

**ZAKAH COMPLIANCE AMONG OWNERS' OF MUTUAL FUNDS
IN SAUDI ARABIA**

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IN SAUDI ARABIA**

By

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Thesis Submitted to the Center for Graduate Student,

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(International Accounting)

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ABSTRACT

This study has been done to examine the relationship between attitude and subjective norms and *zakah* compliance intention among owners' of mutual funds in Saudi Arabia by using the Theory of Reasoned Action (TRA). One hundred and seventy three (173) completed questionnaires were returned that measured respondents' attitude (ATT) towards *zakah* on mutual funds, subjective norm (SN) about *zakah* on mutual funds, and intention (ITT) to pay *zakah* on mutual funds. The findings of the study show that attitude (ATT) and subjective norm (SN) significantly influence *zakah* compliance among owners' of mutual funds. In general, the study proved that the theory of reasoned action is applicable in *zakah* area.

Keywords: Attitude, Subjective Norm, Intention, Zakah

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We start with the name of Allah, we praise Allah and thank him for the blessings of completing this study, we humbly ask Allah to raise the rank of our prophet sallallahu ^alayhi wa sallam, and his kind al and companions and followers, we ask Allah to grant us the proper intention, the comprehension, and the reward in the hereafter.

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Alhamdan, Anas Abdullah.

DECLARATION

I certify that the substance of this thesis has not been already been submitted to any degree and is not currently being submitted for and other degree gualification.

I certify that any help received in preparing this thesis and all sources used have been acknowledged in this thesis.

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CHAPTER ONE

INTRODUCTION

1.0 Introduction

Praise is to Allah who made certain amount of rich's wealth to the poor and needy "*Zakah*", and peace and blessings be upon the Messenger of Allah who showed us the road leading to the satisfaction of Allah. *Zakah* is the third of the five pillars in Islam. It is an obligation the every Muslim whose meets this conditions; it must be paid to the beneficiaries. Book of Allah has demonstrated that *zakah* is an obligatory, also in the Sunnah of His Messenger (peace be upon him) and with the consensus of all Muslims in the past and in recent. To see the importance of *zakah* in Islamic religion, it has been mentioned in the Quran about thirty times, and it is also associated with prayers, This obligation is also emphasized in a number of sayings of the Prophet (peace and blessing of Allah be upon him) (Dogarawa, 2010).

In addition, *zakah* contributes to the achievement of economic development in the Islamic environment by fighting compactness (Hoarding capital) and encourage spending, especially investment, and also through the strengthening of social cohesion, and economic stability of the community (Al-Morsy, 2004). The distribution of *zakah* funds could help generate and stir the country's economic activities through increase individual's purchasing power, this suggest that the development of the country and the

community could implemented actively if *zakah* fund could be effectively raised (Bidin, Idris & Shamsudin, 2009).

Zakah is the first pillar of Islamic economic system. It represents the first and most important tool for implementing the economic justice in Islam; *Zakah* is the basis for equitable redistribution of wealth in Islam and the most viable tool for combating poverty and other social and economic ills in an Islamic society.

The obligation of *zakah* is not in any way affected if governments neglect it or in the absence of an Islamic government or constituted agencies, where government or its agencies are not responsible for *Zakah* administration, individual Muslims remain religiously obligated to pay out their due *zakah* by distributing directly or through charitable voluntary organizations to the specified recipients in order to achieve its socio-economic objectives (Dogarawa, 2010).

Zakah is one of the sources of funds available within the Islamic economic and financial systems. Although it is fundamentally obligatory for Muslims to contribute to *zakah* (ta'abod), however the amount collected is relatively very small compared to the income tax collections (Muda, Marzuki & Shahrudin, 2006).

Zakah revenue is only to the Asnaf (or people entitled to *zakah* fund), who have been specifically highlighted in the Holy Quran.

"Alms are for the poor and the needy, and those employed to administer the (funds); for those whose hearts have been (recently) reconciled (to the truth); for those in bondage and in debt; in the cause of Allah; and for the wayfarer: (thus is it) ordained by Allah, and Allah is full of knowledge and wisdom)) (Surah Al-Taubah: 60)."

This study aim to solve some of *zakah* problems in Saudi Arabia. Alfaiz (2006) noted that practices of *zakah* currently in Saudi Arabian are collecting *zakah* only from companies and institutions, while it is up to individuals voluntarily to pay to *zakah* or not to pay. Individuals are those who sell trades and lands by billions. Collecting *zakah* from them billions will resolved most of the problems of poverty and provide essential services to citizens (Alfaiz,2007).

One of the important *zakah* sources in Saudi Arabia is *zakah* of mutual funds which is currently voluntary. Mutual Fund assets rose to 20.5 billion in February 2010. (Jamal, 2011). Some of the mutual funds assets exceeding four billion riyals, Saudi economic expert pointed out that making a voluntary matter for individual investors missed the opportunity to collect large amount of *zakah* funds (Alskran,2011)

Alnasser (consultant in Islamic banking) said in his press articles about *zakah* of mutual funds the government represented by the Department of Zakat and Income Tax (DZIT) should take *zakah* from mutual funds and make it compulsory issue like companies, to raise critical legitimate on investors in these funds and the interest of the duty of the legitimate collection of *zakah*. There is no differences between them in terms of a legal personality as the mutual fund is an independent legal personality of the investors and the fund managers. The investors like investors in joint stock companies but they are much weaker in terms of the administrative rights of investors in corporations where do not have any administrative authority to the Director of the Fund in terms of appointment or dismissal, as the investor in mutual funds does not have any impact on the decisions of the Fund's investment manager where they have no any representation in the Board of Directors of the Fund. Authorities are focused to the fund manager (Alnasser,2008).

Some people have money and wanted to invest but they do not have the ability and the knowledge. They want someone else they trust which has the ability and the good knowledge. Therefore, the idea of creating funds where those small investors can put their money under trusted and good management, these funds so-called Mutual Funds or some call it investment funds.

A mutual fund is a professionally managed type of collective investment scheme that pools money from many investors and invests typically in investment securities (stocks, bonds, short-term money market instruments, other mutual funds, other securities, and/or commodities such as precious metals). The mutual fund will have a fund manager that trades (buys and sells) the fund's investments in accordance with the fund's investment objective (Hossin,2010).

The Saudi Arabian Monetary Agency (SAMA) defined mutual funds as a joint investment program designed to allow its investors to participate collectively in the profits of the program, managed by the fund manager for a certain fee. Mutual funds in Saudi Arabia do not take the form of joint stock company, but funds from the banks, and under the control of (SAMA). Banks provide these funds to the investors are investment companies would manage these funds.

The following are of mutual funds:

- Fund Currency: it funds the investment manager to trade in currencies.
- Equity funds: these funds consist of stocks, and one of the long-term investment funds, one of the most popular types of investment funds and the most traded.
- Bond Funds: these funds consist of securities only, and that participants in these funds are trying to move away from risk and want to achieve the fixed return.

- Commodity funds and goods: the main activity funds to buy goods and exchange of goods and then sold on credit (Dailh).

The total of subscribers in mutual funds in Saudi Arabia in beginning of 2011 are 340,515 subscribers, while the number of funds at the end of the same year are 241 funds, with capital market about 100 billion riyals (Tadawa,2011).

This study focuses on *zakah* compliance among owners' of mutual funds in Saudi Arabia. Based on the past studies on deduction of *zakah* on people who are holding the mutual funds is found to be very limited. The underpinning theory which used in this study is the Theory of Reasoned Action which will be predicting *zakah* compliance intention on mutual funds.

1.1 Problem statement

The Department of *Zakah* and Income Tax (DZIT) of Saudi Arabia stated that the revenues due on trade goods from companies and institutions subject to *zakah* in 1430/1431 AH (2011) are about 6.6 billion riyals. Alskran (2011). This shows that the *zakah* collected by (DZIT) are only from companies and institutions.

Referred to recent estimates issued by non-governmental actors in Saudi Arabia that the size and numbers that must be collected from *zakah* annually in Saudi Arabia nearly 600 billion riyals, compared with capital invested by all companies and individuals in the Saudi market (Alharbi,2011).

A deep gap appears here, 6.6 billion Riyals annually collected while the recent estimates have indicated that the size of *zakah* must be collected annually up to 600 billion riyals.

The low *zakah* revenue in Saudi Arabia is due to many reasons, one of these reasons is low level of compliance with *zakah* in Saudi Arabia. The compliance would be investigated in the study.

According to Capital Market Authority (CMA) the total assets of mutual funds in the second quarter 2011 is 98,947 billion riyals. Mutual funds in Saudi Arabia are not subject to *zakah* to Department of *Zakah* and Income Tax (DZIT). Alnasser (Consultant in Islamic banking) declared that the management of mutual funds do not pay *zakah* on these funds. The owners of mutual funds should pay *zakah* and some of the owners of mutual funds pay *zakah* and some do not pay it because the lack of transparency and disclosure in the reports of these funds (Alnasser,2008).

First equal, actual state equal low level of *zakah* collection from mutual funds, because all the *zakah* has been collected by DZIT are only from companies and institutions. As well as, desired state equal high level of *zakah* collection from mutual funds, whether collecting *zakah* by DZIT or other charities organizations. Finally, the gap equal low level of compliance among owners of mutual funds.

1.2 Research Question

The present study seeks to answer the following question:

Do attitudes toward paying *zakah* and subjective norms influence compliance intention of the owners of mutual funds in Saudi Arabia to pay *zakah* on mutual funds?

1.3 Research Objectives

This study aims to identify whether attitudes and subjective norms toward *zakah* on mutual funds are directly related to compliance intention of the owners of mutual funds to pay *zakah* on mutual funds.

1.4 Significance of the Study

This study will provides some contributions to the knowledge, because there are limited studies on *zakah* especially those that address specific types of *zakah* contribution in the literature. There is (the knowledge of the researcher) limited studies have applied the theory of Reasoned Action to *zakah* on mutual funds.

The findings of the study would be usefull for policy makers, academicians and practitioners to promote and educate the practice of *zakah* on the mutual fund in the Kingdom of Saudi Arabia (KSA). The study gives charities organizations a good strategy to collect *zakah* from those owners.

1.5 Organization of the Study

The introduction is placed in chapter one. It presents the problem statement, research question, research objectives, significant of the study and then the organization of the study.

The following chapter presents the literature review. The chapter reviews the theory of reasoned action, attitude and behavioral intention, subjective norms and behavioral intention and proposed theoretical framework then the summary of the chapter.

Research methodology used in this study is presented in chapter three. In addition to the population and sampling, data collection, measurements of constructs, data Analysis and summary of the chapter.

Chapter four is the analysis of the study. This chapter provides data analysis, which includes description of respondents and variables, reliability analysis, factor Analysis, multiple regressions analysis. Finally, the summary of this chapter.

Five. This chapter discuss the study, limitation of the study and the conclusion.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter discusses Theory of Reasoned Action (TRA) and explore previous studies using this theory. A framework of study is build and hypothesis is developed in this chapter.

2.2 The Theory of Reasoned Action

The Theory of Reasoned Action (TRA) in the field of social psychology is well-known theory, the theory aim to provide a framework to study attitudes toward behaviors. The Theory of Reasoned Action (TRA) is developed by Fishbein and Ajzen (1975) and had been applied to many situations by researcher such as Oliver & Bearden, (1985); Bagozzi, Shimp & Kavas (1984); Bergami, Wong & Abe, (2000); Bidin, Idris & Shamsudin, (2009).

Theory of Reasoned Action assumes that human beings are basically rational and make systematic use of information available to them when making decisions. (Chang, 1998). The three components in Theory of Reasoned Action; behavioral intention, attitude, and subjective norm. According to TRA the behavioral intentions is the main predictors of behaviors, the most important determinant of a person's behavior is behavioral intention.

Theory of reasoned action is based on the assumption that the behavior of an individual is determined by the individual's behavioral intention to perform that behavior or not to perform, and this assumption provides the most accurate prediction of behavior (Ajzen & Fishbein, 1975). This theory can provide a very useful theoretical framework for understanding and predicting the compliance intention among the owners of mutual funds in Saudi Arabia on *zakah* on mutual funds, therefore, it is used in the study as the underlying theory.

Ajzen (1991) defined behavioral intention as an indication of how hard people are willing to try and of how much an effort they are planning to exert, in order to perform the behavior. Behavioral intention is influenced by two factors: one's attitude toward performing the behavior and subjective norm. According to the theory the individual's intention to perform a behavior is a combination of attitude toward performing the behavior and subjective norm. Factors that influence one's behavior such as subjective norm and attitudes work through intention to affect whether one would actually act on the intention or not (Bidin, Idris, & Shamsudin, 2009).

The theory of reasoned action postulates that when a person really decides to act (voluntarily) or not to act is determined by his or her intention to act that behavior or not to act. The theoretical relationships as postulated in the theory are shown in Figure 2.1. In Islam more than 1400 years the people behavior and intention was explained in and treated more broadly. The theory could explain social behavior that is why this study theory on *zakah* giving among owners of mutual funds to understand and predict individual's intention to comply with *zakah*. Bidin, Idris & Shamsudin (2009) in their study applied the theory of reasoned action to predict compliance intention on *zakah* on employment income in Malaysia and as they were the key writers in this filed' noted that

the theory's application is yet to be tested in the context *zakah* giving (Bidin, Idris, & Shamsudin, 2009).

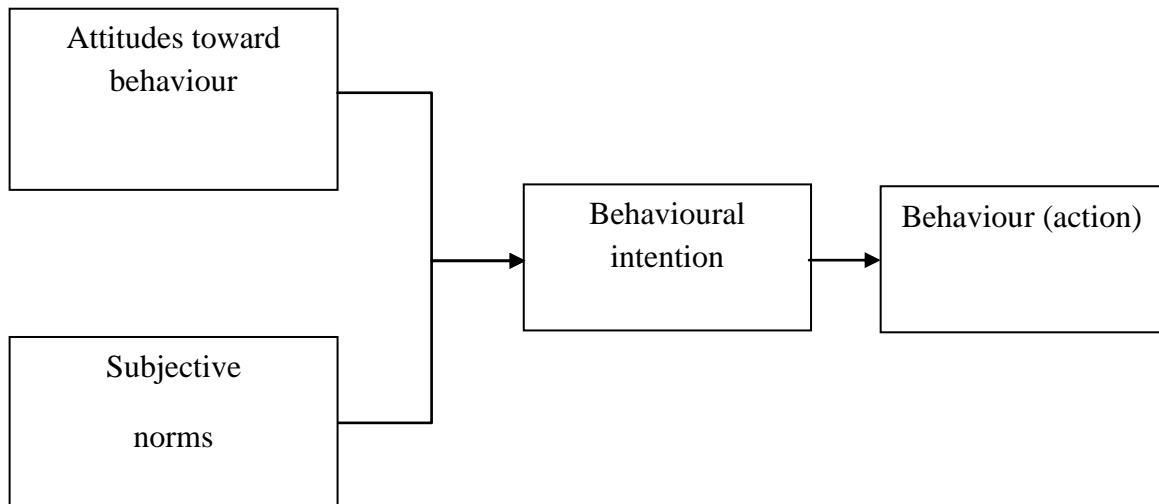


Figure 2.1: Theory of Reasoned Action (Ajzen & Fishbein 1980)

Theory of Reasoned Action propose intention as the closet determinate of behavior, behavioral intention is a function of two factors: one's attitude toward the behavior and subjective norm (Chang, 1998). Since the theory deals with voluntary behavior issues, as such *zakah* giving on mutual funds in Saudi Arabia is also a voluntary behavior. The Theory of Reasoned Action is used here to understand and predicate compliance intention on *zakah* among the owners of mutual funds. Past studies findings in relation to *zakah* and tax are also used as a guide to examine behavioral intention to comply with *zakah* on mutual funds.

For the purpose of the study, an individual's behavior to comply with *zakah* giving on mutual funds is determined by two factors, i.e. attitude toward *zakah* on mutual funds and subjective norms, by having these two factors, one's behavioral intention to comply with

zakah giving on mutual funds might be predicted. Attitude toward *zakah* giving on mutual funds and subjective norms are discussed below with proposed theoretical framework.

2.3 Attitude and behavioral intention

The Theory of Reasoned Action confirms that attitude influences behavioral intention directly and attitude is considered as the first predictor of intention. Ajzen (1991) define attitude as the degree to which the person has a favorable or unfavorable evaluation of the behavior in question. According to the theory, attitude is determined by behavioral belief; behavioral belief involves the evaluation of consequence or outcomes of performing a particular behavior (Ajzen & Fishbein 1980). Behavioral belief basically is individual's beliefs about the behavior and determines the attitude in term of the degree of evaluating the outcome of performing particular behavior.

Many past studies found that attitude is a significant predictor of behavioral intention and positively related to intention (Oliver & Bearden, 1985; Shimp & Kavas 1984; Bidin, Idris, & Shamsudin, 2009; Hung, Chang, & Yu, 2006; Saad, 2009). In context of *zakah*, Bidin, Idris, and Shamsudin (2009) found that attitude have significant effect on behavioral intention to contribute with *zakah* on employment income. There is another recent study conducted by Saad (2009), in the context of taxation found a positive relationship between attitude and behavioral intention, i.e. attitude towards the tax system would encourage taxpayers to comply and vice versa. But (Saad, 2009) in his study did not use the Theory of Reasoned Action exactly instead he used the Theory of Planned Behavior which is the extension of Theory of Reasoned Action.

However, in this study the three components of the Theory of Reasoned Action attitude and subjective norm are examined to know the relationship between them and behavioral intention, which is covered by Saad, (2009) study when he applied the Theory of Planned Behavior this theory was proposed by Ajzen in 1985, adds one more variable to the Theory of Reasoned Action which is known as perceived behavioral control. There is another study by Hung, Chang, and Yu, (2006) in context of e-Government services acceptance and online tax filing and payment system also found that attitudes are positively related to intention.

In this study, individual's attitude toward *zakah* giving on mutual funds reflects his/her intention to comply or not to comply with *zakah* on mutual funds. Moreover, it was expected in this study that a positive attitude towards *zakah* giving on mutual funds would encourage the owners of these funds to comply with *zakah* and vice versa. Based on the results of the above studies, it is reasonable to test the following hypothesis.

H₁: Attitude towards *zakah* giving on mutual funds is positively related to intention to pay *zakah* on mutual funds.

2.4 Subjective norms and behavioral intention

According to the Theory of Reasoned Action subjective norms influence behavioral intention directly. It is considered the second major determinant of behavioral intention in theory. This is the influence of social pressure that is perceived by the individual normative beliefs. Normative beliefs are concerned with the likelihood that important referent individuals or groups approve or disapprove of performing a given behavior to perform or not perform a certain behavior (Ajzen, 1991).

Subjective norms are one of the internal factors in the individual beliefs, i.e. the individual beliefs about the social in term of approve or disapprove his/her performing of cretin behavior. According to the theory, pressures to behave in particular manner may come from significant referent such as friends, parents, family members, etc. In the study conducted by Saad (2009) in taxation context described subjective norm as reflects of motivation to conform with significant referents either to comply or not comply with certain behavior. This means an individual will carry out an action if he/she beliefs that important people to him/her think that he should carry out this action (Bidin, Idris, & Shamsudin, 2009). A global measure of subjective norm is usually obtained by asking respondents to rate the extent to which important people would approve or disapprove of their performing a given behavior (Ajzen, 1991). Thus, if a person believes that the most important referents or individuals to him/her think that the behavior should be performed, then he/she will perform that behavior. This shows that the subjective norm should influence the behavioral intention of a person to perform the behavior.

Many studies had found a significant effect of subjective norms on behavioral intention (Oliver & Bearden, 1985; Shimp & Kavas, 1984; Hung, Chang, & Yu, 2006). In the context of *zakah* Bidin, Idris, and Shamsudin (2009) found that subjective norms are positively related to behavioral intention to comply with *zakah* on employment income. Moreover, Saad (2009) in the context of taxation, found a positive relationship between attitude and behavioral intention. Also Hung, Chang, and Yu (2006) found that subjective norms are positively related to behavioral intention. Based on the discussion above, it is expected that subjective norm would positively influence owners of mutual funds in their compliance decisions.

H₂: Subjective norm is positively related to intention to pay *zakah* on mutual funds.

Figure 2.2 depicted of the proposed theoretical framework of this study, which is based on the Theory of Reasoned Action. Attitude towards *zakah* on mutual funds and subjective norms are used as independent variables explaining the dependent variable which is here the behavioral intention to comply with *zakah* on mutual funds.

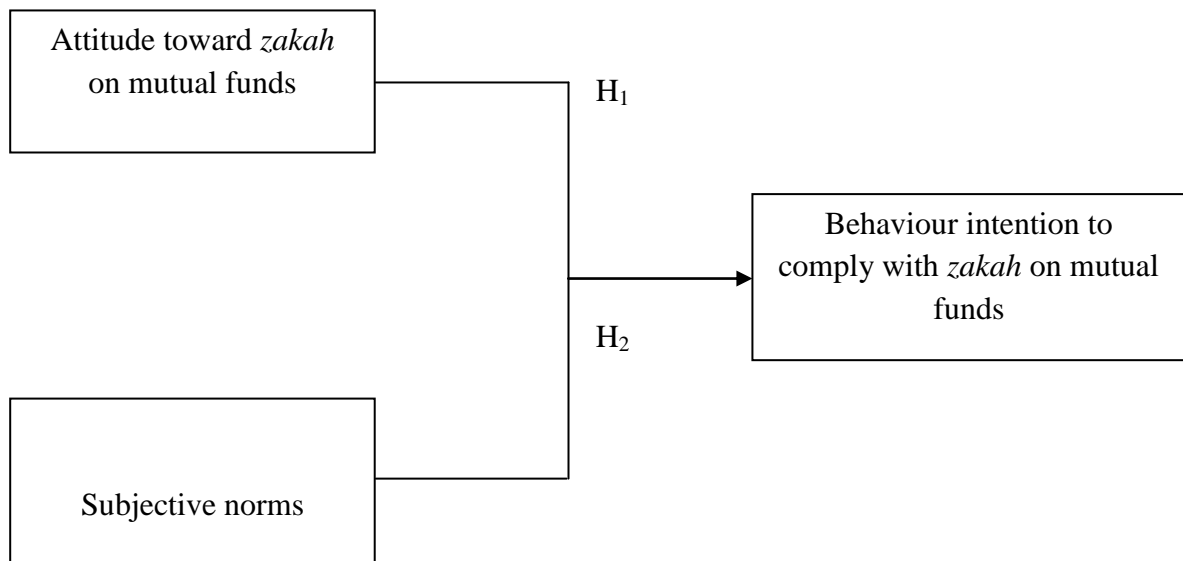


Figure 2.2: Proposed theoretical framework

2.4 Summary

This chapter began with brief introduction to Theory of Reasoned Action then previous studies done based on these theories discussed, and the hypotheses of this study developed based on that discussion. The hypotheses of this study are matched with original theory the framework of this present study is built.

CHAPTRE THREE

RESEARCH METHODOLOGY

3.1 Introduction

In this chapter the research methodology of the study is illustrated. The study employed a survey approach to find the intention of an individual investing in mutual funds' toward paying *zakah* on mutual funds. The purpose of the present study is to identify whether attitudes and subjective norms toward *zakah* on mutual funds are directly related to compliance intention of *zakah* on mutual funds.

3.2 Population and sampling

The number of subscribers in mutual funds in Saudi Arabia is 340,515 subscribers. The population of this study is all subscribers operating mutual funds in Saudi Arabia. The unit of analysis for the study is an individual subscriber subscribing in operating mutual funds in Saudi Arabia. These individuals are our target population. The list of operating mutual funds will be obtained from Saudi Stock Exchange (Tadawul,2011) website and the list have detailed information about all the funds subscribes e.g. contact information.

Based on the rule of thumb, the sample size should be more than 150 (the number of variables 3 times 20) (Hair et al, 1998), More than 150 subscribers of mutual funds will be selected to be representative of all subscribers in mutual funds. The sampling

technique used in this study is simple random sampling technique to select 150 from 241 mutual funds that the participants selected from it, and to select the participants from each selected fund.

3.3 Data Collection

Data will be collected through quantitative survey approach. This data will be collected through field survey by distributing 200 questionnaires to ensure that the return will be more than 100. The questionnaires will be distributed among the owners of mutual funds in Saudi Arabia through the managers of each selected fund.

3.4 Measurements of Constructs

This study uses questionnaire as the major instrument for gathering the data. Questionnaire is chosen as the main technique to collect data because it can be self-administered and is simple to score and use. The questionnaire is adopted from several studies. The sample of the study covers three cities (Dammam, Jeddah and Riyadh) based on the centralization of investments and the existing of the big companies and institutions. Accordingly, this study aims to identify whether attitudes and subjective norms toward *zakah* on mutual funds are directly related to compliance intention of the owners of mutual funds to pay *zakah* on mutual funds.

In this study, attitudes and subjective norms are considered as independent variables, while behavioral intention is considered as dependent variable.

Behavioral intention to comply with zakah on mutual funds

Behavioral intention to comply with *zakah* on mutual funds in this study refers to how difficult an individual is willing to pay *zakah* on mutual funds; this statement is consisted with (Bidin, Idris, & Shamsudin, 2009). However, the design of the questionnaire follows the study done by (Bidin, Idris, & Shamsudin, 2009) because it meets the requirement of this study. Respondent will asked to point to their level of agreement or disagreement on statement related to their intention to pay *zakah* on mutual funds items based on a five-point likert scale in which 1=strongly disagree and 5=strongly agree. Some examples of the items are: “I will pay *zakah* on mutual funds,” and “I will pay *zakah* on mutual funds every year”

Attitude towards zakah on mutual funds

Attitude towards *zakah* on mutual funds in the present study is the degree to which the person has a favorable or unfavorable evaluation of paying *zakah* on mutual funds. To measure attitude towards *zakah* on mutual funds an instrument is adopted from (Bidin, Idris, & Shamsudin, 2009), the respondent will ask about his/her level of agreement or disagreement on four items based on a five-point likert scale in which 1=strongly disagree and 5=strongly agree. Some examples of statements related to their group are “I am pleased to pay *zakah* on mutual funds because by doing so I fulfilled my responsibility,” and “I am confident that *zakah* on mutual funds needs to be made when one met the necessary conditions”.

Subjective norms

Subjective norms in this study refers to the influence of social pressure that is perceived by the individual to pay *zakah* on mutual funds or not to pay *zakah* on mutual funds, this

pressure come from significant referent such as friends, parents, family members. the instrument of (Bidin, Idris, & Shamsudin, 2009), is used here in this study. The respondent will show their level of agreement or disagreement on four items on a five-point likert scale in which 1=strongly disagree and 5=strongly agree. Some examples of the items are: “my parents advice me to pay *zakah* on mutual funds,” and “my parents support me to pay *zakah* on mutual funds”.

3.5 Data Analysis

The reliability is iostnment. Reliability can be defined as the degree to which measurements are free from error and, therefore, yield consistent results. In this study, the responses and information collected from the response will be used to analyze the data with appropriate statistical method. The Statistical Package for the Social Sciences (SPSS, version 14.0) package will be used for the statistical analysis.

All the items and variable will be coded before entered to the computer. Additionally, the Cronbach's Alpha (reliability coefficient) is also computed under pilot study, to investigate whether if there is any problem which can face in term of instrument . Statistical approaches such as frequencies, correlation and regression is derived from data analysis.

The Cronbach's alpha is used to examine the internal consistency of the scales. The instrument is considered good when the alpha coefficient is 0.80, acceptable when it is 0.70, and unsatisfactory internal consistency reliability when it is less than 0.60. (Malhotra, 1983).

The following multiple regression model was developed for this study:

$$BI = \alpha + \beta_1 C1 + \beta_2 C2 + e$$

Where,

BI = Compliance behavioral intention of *zakah* on mutual funds

α = Constant

β_1, β_2 = Change in dependent variable with unit change in independent variable

C1 = Attitude

C2 = Subjective norm

e = Error

CHAPTER FOUR

RESEARCH FINDINGS

4.1 Introduction

This chapter shows the results of the descriptive analysis, reliability testing, exploratory factor analysis and multiple regression analysis.

4.2 Description of Respondents and Variables

Out of 200 questionnaires were distributed to respondents, only 173 questionnaire were returned, and this means that the response rate of 86.5 percent, all the 173 questionnaire were usable for data analysis. Table 4.1 shows the general information of the respondents.

Table 4.1, the respondents were made up of 82.7 % male and 17.3 % female. Almost half of the respondents were between 30-40 years old (54.3%). Most of them had diploma qualification (31.2%). More than three-quarters of the respondents had not paid *zakah* on mutual funds previously (97.1 %), while the remaining had done so (2.9 %).

Table 4.1

Respondent's Profile (N=173)

Items	Frequency	Percentage (%)
Gender:		
Male	143	82.7
Female	30	17.3
Age :		
20 – 30	72	41.6
31 -40	94	54.3
41- 50	6	3.5
51 and above	1	.6
Academic background:		
Doctorate	22	12.7
Master	42	24.3
Bachelor	33	19.1
Diploma	54	31.2
Certificate	20	11.6
Others	2	1.2
I have paid <i>zakah</i> of Mutual fund:		
Yes	5	2.9
No	168	97.1

Table 4.2 shows: The mean value for intention item is 3.66 for respondents who will pay *zakah* of mutual funds and it is the highest score. The mean to pay *zakah* increases to 3.09 when the respondents expect their income to increase, which means that the respondents are thinking of paying more *zakah* of mutual fund if their income increases. The mean values of other variables are good. The standard deviation is acceptable, which is no more than 3.0.

Table 4.2

Descriptive Statistic of variables

Variable	Mean	Standard Deviation
Attitude		
I am pleased to pay <i>zakah</i> of mutual fund because by doing so I fulfilled my responsibility.	3.41	.920
I am confident that <i>zakah</i> of mutual fund needs to be made when one met the necessary conditions.	3.21	.845
I know how to pay my <i>zakah</i> of mutual fund.	2.27	.787
I know where to pay my <i>zakah</i> of mutual fund.	2.54	.838
Subjective Norms		
My family believes that I should pay <i>zakah</i> of mutual fund.	2.95	.768
My friends and co-workers agree that I should pay <i>zakah</i> of mutual fund.	2.83	.833
People whose opinions I valued preferred that I should pay <i>zakah</i> of mutual fund.	3.33	.631

People who influenced my behavior wanted me to pay <i>zakah</i> of mutual fund.	2.92	.988
Intention		
I will pay <i>zakah</i> of mutual fund.	3.66	.717
I will pay <i>zakah</i> on mutual fund every year.	3.01	.985
I will pay <i>zakah</i> of mutual fund at Department of Zakat and Income Tax.	3.43	.850
I will pay <i>zakah</i> on mutual fund if my money increases.	3.09	.968

4.3 Reliability Analysis

Many studies have used Cronbach's Alpha to measure the reliability analysis, which is a process using a split half approach (Malhotra, 1983). The result of this coefficient ranges from zero (0) to one (1). A value less than 0.60 are considered unsatisfactory internal consistency reliability, whereas a value exceeding 0.70 is acceptable reliability, and those over 0.80 are considered good. The lowest reliability in this study is 0.64 for subjective norms. Thus, the items used in measuring the variable can be considered to be acceptable.

Table 4.3

Reliability Analysis of Variables

Variable	No. of items	Cronbach's alpha
Attitude	4	.859
Subjective Norms	4	.635
Intention	4	.656

4.4 Factor Analysis

The purpose of factor analysis is to examine how underlying constructs influence the responses on a number of measured variables (DeCoster, 2011). Based on Table 4.4, each variable in this study has four items and has only one factor for each variable. Kaiser-Meyer-Olkin (KMO) measures the sampling adequacy which is acceptable for this study because it is greater than 0.50 (Hair et al., 1998).

Table 4.4

Factor Analysis Result

Variable	No. of Items	No. of Factor	KMO	Variance Explained (%)
Attitude	4	1	.738	70.812
Subjective Norms	4	1	.503	50.052
Intention	4	1	.572	58.644

Note: KMO = Kaiser-Meyer-Olkin

4.5 Multiple Regressions Analysis

In Table 4.4 the variables attitude and subjective norm toward *zakah* compliance intention of mutual funds indicate that adjusted R^2 was 0.515 and the F value was 92.152. This result means that 51 percent of the variance in *zakah* compliance intention of mutual funds was significantly explained by the two independent variables of attitude and subjective norm. The model was applicable to explain *zakah* compliance intention of mutual funds.

The t value of 10.042 for attitude at $p < .01$ indicates that attitude was significantly influence intention to comply with *zakah* of mutual funds. Therefore, H_1 was supported.

Subjective norm was significantly influence on intention toward *zakah* compliance of mutual funds. The value of t is 4.959 and $p < 0.01$. Here, H_2 was supported in this study.

Table 4.5

Multiple Regression Analysis

	B	S.E	Beta	t	Sig.
Constant	1.033	.191		5.416	.000
Attitude	.466	.046	.571	10.042	.000
Subjective Norms	.311	.063	.282	4.959	.000
<i>F</i> Value of Model	92.152				
R^2	0.520				
Adjusted R^2	0.515				

4.5 Summary

Out of 200 questionnaires were distributed to respondents .The response rate is 86.5 percent, only 173 questionnaires were usable for data analysis. The respondents were made up of 82.7 % male and 17.3 female. The majority of the respondents were between 30 and 40 years old (54.3 %). Most of the respondents had not paid *zakah* of mutual funds previously (97.1 %), while the remaining had done so (2.9 %). The internal consistency reliability of the measures used in this study can be considered to be acceptable, and good for attitude. 51.5% of the variation in the compliance intention

towards *zakah* mutual fund is significantly explained and predicted by the independent variables (attitude and subjective norms,). The variables are significantly influence intention to comply with *zakah* of mutual funds.

CHAPTER FIVE

DISCUSSION AND CONCLUSION

5.1 Introduction

This chapter discusses the findings of the study in relation to research objective. It also discusses on the hypotheses result. Finally, with conclusion with some recommendation for practice and future research.

5.2 Discussion

The objective of this study is to determine whether attitude and subjective norms toward *zakah* on mutual funds are related to *zakah* compliance intention on mutual funds. Theory of reasoned action (TRA) was used in this study as the underlying theory. The result of study shows that 51 percent of the variance in *zakah* compliance intention of mutual funds was significantly explained by the two independent variables of attitude and subjective norm. The study been successfully applied TRA in predicting compliance behavior in *zakah* on mutual funds. The results of the study are consistent with other studies that have used the same theory in *zakah* and tax areas (Ajzen, 1991; Bidin, Idris, & Shamsudin 2009; Hung, Chang, & Yu 2006; Saad, 2009).

This study has been conducted under the Saudi culture and environment, and the sample of the study does not cover all the cities in Saudi Arabia, it covers only three cities, which may somehow affect the result of the study, even though the sample is selected based on

two main reasons. Firstly, the investments are centralized in those three cities. Second, major big companies and institutions are existing in those three cities.

In addition, the laws of *zakah* in Saudi Arabia are imposed on companies only, there is no law imposed on the people's investments. The Department of *Zakah* and Income assume that the people are responsible of *zakah* obligations as third pillar of Islam, which could be a weakness of regulation that lead the people to *zakah* avoidance or evasion.

The significant influence of attitude and subjective norms on *zakah* on mutual funds is consistent with other studies that examined *zakah* compliance or tax compliance in general (e.g. Hung, Chang, & Yu, 2006; Bidin, Idris, and Shamsudin 2009). This study has found that attitude and intention were found to be significantly associated with intention to pay *zakah* on mutual funds. Such finding is consistent with majority of studies (eg Hung, Chang, & Yu, 2006; Bidin, Idris, and Shamsudin 2009).

Future studies should take more factors, to make sure whether these factors have a significant impact on the *zakah* payment, the Department of *Zakah* and Income could explain the benefits *zakah* fund could do for the betterment of the society and nation. In addition, the Department could also develop means and ways that could facilitate payment of *zakah*.

5.3 Limitations

This study has a limitation where only zakat in mutual funds in Saudi Arabia were taken into consideration. The respondents were the owners of mutual funds in Saudi Arabia. Where generalizability of the result can not be concluded. This study has a provide information about the *zakah* compliance in mutual funds in Saudi Arabia. Future studies

are thus recommended to cover a wider population and examine whether there are differences in *zakah* compliance in Saudi Arabia and Gulf Countries.

5.4 Conclusion

This study was conducted to predict *zakah* compliance among owners' of mutual funds in Saudi Arabia by using the theory of reasoned action as the underlying theory. 200 questioners were distributed and only 173 questioners were returned, which were all used to conduct this study. The result showed that attitude and subjective norm has a significant impact. However, the theory of TRA states that sometimes only some components of the theory can be significant, depending on the situation. Based on the findings, the study recommends that the Department of *Zakah* and Income Tax target close referent groups of the *zakah* payers in shaping the latter's intention to pay *zakah* on mutual funds.

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APPENDIX

Appendix A



University Utara Malaysia

College of Business

Questionnaire

ZAKAH COMPLIANCE AMONG OWNER'S OF MUTUAL FUNDS IN SAUDI ARABIA

Dear valued respondent,

This questionnaire is intended to who own mutual funds about their perception towards zakah giving on these mutual funds. The purpose of this study is to know the determinants of compliance intention.

Being supervised by Assoc. Prof. Dr. Zainol Bin Bidin, this study is done as a partial fulfillment for my Master degree in Accounting. Your response will be treated confidentially and for the academic purpose only.

Completing the survey should not take more than 10 minutes at most.

Thank you for your corporation.

Yours sincerely,

Alhamdan ,Anas Abdullah (806035)

M.Sc. (International Accounting)

University Utara Malaysia

Appendix B



University Utara Malaysia

College of Business

Questionnaire

زكاة ملاك الصناديق الاستثمارية في المملكة العربية السعودية

عزيزي المكرم،

يهدف هذا الاستبيان إلى ملاك الصناديق الاستثمارية ومدى امتثالهم في إعطاء الزكاة على هذه الأموال المتبادلة. الغرض من هذه الدراسة هو معرفة العوامل المحددة للنية و الامتثال. يشرف على هذه الدراسة الأستاذ مشارك الدكتور زينول بيدين ، للحصول على درجة الماجستير في المحاسبة الدولية. سيتم التعامل بسرية تامة و ردك لغرض أكاديمي فقط.

وهذا المسح لا يستغرق أكثر من ١٠ دقائق .

تفضلوا بقبول فائق الاحترام،

أنس عبدالله الحمدان (٨٠٦٠٣٥)

ماجستير في (المحاسبة الدولية)

الجامعة الشمالية في ماليزيا

SECTION: A

معلومات عامة:

يرجى وضع علامة (✓) على الإجابة المناسبة

١. الجنس

نكر ☐

انثى ☐

٢. العمر

٣٠-٢٠ ☐

٤٠-٣١ ☐

٥٠-٤١ ☐

٥١ و أكثر ☐

٣. الخلفية الأكاديمية

دكتوراه ☐

ماجستير ☐

بكالوريوس ☐

دبلوم ☐

كفاءة ☐

غير ذلك ☐

٤. دفعت الزكاة على صناديق الاستثمار

نعم ☐

لا ☐

SECTION: B

الموقف:

البنود التالية تمثل رأيك عن دفع الزكاة من صناديق الاستثمار المشترك. استنادا إلى الجدول ، يرجى وضع دائرة حول الرقم المناسبة لكل بيان أدناه.

	لا اوافق بشدة	لا اوافق	محايد	اوافق	اوافق بشدة
١ يسرني أن ادفع زكاة صناديق الاستثمار لا نهأ مسؤوليتي	١	٢	٣	٤	٥
٢ إنني على ثقة بأن زكاة صناديق الاستثمار يجب تدفع عندما تتوافر الشروط	١	٢	٣	٤	٥
٣ أنا أعرف كيف تدفع زكاة صناديق الاستثمار	١	٢	٣	٤	٥
٤ أنا أعلم أين تدفع زكاة صناديق الاستثمار	١	٢	٣	٤	٥

SECTION: C

المعايير الشخصية:

البنود التالية تمثل رأيك حول المعايير الشخصية في دفع الزكاة من صناديق الاستثمار. يرجى وضع دائرة حول الرقم المناسبة لكل بيان أدناه.

	لا اوافق بشدة	لا اوافق	محايد	اوافق	اوافق بشدة
١	١	٢	٣	٤	٥
٢	١	٢	٣	٤	٥
٣	١	٢	٣	٤	٥
٤	١	٢	٣	٤	٥

SECTION: D

النية:

البنود التالية تمثل رأيك حول نية دفع الزكاة من صناديق الاستثمار. استناداً إلى الجدول ، يرجى وضع دائرة حول الرقم المناسبة لكل بيان أدناه.

لا اوافق بشدة	لا اوافق	محايد	اوافق	اوافق بشدة	
١	٢	٣	٤	٥	سوف ادفع زكاة صناديق الاستثمار
١	٢	٣	٤	٥	سوف ادفع زكاة صناديق الاستثمار كل سنة
١	٢	٣	٤	٥	سوف ادفع زكاة صناديق الاستثمار في مصلحة الزكاة والدخل
١	٢	٣	٤	٥	سوف ادفع زكاة صناديق الاستثمار اذا زاد مالي

انتهت الأسئلة

شكراً لكم

SECTION: A

General Information:

Please tick (✓) the appropriate responses

1. Sex

☐ Male

☐ Female

2. Age

☐ 20-30

☐ 31-40

☐ 41-50

☐ 51 and above

3. Academic Background

☐ Doctorate

☐ Master

☐ Bachelor

☐ Diploma

☐ Certificate

☐ Others

4. I have paid *zakah* of Mutual found

☐ Yes

☐ No

SECTION: B

Attitude:

The items below represent your opinion about paying zakah of mutual funds. Based on the scale given, please circle the number that you think appropriate for each statement below.

		Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1	I am pleased to pay zakah of mutual fund because by doing so I fulfilled my responsibility	1	2	3	4	5
2	I am confident that zakah of mutual fund needs to be made when one met the necessary conditions	1	2	3	4	5
3	I know how to pay my zakah of mutual fund	1	2	3	4	5
4	I know where to pay my zakah of mutual fund	1	2	3	4	5

SECTION: C

Subjective Norms:

The items below represent your opinion about subjective norms in paying zakah of mutual fund.

Kindly, respond to each of the following statements to indicate your.

		Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1	My family believes that I should pay zakah of mutual fund	1	2	3	4	5
2	May friends and co-workers agree that I should pay zakah of mutual fund	1	2	3	4	5
3	People whose opinions I valued preferred that I should pay zakah of mutual fund	1	2	3	4	5
4	People who influenced my behavior wanted me to pay zakah of mutual fund	1	2	3	4	5

SECTION: D

Intention:

The items below represent your opinion about intention in paying zakah of mutual funds. Based on the scale given, please circle the number that you think appropriate for each statement below.

		Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1	I will pay zakah of mutual fund.	1	2	3	4	5
2	I will pay zakah on mutual fund every year.	1	2	3	4	5
3	I will pay zakah of mutual fund at Department of Zakat and Income Tax.	1	2	3	4	5
4	I will pay zakah on mutual fund if my money increases.	1	2	3	4	5

**- END OF QUESTIONNAIRE –
THANK YOU**