent with those of society at large (Ahmad & Sulaiman, 2004). According to Gray et al. (1996), the basic premise underpinning the theory is that "... organisations can only continue to exist if the societies in which they are based perceive the organisation to be operating to a value system which commensurate with the society's own value system." The 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 (Abioyea et al., 2011).

In the context of zakat institutions, the zakat institutions rely primarily on individual zakat payers' contributions. However, zakat payers have the option of either to pay directly to the asnafs or through zakat institutions who act as a third party. Doubts may develop and the appropriateness of zakat implementation is intensified when it is done through a third

party. Accordingly, zakat payers often require signals to mitigate this information asymmetry. When organisations face legitimacy problems, disclosure is one of the means of solving the problem (Suchman, 1995). Legitimacy is achieved through "internal and external audiences who observe the organisation and make legitimacy assessments" (Ruef & Scott, 1998, p. 880). Thus, disclosure is a vehicle to either reiterate this congruence (Deegan, 2002; Ruef & Scott, 1998) or to recover legitimacy if the shared beliefs appear to be disintegrating (Patten, 1992).

FIGURE 1. RESEARCH FRAMEWORK



Therefore, the following research hypothesis is developed:

H1: Perception of the disclosure practices of zakat institutions influences the zakat payers' trust.

Based on the legitimacy theory, society holds the expectation on how an organisation conducts its operation. Society expects the organisations are complying with the expectations embodied within the social contract (Suchman, 1995). In the context of zakat management, society expects that zakat institutions to distribute zakat in accordance with Shariah that covers whole aspects. Alam (2006) states that modern organizations' success depends on their sustainability. Sustainability can be achieved by considering the needs of its stakeholders. In other words, an effective stakeholder management is very helpful in organisation sustainability.

In his study, Dhalla (2007) observes that there is a link between stakeholders' management and reputation. According to him, organisational reputation can be described as the organization's characteristics and distinctive features that are perceived by the outsiders. An organisation that has effective stakeholders' management strategies above others is perceived to have positive reputation by the outsiders (Bennett & Gabriel, 2003). Similarly, when zakat payers perceive that zakat institutions treat the stakeholders, especially beneficiaries in a good manner, it will positively affect the reputation of such institutions. Zakat institutions need the good reputation to encourage trust between zakat payers who are the main contributors to zakat funds. Therefore, the following research hypothesis is developed:

H2: Perception of the stakeholder management of zakat institutions influences the zakat payers' trust.

4. Research design

4.1. Sample

This study chose the Muslim individuals who are eligible to pay zakat on income as the sample study. The Muslim individuals are often charged with zakat based on their income regardless whether they are working in the public sector or the private sector. This study focuses only on fixed income earners. In total, 567 questionnaires were distributed to the potential zakat payers via personally administered questionnaires and online questionnaires. Out of the 567 questionnaires, a total of 184 usable responses were received for an overall rate of 32 percent. The sample size of 184 is considered appropriate since the general rule to identify the sample size is more than 30 and less than 500 for any area of researches (Sekaran & Bougie, 2013).

4.2. Research instrument

This study uses questionnaire as the research instrument. This study develops the questionnaire based on Mustafa et al. (2013) with some modifications to suit the context of this study. The questionnaire in this study consists of five sections. Section 1 contains seven questions requiring demographic information. Section 2 requests the respondents to identify their status of payment or non-payment of income tax and zakat. Meanwhile, Section 3 requests the respondents to provide their perception on disclosure practices whilst Section 4 requests the respondents to provide the perception of stakeholder management. Finally, section 5 contains 6 questions requesting the respondents to identify their trust level on zakat institutions. Apart from Section 1, all sections use a five-point scale ranging from '1' as strongly disagree to '5' as strongly agree.

4.3. Data collection

This study distributed 200 questionnaires to potential zakat payers through personally administered questionnaires. The researchers took about one to seven days to collect the questionnaires from the respondents. In total, 107 responses were received from the respondents through the personally administered questionnaires. However, only 98 questionnaires were usable responses for this study. The remaining 9 questionnaires were incomplete and excluded in this study.

The researchers have also approached the potential zakat payers via Facebook and WhatsApp application. In total, 367 questionnaires were distributed through social media such as Facebook and WhatsApp. The messages that contain the questionnaire's URL address were sent through personal message as well as public post on personal wall and group wall. After four weeks and several follow-ups, the study managed to gather only 112 responses. However, only 86 responses were usable for the study. The remaining 26 questionnaires were excluded in this study.

5. Results

5.1. Effect of perceived disclosure practices of zakat institutions on zakat payers' trust

Table 1 presents the descriptive statistics of the three items of the first independent variable that is perception on disclosure practices of the zakat institutions. The highest

mean score and standard deviation is for item D1 ($M = 4.75$, $SD = 0.50$). This is followed by item D2 ($M = 4.41$, $SD = 0.68$). Meanwhile, the item that has the lowest mean and standard deviation is item D3 ($M = 4.38$, $SD = 0.67$).

TABLE 1. DESCRIPTIVE STATISTICS FOR DISCLOSURE PRACTICES

ITEMS	DESCRIPTIONS	MINIMUM	MAXIMUM	MEAN	STD. DEVIATION
D1	Zakat institutions should disclose full financial information in the audited report	2	5	4.75	0.50
D2	Zakat institutions should disclose their achievements in the audited report	2	5	4.41	0.68
D3	Diverse professional experiences of board members may have positive influence on the scope of information disclosed by zakat institutions	2	5	4.38	0.67

Table 2 presents the results showing the relationship between disclosure practices and zakat payers' trust on zakat institutions. The Pearson correlation analysis was used. The results show that there is a significant positive relationship between disclosure practices and zakat payers' trust on zakat institutions ($r=0.000$). Hence, H1 is supported.

TABLE 2. CORRELATION BETWEEN PERCEIVED DISCLOSURE PRACTICES OF ZAKAT INSTITUTION AND ZAKAT PAYERS' TRUST

		ZAKAT PAYERS' TRUST	DISCLOSURE PRACTICES
ZAKAT PAYERS' TRUST	Pearson correlation	1	0.400
	Sign (2 tailed)		0.000
	N	184	184
DISCLOSURE PRACTICES	Pearson correlation	0.400	1
	Sign (2 tailed)	0.000	
	N	184	184

5.2. Effect of perceived stakeholder management of zakat institutions on zakat payers' trust

Table 3 presents the descriptive statistics of the four items of second independent variable that is perception on stakeholder management. The highest mean score and standard deviation is for item G1 ($M=4.47$, $SD=0.93$), that indicates the highest mean score. This item is ranked first among all items being studied by the respondents. This is followed by item G3 ($M =4.08$, $SD=0.96$) and item G2 ($M=3.84$, $SD=1.11$). Meanwhile the item that obtained the lowest mean score is the last item, which is item G4 ($M=3.48$, $SD=1.26$).

Table 4 presents the results showing the relationship between perceived stakeholder management and zakat payers' trust on zakat institutions. The Pearson correlation analysis was used. The results show that there is a relationship between stakeholder management

and zakat payers' trust on zakat institutions. However, the relationship is negative and is not significant ($r=0.986$). Hence, H2 is rejected.

TABLE 3. DESCRIPTIVE STATISTICS ON STAKEHOLDER MANAGEMENT

ITEMS	DESCRIPTIONS	MINIMUM	MAXIMUM	MEAN	STD. DEVIATION
G1	Government should manage zakat institutions effectively	1	5	4.47	0.93
G2	NGOs may effectively run zakat institutions in a Muslim majority country	1	5	3.84	1.11
G3	Government may add to the legitimacy of zakat institutions	1	5	4.08	0.96
G4	Government ownership will positively influence the effectiveness of board of trustees	1	5	3.48	1.26

TABLE 4. CORRELATION BETWEEN PERCEIVED STAKEHOLDER MANAGEMENT AND ZAKAT PAYERS' TRUST ON ZAKAT INSTITUTIONS

		ZAKAT PAYERS' TRUST	STAKEHOLDER MANAGEMENT
ZAKAT PAYERS' TRUST	Pearson correlation	1	-0.001
	Sign (2 tailed)		986
	N	184	184
STAKEHOLDER MANAGEMENT	Pearson correlation	-0.001	1
	Sign (2 tailed)		986
	N	184	184

5.3. Additional analysis

A regression analysis was performed to examine the relationship between disclosure practices and stakeholder management of the zakat institutions on zakat payers' trust. The independent and dependent variables were entered in the regression analysis.

$$T = \beta_0 + \beta_1 DP + \beta_2 SM + \Sigma \quad \text{Model 1}$$

The model signifies that: T - Zakat payers' trust; DP - Disclosure practices; SM - Stakeholder management; and Σ - Random error.

Table 5 depicts the result of the regression analysis. The results confirm the significance of the relationship between the perceived disclosure practices and stakeholder management of zakat institutions on zakat payers' trust. The results show significant relationship ($r=0.000$) between the perceived disclosure practices and zakat payers' trust on zakat institutions. The results also show no significant relationship between the perceived stakeholder management and zakat payers' trust on zakat institutions ($r=0.158$).

TABLE 5. REGRESSION ANALYSIS

MODEL	UNSTANDARDIZED COEFFICIENTS		STANDARDIZED COEFFICIENTS		t	Sig.
	β	Std. Error	Beta			
(Constant)	7.442	2.953			2.520	0.013
Disclosure practices	1.332	0.219	0.423		6.075	0.000
Stakeholder management	-0.112	0.079	-0.099		-1.417	0.158

Based on the result output, it can be translated in the Model 1. The model is as follows:

$$T = 7.442 + 1.332DP - 0.012SM + \Sigma$$

The equation indicates that zakat payers' trust toward zakat institutions may vary due to several factors. Through the model, there is one predictor that would positively influence the unit of trust and there is predictor that negatively impairs the trust's unit. Positive predictor would be the disclosure practices whereas negative predictor is stakeholder management.

Table 6 presents the model summary for relationship between independent and dependent variables. This summary table provides the value of R and R-square for the model. This study shows that R has a value of 0.412. Meanwhile, the observed R-square is 0.169; indicating only 16.9 percent of the variation in zakat payers' trust is explained by variation in the disclosure practices and stakeholder management. The remaining 83.1 percent is explained by other factors.

TABLE 6. MODEL SUMMARY

R	R-SQUARE	ADJUSTED R-SQUARE	STD. ERROR OF THE ESTIMATE
0.412	0.169	0.160528	3.71836

Note: Dependent variable: Zakat payers' trust. Predictors: (Constant), Disclosure practices, Stakeholder management.

6. Conclusion

The purpose of this study is to examine the effect of disclosure practices and stakeholder management of zakat institutions on zakat payers' trust. The results from this study show that there is a significant positive relationship between perceptions on disclosure practices and zakat payers' trust on zakat institutions. This study shows that there is a significant positive relationship between perceived disclosure practices and zakat payers' trust. The findings in this study is consistent with the findings of Mustafa et al. (2013), Taha et al. (2015) and Mediawati (2016). These studies agree that financial disclosure serves as a

means to enhance trust and hinder public misconception toward the management of zakat institutions.

This study also shows no significant relationship between perceived stakeholder management and zakat payers' trust. The findings in this study contradict with Mustafa et al. (2013) and Abioyea et al. (2011) who agree that zakat payers' trust plays a significant positive relationship with stakeholder management. Based on the findings, zakat payers' trust can be influenced by how zakat institutions manage its' stakeholders since the accessibility and reliability of information is limited.

Based on the legitimacy theory, zakat institutions need to have goals that are congruent with the society at large to maintain its survival (Ahmad & Sulaiman, 2004). Organisations can only continue to exist if the societies in which they are based perceive the organisation to be operating to a value system which is appropriate with the society's own value system (Gray et al., 1996). Therefore, factors such as disclosure practices should be taken into consideration when strategizing the legitimacy of zakat institutions.

This study contributes to the existing body of knowledge and zakat management practices. In the academic point of view, this study provides a useful foundation on which it will provide further theoretical and empirical studies in the field of zakat management.

7. Study limitations

This study is not without limitations. First, the sample in this study comprises of potential zakat payers situated in one of the states in Malaysia. Increasing the sample by inclusion potential zakat payers in other states would provide a more generable finding. Secondly, this study only focuses on two variables namely, perceived board management and governmental model. Future study could include more variables in examining zakat payers' trust on zakat organisations.

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