ZAKAT INSTITUTION'S GOVERNANCE IN MALAYSIA: ZAKAT PAYERS' PERSPECTIVE

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ZAKAT PAYERS' PERSPECTIVE

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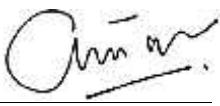
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ABSTRACT

Zakat payers' confidence in zakat institutions is not at a satisfactory level although zakat collection increases every year. The issue of low public confidence is due to the weakness in the zakat institution's governance. This study tried to explore the phenomena in the zakat institution's governance and wished to accomplish two main objectives. The first objective was to identify the constitution of the zakat institution's governance, while, the second objective was to examine the magnitude of the variables in the zakat institution's governance. In this study, factors that constitute the zakat institution's governance are discussed from the perspective of the stakeholder theory and the agency theory. The survey method was used for data collection. 431 questionnaires were fit to be analyzed using the exploratory factor analysis and the confirmatory factor analysis after passing the screening and purification process. This study found nine variables that constitute the zakat institution's governance to address the first objective, while the second objective was addressed when these variables that were really strong in terms of reliability and validity were arranged according to their magnitude of strength. These variables were information technology (0.783), law (0.780), accountability (0.713), service quality (0.658), religiosity (0.649), participation (0.642), enforcement (0.607), audit committee independence (0.581) and audit committee diligence (0.514). The implications of this study contribute to the literature by enriching discussions on the zakat institution's governance. Thus, understanding of the zakat institution's governance can be improved since the findings are based on empirical evidence. Implications to the theory are in terms of the usage of the stakeholder theory and the agency theory in the zakat environment where previously these theories were only applicable in the corporate environment. This reinforces the application of these theories in environments of nonprofit organizations. These findings also contribute to zakat institutions by presenting the important factors that can assist in developing strategies to put zakat institution's governance at the highest level.

Keywords: zakat institution's governance, zakat institutions, zakat, governance

ABSTRAK

Keyakinan pembayar zakat terhadap institusi zakat berada pada tahap yang tidak memuaskan walaupun kutipan zakat meningkat setiap tahun. Isu keyakinan masyarakat yang rendah ini adalah disebabkan oleh kelemahan tadbir urus institusi zakat. Kajian ini cuba meninjau fenomena dalam tadbir urus institusi zakat dan berhasrat untuk mencapai dua objektif utama. Objektif pertama adalah untuk mengenal pasti pembentukan tadbir urus institusi zakat. Manakala, objektif kedua pula untuk memeriksa magnitud pemboleh ubah dalam tadbir urus institusi zakat. Dalam kajian ini, faktor-faktor yang membentuk tadbir urus institusi zakat dibincangkan berdasarkan perspektif teori pihak berkepentingan dan teori agensi. Kaedah tinjauan digunakan untuk kutipan data. Sebanyak 431 soal selidik sesuai untuk dianalisa menggunakan analisis faktor penerokaan dan analisis faktor pengesahan selepas melepasi proses penyaringan dan pemurnian. Hasil kajian ini mendapati terdapat sembilan pemboleh ubah yang membentuk tadbir urus institusi zakat bagi menjawab objektif pertama. Manakala objektif kedua kajian terjawab apabila pemboleh ubah ini yang benar-benar mantap dari segi kebolehpercayaan dan kesahan disusun berdasarkan magnitud kekuatannya. Pemboleh ubah-pemboleh ubah tersebut adalah teknologi maklumat (0.783), undang-undang (0.780), akauntabiliti (0.713), kualiti perkhidmatan (0.658), nilai agama (0.649), penglibatan (0.642), penguatkuasaan (0.607), kebebasan jawatankuasa audit (0.581) dan kerajinan jawatankuasa audit (0.514). Implikasi daripada kajian ini menyumbang kepada literatur dengan memperkayakan perbincangan tentang tadbir urus institusi zakat. Oleh itu, pemahaman terhadap tadbir urus institusi zakat dapat dipertingkatkan hasil daripada penemuan kajian yang berdasarkan bukti-bukti empirikal. Implikasi kepada teori pula adalah dari segi penggunaan teori pihak berkepentingan dan teori agensi dalam persekitaran zakat apabila sebelumnya teori-teori ini hanya diaplikasi dalam persekitaran korporat. Ini mengukuhkan lagi penggunaan teori-teori tersebut dalam persekitaran organisasi yang tidak bermatlamatkan keuntungan. Penemuan kajian ini juga menyumbang kepada institusi zakat dengan mengemukakan faktor-faktor penting yang dapat membantu bagi membentuk strategi untuk meletakkan tadbir urus institusi zakat pada tahap agung.

Kata kunci: tadbir urus institusi zakat, institusi zakat, zakat, tadbir urus

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LIST OF ABBREVIATIONS

ACCT   Accountability
ACDIL   Audit Committee Diligence
ACEXP   Audit Committee Expertise
ACIND   Audit Committee Independence
AGFI   Adjusted Goodness of Fit Index
AMOS   Analysis of Moment Structures
BEXP   Board Expertise
BIND   Board Independence
BSIZE   Board Size
BTOS   Bartlett's Test of Sphericity
CEO   Chief Executive Officer
CFA   Confirmatory Factor Analysis
CFI   Comparative Fit Index
CHI-SQUARE/DF   Normed Chi-Square
CPA   Certified Public Accountant
DF   Degree of Freedom
EFA   Exploratory Factor Analysis
ENFOR   Enforcement
GFI   Goodness of Fit Index
GSAC   Governance Self-Assessment Checklist
ICT   Information and Communication Technology
IRBM   Inland Revenue Board of Malaysia
IT   Information Technology
JAIN   Jabatan Hal Ehwal Agama Islam Negeri
JAKIM   Jabatan Kemajuan Islam Malaysia
JAWHAR   Jabatan Wakaf, Zakat dan Haji
JZNK   Jabatan Zakat Negeri Kedah
KMO   Kaiser-Meyer-Olkin
LAW   Law
LEAD   Leadership
LZS   Lembaga Zakat Selangor
MAIDAM   Majlis Agama Islam Dan Adat Melayu Terengganu
MAIJ   Majlis Agama Islam Johor
MAIK   Majlis Agama Islam Kelantan
MAIPk   Majlis Agama Islam Perak
MAIWP   Majlis Agama Islam Wilayah Persekutuan
MCCG   Malaysian Code on Corporate Governance
NASD   National Association of Securities Dealers
NFI   Normed Fit Index
NYSE   New York Stock Exchange
OECD   Organisation for Economic Co-operation and Development
PART   Participation

PBUH	Peace Be Upon Him
PKZ Pahang	Pusat Kutipan Zakat Pahang
PPZ- MAIWP	Pusat Pungutan Zakat, Majlis Agama Islam Wilayah Persekutuan
PUZ-MAINP	Pusat Urus Zakat Pulau Pinang
PZNS	Pusat Zakat Negeri Sembilan
RELIG	Religiosity
RMSEA	Root Mean Square Error of Approximation
SEM	Structural Equation Modeling
SERVPERF	Service Performance
SERVQ	Service Quality
SIG	Special Interest Groups
SIRC	State Islamic Religious Council
SPSS	Statistical Packages for Social Science
TBS	Tabung Baitulmal Sarawak
TLI	Tucker Lewis Index
TRANS	Transparency
UK	United Kingdom
UNDP	United Nations Development Programme
UNESCAP	United Nations Economic and Social Commission for Asia and the Pacific
US	United States of America
VIF	Variance Inflation Factor
5S	Seiri, Seiton, Seiso, Seiketsu and Shitsuke

CHAPTER 1

INTRODUCTION

1.1   Introduction

This chapter contains eleven sections. Section 1.2 discusses about the background of the study and section 1.3 discusses about problem statement. Then, research question and research objective are highlighted in section 1.4 and 1.5 respectively. Section 1.6 follows with discussion on significance of the study. In section 1.7, the scope of the study is highlighted. Then, followed by assumptions of the study in section 1.8. Next, the limitations of the study and organization of the thesis are shown in section 1.9 and 1.10 respectively. Lastly, section 1.11 wrap up with the conclusion for the chapter.

1.2   Background of the Study

Zakat is defined as purification of self, wealth and society (Hairunnizam, Mohd Ali, & Sanep, 2005; Qardawi, 2007). Zakat means transfer of certain property to certain individuals under certain circumstances. Muslims have a duty to provide a certain amount of their property (with the circumstances and particular needs) to certain beneficiaries, and in fact, payment of zakat is one of the five pillars of Islam. The main purpose of zakat is to make people more valuable than wealth (Qardawi, 2007). In Islam, there are 8 groups of people eligible to receive zakat namely the needy, the poor, the administrator of zakat *(amil)*, those whose hearts are to be inclined (including new Muslim converts who lack economic support), the slaves, debtors (debts due to real needs), in the cause of Allah *(Fi sabilillah)*, and the wayfarers *(Ibnu sabil)*. This is aligning with Surah At-Taubah verse 60:

1

إِنَّمَا الصَّدَقَـٰتُ لِلْفُقَرَاءِ وَالْمَسَـٰكِينِ وَالْعَـٰمِلِينَ عَلَيْهَا وَالْمُؤَلَّفَةِ قُلُوبُهُمْ وَفِي الرِّقَابِ وَالْغَـٰرِمِينَ وَفِي سَبِيلِ اللَّهِ وَابْنِ السَّبِيلِ ۖ فَرِيضَةً مِّنَ اللَّهِ ۗ وَاللَّهُ عَلِيمٌ حَكِيمٌ ۝

The offerings given for the sake of God are [meant] only for the poor and the needy, and those who are in charge thereof, and those whose hearts are to be won over, and for the freeing of human beings from bondage, and [for] those who are overburdened with debts, and [for every struggle] in God's cause, and [for] the wayfarer: [this is] an ordinance from God - and God is all-knowing, wise (Ibnu Kathier, 2007a).

Zakat plays a very significant role in Muslim society where it has the objective to uphold economic and social justice (Norazlina & Abdul Rahim, 2011a; Patmawati, 2008; Qardawi, 2007). The achievement of this objective would contribute to poverty eradication and solving social problems. Given the importance of zakat to the economy and society, zakat institutions have been established and these institutions are accountable for ensuring the achievement of the objectives of zakat collection and distribution (Ram Al Jaffri, Norazita Marina, & Norfaiezah, 2014). In Malaysia, zakat is administered by State Islamic Religious Council (SIRC) (Kamil, 2002; Md. Zyadi & Mariani, 1999; Ram Al Jaffri, 2010b). SIRCs are responsible in managing zakat activities as preserved in Federal Constitution (Norazlina & Abdul Rahim, 2011a). Zakat institutions are free to set their own zakat administration and this resulted in different practices adopted in some states. As institutions that hold the public trust for their survival, zakat institutions are exposed to the general assessment of the community (Sani Adamu & Ram Al Jaffri, 2016a).

2

However, recently, a lot of issues and controversies have been surrounding zakat institutions. One of them is the issue of loss of public trust towards the institutions. Issue of low confidence towards zakat institutions stipulates proactive action from various parties and attracts a lot of attention especially from Muslim society. Every year complaints against zakat institutions were reported in media especially pertaining to zakat distribution (Mohd Harzrul, 2010). According to Hidayah and Norziana (2014), public demand more transparency in zakat distribution. Although the collection of zakat increases from year to year, the increment is in tandem with this issue. Several researchers have highlighted this issue (Aidit, 1989; Hairunnizam, Sanep, & Radiah, 2009; Mohd Asri, 2009; Patmawati, 2008; Sanep & Hairunnizam, 2005; Sanep, Hairunnizam, & Adnan, 2006). Sanep et al. (2006) and Raja Adzrin, Ahmad Marzuki and Muhammad Sufiyudin (2015) found that majority of the respondents are not satisfied with management of zakat institutions even though they pay zakat formally. Besides, unconfident attitude towards zakat institution is one of the reasons for individuals to pay zakat via informal channel and lead to assumption that zakat fund has been abused (Aidit, 1989; Hairunnizam et al., 2009; Mohd Asri, 2009; Sanep & Hairunnizam, 2005).

Patmawati (2008) also speak in the same tone when suggesting that trust and confidence of zakat payers need to be improved. There are several factors that influence trust in zakat institutions namely reputation, satisfaction of zakat distribution and service quality (Hafizah, Azizi, & Ram Al Jaffri, 2016). This shows that the issue of low confidence towards zakat institutions is serious and still remains unsolved despite several efforts taken by zakat institutions such as privatization and online zakat.

3

Main factors that are believed to relate to the public confidence are zakat governance and reputation of zakat institutions. First, the governance of zakat institutions is said to be inefficient (A Bakar, 2005; Kamil, 2002; Ram Al Jaffri, 2010b). This was due to complaints from the public especially the potential zakat recipients regarding zakat distribution (Hairunnizam et al., 2009; Mohd Fadly, 2010; Ram Al Jaffri, Norfaiezah, & Rahayu, 2016). Inefficient zakat distribution is also one of the reasons that affect public confidence to fulfill their obligation to zakat institutions (Eza Ellany, Mohd Rizal, & Mohamat Sabri, 2014).

Second, the image and reputation of zakat institutions have been tarnished due to bribery and irregularities committed by zakat officer ("ACA detains senior Lembaga Zakat Selangor officer," 2008; Radiah, 2011). Although zakat institutions are managed by people who have a religious background, irregularities still occurred (Ismail & Masturah, 2014). Findings from Ram Al Jaffri (2010) also provide supportive evidence that low confidence is due to bad reputation and image of zakat institutions.

The issue of low confidence gives several negative impacts to the country, generally and to Muslim community, specifically. Firstly, zakat evasion where faith and moral crisis befall on Muslims has made them incline not to obey the commandment from God. This gives impression that more people will run away from paying zakat due to their ignorance (Mohd. Hasriq, 2011; Shaarani, 2010; Zulkifli, 2010). Zakat evasion has a number of negative socio-economic impacts. It will jeopardize the efforts to eradicate poverty as zakat collection will not be at optimum level and it reduces zakat revenues (Diabi, 1993).

4

Besides, zakat evasion is an indication of moral dishonesty in the society and can be deterred by the imposition of penalty (Diabi, 1993). Hence, the administration and legal machinery of zakat institutions need to be strengthened. If zakat evasion is successfully prevented, the welfare of zakat recipients will be greatly enhanced.

Secondly, loss of public trust will lead to leakage and noncompliance problems (Siti Saufirah, Hairunnizam, & Sanep, 2016). According to Sanep et al. (2006), out of 10.5% respondents in their studies interested to pay zakat directly to zakat recipients not through zakat institutions. This percentage might increase if public confidence towards the governance of zakat institutions continuously decline. Sanep and Hairunnizam (2004) noted that although there is no accurate statistic about zakat leakages but many individuals are believed to pay zakat directly to zakat recipients. Hairunnizam et al. (2009) supported the statement where they found 57.1% of zakat payers dissatisfied with zakat distribution. This figure suggests that the possibility of zakat payers to pay zakat directly to zakat recipients is high. As a Muslim, it is compulsory to perform zakat obligation because it is one of the pillars of Islam. Therefore, if the public do not trust zakat institutions, they will find another alternative to perform this obligation. The only alternative available to them is to pay zakat directly to zakat recipients. However, this is not proper as bias might occur in identifying the zakat recipients. Although payment of zakat directly to zakat recipients is valid if the distribution is made to eligible zakat recipients, but the act of breaking rules and regulation set by good leader is a sinful act (JAKIM, 2006). This is in line with verse 59 of Surah An-Nisa that require all Muslim to obey good leader.

5

يَـٰٓأَيُّهَا ٱلَّذِينَ ءَامَنُوٓاْ أَطِيعُواْ ٱللَّهَ وَأَطِيعُواْ ٱلرَّسُولَ وَأُوْلِى ٱلْأَمْرِ مِنكُمْ فَإِن

تَنَـٰزَعْتُمْ فِى شَىْءٍ فَرُدُّوهُ إِلَى ٱللَّهِ وَٱلرَّسُولِ إِن كُنتُمْ تُؤْمِنُونَ بِٱللَّهِ وَٱلْيَوْمِ

ٱلْءَاخِرِ ذَٰلِكَ خَيْرٌ وَأَحْسَنُ تَأْوِيلًا ﴿٥٩﴾

O you who have attained to faith! Pay heed unto God, and pay heed unto the Apostle and unto those from among you who have been entrusted with authority; and if you are at variance over any matter, refer it unto God and the Apostle, if you [truly] believe in God and the Last Day. This is the best [for you], and best in the end (Ibnu Kathier, 2007b).

However in the state of Kedah, the payment of zakat fitrah directly to zakat recipients is not valid as it is against the religious ruling (Mohd Sani[1], personal communication, December 4, 2012).

Lastly, low confidence towards zakat institutions will cause a problem where zakat institutions will no longer be respected. This will spoil the effort made by zakat institutions to portray good and respected image. The public is so concerned about corporate image because a good image can attract the public to use the services or product offered (Hairunnizam, Abdul Halim, & Sanep, 2016). Corporate image has been found to be an important factor that influence the confidence towards zakat institutions, therefore it must be preserved (Hairunnizam & Sanep, 2014). The trailing effect if corporate image is not

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[1] Mohd Sani Harun is the zakat executive for Jabatan Zakat Negeri Kedah.

preserved is the inability of zakat institutions to maximize their zakat collection. For example the total zakat collection for all states in 2010[2] is RM1,363,772,680.87 (PPZ-MAIWP, 2010a)[3]. The total zakat collection is only 1.58% when compared to tax collection for 2010[4] (IRBM, 2010; PPZ-MAIWP, 2010a). In fact, the collection of zakat in Malaysia is way behind compared to the collection of zakat in Islamic countries such as Yemen (Info - Prod Research - Middle East, 2005). Thus, it is believed that zakat collection would be higher if image and reputation of zakat institutions are at supremacy level (Eberl & Schwaiger, 2005; Neville, Bell, & Menguc, 2005). So the issue needs to be addressed carefully and fast as it involves goodwill of zakat institutions. The failure in managing zakat institutions would trigger negative respond from zakat stakeholders and will put the Muslim society in the loss (Diabi, 1993; Mohd Asri, 2010).

Hence, this study attempts to assist zakat institutions on how they could improve their zakat governance in order to gain public confidence. It is undisputable that good governance ensures continued existence of the organization (Cadbury Committee, 1992; Hampel Report, 1998). Healthy organization is the one that able to inspire this concept into its working culture. This would guarantee that they are always relevant to their stakeholders (Hampel Report, 1998; OECD, 2004). Study relating to zakat governance is a worth study as it provides opportunity to minimize the existing gap in the literature. At present, not much knowledge is available about zakat governance (Norazlina & Abdul Rahim, 2011a). Therefore, understanding relating to this phenomenon is limited. Through this study,

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[2] 2010 is the latest year where zakat annual report could be obtained.
[3] Page 81.
[4] Total tax collection in 2010 is RM86.5 billion.

aspects that relates to zakat governance will be discussed in detailed. Thus, the understanding about zakat governance could be enhanced.

1.3   Problem Statement

From the researcher perspective, based on several report and review of literatures, there are several issues surrounding the problem of governance in zakat institutions.

First, zakat institutions face challenging situation when their governance being disputed. For example, many zakat institutions are not transparent in disclosing financial report either in the form of hardcopy or softcopy in the website (A Bakar, 2005; Md Hairi, Kamil, & Ram Al Jaffri, 2012; Mohd Faisol, Suhaina, & Mohd Zulkifli, 2009; Utusan Online, 2001). Observation made by researcher on all zakat institutions found that it is quite difficult to get annual report. Although there are some zakat institutions that reported via website but the data is not complete. For example there are some zakat institutions that disclosed their annual report in the website for 3 years back, however the current 3 years annual reports are not disclosed. It was also noted that some zakat institutions that did not disclose their annual report at all. Thus it create difficulty for public to evaluate zakat institutions.

Second, there is a problem of low accountability in zakat institutions (Aidit, 1989; Hairunnizam, Sanep, & Radiah, 2011), This problem is highlighted through several case involving misappropriation of zakat fund ("ACA detains senior Lembaga Zakat Selangor officer," 2008; Radiah, 2011). For example, recently chief executive officer (CEO) of one zakat institution being arrested by Malaysian Anti-Corruption Commission for alleged

misuse of zakat fund for personal gain (Siti Sofia, 2017). This matter invite negative perception from the community towards zakat institutions.

Third, the researcher also found that the leadership style in zakat institutions is mixed between conventional and non-conventional leadership style. For example zakat institution like Selangor practice leadership style of a corporate. However, other zakat institutions like Johor, Terengganu and Kelantan still practicing conventional leadership style (Aryati Juliana & Kamil, 2012). This matter also have shaped public perception towards governance of zakat institutions.

Forth, many zakat institutions are not equipped with modern IT infrastructure. This cause low information, communication and technology (ICT) usage among zakat institutions (Mohd Sani, personal communication, October 11, 2010). Whereas in the present world, public is exposed to modern technology where information can be disseminated very fast with the current ICT. Leadership problem, slander on zakat institutions, allegations that zakat institutions are not transparent in zakat distribution and many more can be easily disseminated via social media. Zakat institutions are seen as not capable in addressing the issues raised due to low ICT usage and lack of knowledgeable staff in ICT. This causes public to have a negative perception towards zakat institutions where issues raised are not fast and furiously addressed due to poor usage of ICT.

Lastly, there is problem relating to inadequate disclosure of zakat information. Based on researcher observation, many zakat institutions disclose selective information for public

view. For example there is zakat institution that only disclose information about total zakat collection and distribution. This information is not sufficient to be evaluated by public who require more information than that. Public requires the details of each distribution made by indicating which category of zakat recipients got the highest distribution and vice versa. Other example that can be given is that there is zakat institution that did not include a balance sheet in its financial reports (Raedah, Sherliza, & Siti Normala, 2016). Such information is very critical to the public to assess zakat institution's governance. The lack of information in the community due to inadequate disclosure will contribute to a negative perception towards zakat institution's governance.

At present, zakat institutions still not have comprehensive understanding about the constitution of governance in their organizations. This cause inconsistency in applying zakat governance at state level and contribute to poor performance in some states. Understanding on zakat institution's governance is vital as it may help the authorities and public to understand the phenomena and develop appropriate strategies to overcome the problem. The study about zakat institution's governance could provide inputs in making zakat institutions more competitive and organized as the inputs will help zakat institutions in measuring their performance and would indicate which aspect should be given more attention. Therefore this study is the first attempt to develop the governance model for zakat institutions.

1.4   Research Question

This study will address the issue of low public confidence towards governance of zakat

institutions by providing answers to the following questions:

1.   What should constitute governance in zakat institutions?

2.   How strong the magnitude of the variables in zakat institution's governance?

1.5   Research Objective

This study aims to understand the governance of zakat institutions. In specific, this study

intends to achieve the following objectives:

1.   To identify the constitution of zakat institution's governance.

2.   To examine the magnitude of the variables in zakat institution's governance.

1.6   Significance of the Study

The significance of the study can be seen from the contribution that it would offer.

Basically this study provides contribution from the perspectives of theoretical and

practical.

1.6.1   Theoretical Contribution

This study uses stakeholder theory where a lot of discussion about it is widely found in

corporate governance literature. The application of this theory in zakat institutions has

enriched the discussion about its applicability. As far as researchers concern, this is the

only study that has use stakeholder theory in the context of zakat. Although stakeholder

theory is not a dominant theory used in governance studies as compared to agency theory,

the usage of stakeholder theory in zakat institutions signify a significant landmark in studies relating to governance especially in the nonprofit organizations. Thus the usage of this theory in zakat institutions offers a new perspective about its relevancy.

Another theory that is used in this study is agency theory. The application of agency theory can be observed via board of directors and audit committee variables. Although agency theory is widely used in profit organizations (Bonazzi & Islam, 2007; Jensen & Meckling, 1976), its applicability to nonprofit organizations especially Islamic institutions is interesting aspect to explore. The strength of agency theory in profit organization could offer some assistance in addressing agency problem in nonprofit organization. The fact that the agency problem will occur regardless the organization is profit oriented or nonprofit oriented prove the relevance of agency theory in nonprofit organization (Fama & Jensen, 1983).
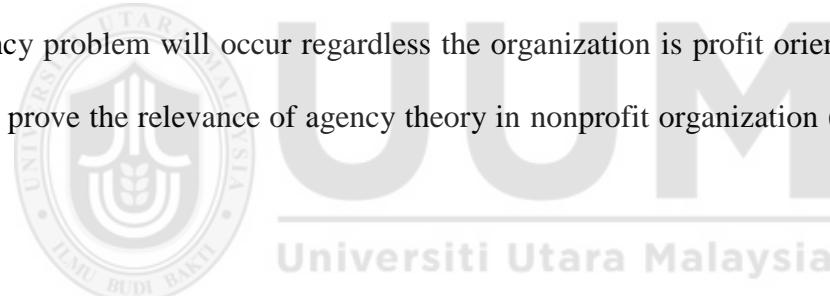
In term of methodology, survey is used to gather information for this study. This offers methodological contribution as many studies in governance used annual report for data collection (Ayoib, Zuaini, & Nor Aziah, 2003; Bliss, Muniandy, & Majid, 2007; Chiang, 2005; Gompers, Ishii, & Metrick, 2003; Lam & Lee, 2008; Nazli Anum, 2010; Noor Afza, 2011; Nurwati Ashikkin & Wan Nordin, 2010). The use of zakat annual report for data collection is insufficient since it is not compulsory for all zakat institutions to publish annual report. Therefore, the access to secondary data of zakat institutions is being limited. So far, out of 14 zakat institutions, only Lembaga Zakat Selangor (LZS) and Pusat

Pungutan Zakat, Majlis Agama Islam Wilayah Persekutuan (PPZ-MAIWP) publish the complete annual report in their website (LZS, 2010b; PPZ-MAIWP, 2010a)[5].

There are several justifications why survey method is chosen. First, survey method is intended to collect primary data (Zikmund, Babin, Carr, & Griffin, 2010). Second, survey gives immediate, cheap, efficient and precise means to evaluate information about a population (Neuman, 2000; Zikmund et al., 2010). In addition, this method also allows researchers to include many social economic variables in the study (Andreoni, Erard, & Feinstein, 1998). A part from that, survey is the most common approach in social science and the most popular data collection technique in survey is questionnaires (Roberts, 1999). This allows the information that is not disclosed in the annual report to be captured through survey.

Besides, this study contributes to the body of knowledge by enriching literature in zakat. From observations that have been made, the number of literature in zakat is very small compared to taxation, a field closely related to zakat. Therefore, effort to enrich literature in zakat should be seen also as valuable contribution to Islam. Furthermore Islam is a religion that gives huge attention to knowledge and urges Muslims to discover it. This is aligning with what stated by Prophet Muhammad Peace Be Upon Him (PBUH), 'seek knowledge from the cradle until death'. Besides frequent discussion relating to the governance of zakat institutions in the literature would enhance Muslims' awareness and understanding towards zakat.

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[5] Website of all zakat institutions is visited on March 5, 2012.

Apart from that, this study makes an attempt to develop a model for zakat institution governance. Such attempt has not been made before in the context of zakat. Study by Abd Halim et al. (2007) on performance measurement of zakat institution in Malaysia, focus on zakat distribution to evaluate its effectiveness. However, their study is not in-depth and this leads to more in-depth study as being proposed by them. Meanwhile study by Norazlina and Abdul Rahim (2011a) used economic theory to evaluate the efficiency and governance of zakat institutions in Malaysia. However their theoretical framework excludes important governance principles such as accountability and transparency. Besides, the concept used in their theoretical model was imitated from the West which neglects the concept of God (UNDP, 1997). Another study by Shawal and Hasan (2007) look at the adoption of corporate governance principles by zakat institutions. Since corporate governance principles are derived from the private sector, the application of these principles in zakat institutions may be different. This is because the environment for company and zakat institution is totally difference where the earlier is tightly regulated whereas the later, is more loosely regulated. Besides that the objective of a company differs from zakat institutions. Companies are profit making organizations with the objective of maximizing shareholder return whereas zakat institutions are nonprofit organization with the objective to provide social justice. So some of the variables used in corporate governance may not fit well in zakat institutions. The variables must be tested in the zakat environment to determine its fitness.

1.6.2 Practical Contribution

This study provides contribution to policy makers and regulators of zakat institutions such as Jabatan Wakaf, Zakat dan Haji (JAWHAR), Jabatan Kemajuan Islam Malaysia (JAKIM) and other relevant authorities. With empirical evidence offered, these institutions would be able to embed new information for the purpose of making improvement to the governance of zakat institutions. Thus, this would encourage the revision of the existing policies, guidelines, standards and procedures to strengthen the governance practices. The revision is required as some of the guideline used might not be relevance anymore due to changes of time and situation.

The findings from this study also can provide meaningful insights as it reveal the variables that are important in the governance of zakat institutions. The revelation of these variables would enable zakat institutions to focus on aspect that is crucial in zakat institution's governance. Zakat institutions also could get benefit via better development of planning after realizing which aspect that needs to be given primary focus. Thus this facilitates zakat institutions in managing its resources in a more efficient manner. Besides, the findings would also assist zakat institutions in improving its services so that satisfaction of zakat stakeholders is maximized. Indirectly, public confidence towards governance of zakat institutions could be refurbished once again.

1.7   Scope of the Study

The scope of this study is the individual zakat payers who pay zakat to zakat institutions. The focus is on zakat payers because they are the most important zakat stakeholder and important agent in the successful implementation of zakat system (Hairunnizam et al., 2009).

Another aspect that relate to scope of the study is the geographical location of the samples. This study will only cover 3 states in Malaysia (Kedah, Pahang and Selangor). Kedah is chosen because it is the first state that has zakat law (Ram Al Jaffri, 2010b) and represents state that applies conventional structure. Pahang is chosen because it represents state that adopt partial privatized structure and the largest state in that category. Whereas Selangor is chosen because it is the first state that adopts fully privatized structure.

1.8   Assumptions of the Study

This study is subject to the following assumptions:

1.   Population is assumed to be represented by enough samples.

2.   Population is assumed to be homogeneous across the state.

3.   All respondents are assumed to understand the function of zakat institutions.

4.   The function of zakat institutions is assumed to be the same across the state.

5.   Respondents are assumed to be independent and without the influence of any party when answering the questions.

6.   All respondents are assumed to understand the questions.

1.9   Limitations of the Study

This study is subject to the following limitations:

1.   The findings of this study only reflect Malaysian environment. Therefore it might not suitable to be generalized to other countries since different countries might use different zakat system.

2.   The findings of this study only reflect zakat environment. Therefore it might not be suitable to be generalized to other environment such as taxation environment.

3.   The population of the study will not be covered 100% due to time and cost consideration. Therefore sampling method is used to identify the sample for the population.

4.   Respondents for this study are limited to zakat payers only. Therefore others zakat stakeholders such as zakat employees, zakat recipients, federal government, state government and Muslim society will not be selected as respondents.

1.10   Organization of the Thesis

In order to ease readers' understanding, the organization of this thesis will take place as follows: Chapter 1 will touch about the issue and problem statement that relates to the issue. Other main sub topic discussed in chapter 1 is the identification of research questions, objective, significance of the study, scope of the study, assumptions of the study, limitations of the study and organization of the thesis. In chapter 2, literature review will be presented. More or less this chapter will highlight previous researches that have been done relating to governance and the discussion about variables used in this study. Chapter 3 will follow up with methodology used in this study. This chapter will discuss about the

development of theoretical framework and hypotheses. Besides, measurement of variables, data collection, data analysis and pilot study will also be discussed. Meanwhile, in chapter 4, research findings is presented. More or less this chapter discusses about data filtering and multivariate assumptions. In addition, discussions on exploratory factor analysis, confirmatory factor analysis with first and second order is also included. Lastly, chapter 5 discuss about implication to theory, measurement and policy. The chapter then concludes with recommendation for future research and conclusion.

1.11   Conclusion

The chapter discusses the main issue surrounding zakat institutions which is the loss of public trust towards zakat institutions. The issue exists because of the problem in the governance of zakat institutions. The study has put forward two objectives to address the governance problem in zakat institutions. The first objective is to identify the constitution of zakat institution's governance so that zakat institutions have a set of governance that is the best for them. Whereas the second objective is to examine the magnitude of the variables in zakat institution's governance so that the variables can be ranked according to its strength. It is important for zakat institutions to know the strength of each variable so that they can prioritize their decision. The discussion are made from the perspective of agency and stakeholder theories with the aims to provide theoretical and practical contribution to zakat institutions. This study cover three states which is Kedah, Selangor and Pahang which represent three different governance structures. Kedah represents state that applies conventional structure whereas Pahang represents state that adopt partial privatized structure and Selangor represents state that adopts fully privatized structure.

CHAPTER 2

LITERATURE REVIEW

2.1   Introduction

This chapter contains ten main sections. Section 2.1 starts with the introduction and section

2.2 briefly discuss the history of zakat during the legacy of Prophet Muhammad (PBUH)

and his companion. Then, the economics of zakat is highlighted in section 2.3. Basically

this section discusses the role of zakat in Islam. Section 2.4 follows with discussion on

governance which is the core focus of the study. In section 2.5, the literature about

corporate governance is reviewed. Then, followed by discussion on good governance and

Islamic perspective in section 2.6. Next, the governance of zakat institutions is highlighted

in section 2.7. Section 2.8 provides theoretical assumptions where stakeholder theory and

agency theory are used as underlying theories for the study. Next, role of zakat stakeholders

in governance is discussed in section 2.9. Lastly, section 2.10 wrap up with the conclusion

for the chapter.

2.2   History of Zakat

Zakat is the third pillar of Islam after shahadah and prayer. It was made compulsory to

Muslims in the month of Syawal, second year of Hijrah (Ahmad Syafi'i, 2005). The

command for compulsory zakat payment was stated in Holy Quran, such as in Surah Al

Baqarah verse 43 (Ibnu Kathier, 2007c) and Surah An-Nuur verse 56 (Ibnu Kathier,

2007d).

Zakat system was introduced during the legacy of Prophet Muhammad (PBUH) and was continued by his companions. Prophet Muhammad (PBUH) appointed several people to collect, report and distribute zakat to zakat recipients. At that time, all zakat are fully distributed (Aidit, 1989; Farooq, 2008). During Caliph Abu Bakar As Sidiq, the enforcement of zakat was stricted until order was given to fight those Muslims who refuse to pay zakat (Hairunnizam, Sanep, & Mohd Ali, 2007; Mohammad Nidzam, 2006; Patmawati, 2008). Meanwhile, Caliph Umar Al-Khattab used zakat as a tool to combat poverty. The success of this action is reflected when zakat payers unable to find zakat recipients in the street to perform their obligations (Farooq, 2008). Besides Caliph Umar also introduce zakat for the horse (new source); stop zakat for muallaf and increase rate (nisab) for sheep from 40 to 200 due to economic crisis (Hamizul, 2010). During the administration of Caliph Uthman, zakat can be paid using currency and zakat payers can distribute zakat directly to zakat recipients (Hamizul, 2010). Meanwhile, a new rule relating to zakat distribution was introduced by Caliph Ali. The rule prevents current year zakat to be carried forward to subsequent year (Farooq, 2008). All the effort undertaken by Prophet Muhammad (PBUH) and his companions is to ensure that those who has right for zakat is given their right.

2.3 The Economics of Zakat

Zakat plays a significant role in developing Muslims society and is used as one of the mechanisms to help the needy Muslims (Patmawati, 2008). Some portion from wealth of rich Muslims is taken and distributed to another Muslims who entitle for it. Here zakat

promote love between two Muslims who share the same religion. Indirectly, jealousy towards rich Muslims could be eliminated (Qardawi, 2007).

The payment of zakat is one of the shariah principles on Islamic economic system (Norazlina & Abdul Rahim, 2011a). This principle strongly emphasize that wealth creation must be balanced with wealth distribution in order to achieve socio-economic justice (Norazlina & Abdul Rahim, 2011a). Patmawati (2008) strengthens it further by saying the main purpose of zakat is to offer social security guarantee for those in needs and developing balanced economic growth through redistribution of wealth in society.

Besides, the income distribution gap that presently exists could be narrowed through zakat. Thus contributing to the increased aggregate income and consumption among zakat recipients (Norazlina & Abdul Rahim, 2011a). This enables zakat recipients especially the poor and needy to have higher purchasing power and uplift their economic status. Otherwise, as stated by Hairunnizam et al. (2005) poverty will lead the poor and needy to social crime such as theft and burglary. In addition, zakat is also able to prevent concentration of wealth among certain groups in society (Patmawati, 2008).

Zakat institutions have the obligation to perform religious responsibilities, which is to strengthen Muslim economic so that poverty could be eliminated (Patmawati, 2008). Zakat institutions are hoped to execute this responsibilities in a fairly manner to avoid injustice and ensure welfare of Muslims are protected (Patmawati, 2008; Qardawi, 2007). This is where the governance of zakat institutions is critical and need to be strengthened.

2.4   Governance

Governance is seen as important concept in organizations. Many organizations either profit or nonprofit organizations start paying attention to this concept as a survival tool (Abdul Hadi, M. Fazilah, & Md Ishak, 2005; Bandsuch, Pate, & Thies, 2008; Barros & Nunes, 2007; Cadbury Committee, 1992). This is obvious in corporate sector due to stiff competition faced by the companies. Elements in the governance is hoped to assist the company improve its performance and address agency problem. The need for governance efficiency is also vital in nonprofit organizations. Nowadays nonprofit organizations face intense pressure from public who want better services and more transparent information. This requires nonprofit organizations to improve its governance so that stakeholders' satisfaction could be achieved.

Governance originates from the Greek verb *kubernáo*. It means to guide or steer and Plato was the first one to use the term (Bhasin, 2005; Wikipedia, 2007). Different parties provide different definitions about governance. For instance, The World Bank (1991) define governance as the use of organization power and resources for growth. Others define governance as decision making process (UNESCAP, 2007); the use of organizational authority to protect stakeholders' interest (UNDP, 1997); and maintaining harmonization among industry players with different objectives (United Nations Economic and Social Council, 2006)[6]. In this study, governance is defined as structure of power to monitor the performance of zakat institutions at various levels with the aims of protecting the interest of zakat stakeholders.

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[6] Definition of governance by Jon Pierre.

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Governance addresses the interest of all parties and not necessarily the interest of selected group of people. Aguilera (2005) supported this statement by saying governance touch about mutual accountability to all stakeholders, not just limited to company shareholder. However it is a challenging task to safeguard the interest of all parties as governance often create conflict of interest and that's why it necessitate the development of relationship between all related parties (Aguilera, 2005).

2.5   Corporate Governance

Financial scandals that occurred in the corporate environment are at accelerating level. Scandals that involve gigantic companies such as Enron in 2001, Adelphia in 2002, Tyco in 2002 and WorldCom in 2002 are very shocking phenomena to be observed (Ko & Fink, 2010). Despite the establishment of audit committee and financial reports being audited by external audit company, it still does not guarantee the company is saved from such scandals. According to Cadbury Committee (1992) the collapse of major companies and critique about the lacking of effective board accountability raised concern about the functioning of the corporate governance system. The existing phenomenon encourage public to have negative perception towards the companies especially on the auditors (Maslina & Nur Barizah, 2008). These scandals raise question whether companies are managed at the best interest of stakeholders and whether adequate protection is given from fraud or misbehaviour of internal people. Governance failures of these companies demand governance concept to be redefined and improved. Stakeholders shall benefit from such improvement as protection to them will be maximized.

Many parties gave definitions of corporate governance but still the definitions are inconclusive. For example The World Bank (1991) define corporate governance as the practices that would strengthen companies position. Whereas John and Senbet (1998) elaborate further by saying corporate governance is where the stakeholders apply necessary control to protect their interest. Other definitions of corporate governance are the circulation of rights and responsibilities among the different player involved in the company (Aguilera & Jackson, 2003); support investors to get appropriate return for their effort (Shleifer & Vishny, 1997); "…*the system by which companies are directed and controlled*" (Cadbury Committee, 1992); and *"…promoting corporate fairness, transparency and accountability"* (Heritage Institute, 2007).

The understanding from the above definition suggests that there is a need to have a body that control the companies and that body is board of directors. Board of directors is the most appropriate one because they have power and a final say for activities proposed to them. This has been highlighted by Cadbury Committee (1992) where they stated that the governance of companies fall under the responsibility of board of directors who need to ensure good governance is established. In doing so, companies must attempt to generate effective corporate culture to ensure the balance between all stakeholders (Aguilera, 2005). It also involves the establishment of relationship between internal and external parties and providing platform for the company to achieve its objectives (OECD, 2004).

John and Senbet (1998) disclose three reasons why corporate governance has received vast practical importance. First, there is an argument about the efficiency of existing governance

mechanism. Second, there is continuing discussion, on which corporate governance system is more efficient, is it corporate governance systems in the United States of America (US) and the United Kingdom (UK) or corporate governance systems in Japan and Germany. Third, current practice of corporate governance is not tally with legal provisions that allow board control over management.

A survey was carried out to look at the growing interest of corporate governance[7]. Three databases, EBSHOhost, ProQuest and ScienceDirect were used to test the reliability of such claim. The search was done in three period of time; 1981-1990, 1991-2000 and 2001-2010. Result of this survey is shown in Table 2.1. In general, this simple survey proves that growing interest of corporate governance is real based on the increasing trend of corporate governance articles. Kaur and Mishra (2010) support the above statement where their findings also reveal the growing interest of corporate governance but from the practitioner point of view.

Table 2.1
A Survey on Corporate Governance Articles

Period	EBSCOhost	ProQuest	ScienceDirect
1981 – 1990	51	59	14
1991 – 2000	499	339	87
2001 – 2010	2531	1842	320

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[7] This survey was conducted on January 27, 2011 by focusing on scholarly articles of corporate governance.

2.5.1 Corporate Governance in Developed Countries

Corporate governance undoubtedly has become a global phenomenon. The collapse of gigantic companies in the UK and the US urge for the revision of current practices of corporate governance. In the UK, the code of best practice of corporate governance was introduced to strengthen the governance of company. Companies following the code will reinforce their public accountability and control over their businesses (Cadbury Committee, 1992). The UK is the leading country when talk about corporate governance. This is because many developments relating to corporate governance came from this country (Cadbury Committee, 1992; Hampel Report, 1998). In the UK, financial sector plays an active role in creating codes of corporate governance (Cadbury, 2000).

Whereas in the US, the study of corporate governance begins with the 1929 stock market crash and followed by great depression (Bandsuch et al., 2008). However the increases of business scandals refurbish the US interest in searching for effective corporate governance (Bandsuch et al., 2008). In the US, corporate governance refer to relationships among three important parties namely managers, board of directors and shareholders (Hamilton, 2000). According to Hamilton (2000) the growth of institutional investors, the decline of the takeover movement and the disclosures following the Nixon resignation are the forces of change in corporate governance in the US. Corporate governance of US in 2000 has smaller boards of directors compared to previous fifty years (Hamilton, 2000).

2.5.2 Corporate Governance in Developing Countries

Developing countries like India and Indonesia also join the competition to honor corporate governance as cure to organization problem. In India, corporate governance is the outcome of self-regulatory move from the industry (Sehgal & Mulraj, 2008). It is totally contrast with other countries where the move for corporate governance is inspired by corporate scandal. According to Sehgal and Mulraj (2008) code on corporate governance for India was introduced in April 1998 and it is voluntary requirement for companies to comply.

The study of corporate governance in India can be grouped into five categories that is corporate governance systems in India, ownership structure and corporate governance, institutional investors and corporate governance, board characteristics and firm performance, and executive compensation (Subramanian & Swaminathan, 2008). A study by Kaur and Mishra (2010) who examine the viewpoint of academicians regarding reasons for corporate governance failure in India found that lack of incentives, poor external monitoring system, internal control and ineffective top leadership as the significant reasons. Whereby lack of incentives is the most important factor that contributes to failure of corporate governance in India and ineffective top leadership is the least important factor. Further Pahuja and Bhatia (2010) examine the disclosure of corporate governance practices by Indian listed companies. They found that size of company is the significant determinant of corporate governance disclosures.

In Indonesia, prior to mid-1980s, corporate governance system is characterized by (1) a heavy reliance on banks for finance; (2) transparency and disclosure are at low level; (3)

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owner will become part of management; (4) minimum protection to creditors and minority shareholders; and (5) the capability to acquire or merge is limited (Rosser, 2003).

The economic crisis in 1997 creates huge pressure to see good corporate governance being practiced in Indonesia. This is because poor governance is said to be the contributing factor to the crisis (Kurniawan & Indriantoro, 2000). One of the important impacts from this crisis is the establishment of a code for good corporate governance in 1999 to encourage corporate governance restructuring in Indonesia. However without legal support, the code cannot offer much assistance. In the future, the government tends to incorporate this code into Indonesian law and that perhaps would see some significant changes to the corporate governance practices (Rosser, 2003). According to Kurniawan and Indriantoro (2000) it is important at the early phase that corporate governance concept is familiarized and digested by organizations in Indonesia.

2.5.3 Corporate Governance in Malaysia

Corporate governance migrates to developing countries due to its huge practical importance. Developing countries like Malaysia acknowledges corporate governance as solution to address agency problem. According to Abdul Hadi, M. Fazilah and Md Ishak (2005) economic crisis in 1997 contribute to the corporate governance efforts for companies in Malaysia. The lesson learned from economic crisis demand organizations to strengthen the governance of their companies. In March 2000, Malaysian Code on Corporate Governance (MCCG) was released to manifest the recognition of corporate governance in Malaysia (Abdul Hadi et al., 2005; Zunaidah & Fauzias, 2010). The issuance

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of MCCG highlights an important landmark in corporate governance transformation (MCCG, 2007). It also boost the corporate awareness on good governance (Nazli Anum, 2010). In 2007, MCCG has been revised to strengthen board of directors and audit committee (MCCG, 2007). Four areas namely board of directors, director's remuneration, shareholders and accountability and audit are the focus of the report (Abdul Hadi et al., 2005).

Contribution to corporate governance can also been seen from study conducted by Zunaidah and Fauzias (2010). They use firms listed on the Bursa Malaysia to examine the effects of governance mechanisms of dividend, types of ownership structure, and board governance on firm value. Findings from their study reveal that firm value was influenced by moderating role played by board governance variables with types of ownership structure. There is also other study which examines the relationship between ownership structure and corporate governance on firm diversification (Ayoib et al., 2003). Findings from their study revealed that diversification activities were reduced by good corporate governance and separate board structure has significant negative relationship with diversification.

The launch of Whistleblower Protection Act in Malaysia on December 15, 2010 sparks further efforts towards good governance (Bursa Malaysia, 2012). Whistleblower is defined as "any person who makes a disclosure of improper conduct to the enforcement agency" (*Whistleblower Protection Act*, 2010). Another definition about whistleblower is the person who informs higher authority about illegal activities occurs in his workplace (Wikipedia,

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2012b). Whistleblower is also being recognized in OECD principles of corporate governance through the following statement: *"Stakeholders, including individual employees and their representative bodies, should be able to freely communicate their concerns about illegal or unethical practices to the board and their rights should not be compromised for doing this"* (OECD, 2004).

The introduction of this Act causes the governance concept to become wider where employees also have the opportunity to report any illegal practices to shareholders or board of directors. This shows a strong commitment from government to strengthen the corporate governance in Malaysia (*Whistleblower Protection Act*, 2010).

2.5.4   Prior Studies on Governance in Nonprofit Organization

Corporate governance also has it place in nonprofit organizations or social institutions (Jegers, 2009; Verdeyen & Buggenhout, 2003). A study by Verdeyen and Buggenhout (2003) about corporate governance in social institutions highlight that one of the significant principles of social institutions is disclosure. This principle allows active communication on the general policy and decision-making.

Besides, in the study on the adoption of the corporate governance model by nonprofit organizations, Alexander and Weiner (1998) found that support from the institutions and available resources would determine the adoption of corporate governance practices. Further, they also suggested that it is not a good solution to adopt the structure of profit organizations to solve problem in the nonprofit organizations.

Gill, Flynn and Reissing (2005) developed and validated the Governance Self-Assessment Checklist (GSAC) to measure board effectiveness in nonprofit organization. Their findings indicated that the GSAC is capable to distinguish between stronger and weaker aspects of board performance. In addition, Carroll, Hughes and Luksetich (2005) examine the relationship between managerial compensation and organizational performance in the nonprofit sector. They used a panel data from 1992 to 1996 and found that managerial compensation bring positive impact on performance. Another study by Barros and Nunes (2007) found that board size, one of the proxies for board composition, is significantly affects governance and Chief Executive Officer (CEO) performance. Their findings suggested that nonprofit organizations also need a code of governance practice.

In the context of zakat institutions, Shawal and Hasan (2007) examined the practice of corporate governance in zakat institutions. They found that in general concept of corporate governance like structure, leadership, transparency and accountability are practiced by zakat institutions. However, participation from stakeholder is not being fully practiced.

Discussion about corporate governance brings to a conclusion that it is a global phenomenon. Evidence shows that the knowledge about corporate governance is growing and the practice of corporate governance is obvious in organization all over the world. Cadbury (2000) further emphasized that the principles of corporate governance are appropriate to all types of organizations especially public organization due to the availability of information. Other organizations including nonprofit making organizations also employ corporate governance guidelines (Cadbury, 2000).

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2.6 Good Governance and Islamic Perspective

Good governance was introduced to strengthen the governance structure of an organization. Public and private sectors are urged to practice good governance so that public interest is well protected (Bernard, 2006). Nowadays, erosion of integrity in society is a serious concern because it leads to injustice in the governance system. This requires improvement in governance institutions so that economies, organizations and societies are offered adequate protection (Bernard, 2006).

The urging for good governance standards is more demanding in this millennium than before due to economic development (Sulaiman, 2006). Abdullah (2006) provide supporting views by stating that the feature of good governance such as accountability and transparency will assist facilitates economic development and elevates quality of life. He further added that good governance form a crucial part of leadership at all levels (Abdullah, 2006). Therefore, efforts for good governance affect all level of people not only directors and management but also all stakeholders (Sulaiman, 2006). This is strengthen by statement that good governance must engaging stakeholder (The Independent Commission on Good Governance in Public Services, 2004). Beside OECD (2004) also recognize the role of stakeholders in corporate governance and embedded it into its principles.

Companies that do not practice good governance will experience several drawbacks. This is because the ignorance of good governance would refute the potential of company and going concern principle (Sulaiman, 2006). Besides, the companies cannot savor major competitive advantage (Mohd Najib, 2006). In addition, it cannot promote public trust and

assist investors in accessing the accuracy of the information (Sulaiman, 2006). Consequently, the efficiency of service delivery will be affected (Wolfowitz, 2006).

In Islamic perspective, good governance is viewed as the process of obtaining excellent result through fair system (Mohd Zaidi & Mohd Sani, 2011). Besides it aims for justice in society, protect dignity of individuals, and promote accountability (Hashem, 2007). Good governance is closely related with the quality of a leader in an organization. Abbas (2009) stressed that quality leaders have attributes such as high caliber, just, intelligent and sincere heart. He further added that the individual character is the key to good governance. Caliph Ali when advising his governor spells out the following qualities of an administrator (Abbas, 2009). An administrator must be qualified, pious, honest, truthful, experience, free from greed, neutral, fight against corruption and injustice, avoid misuse of power and fear to Allah (Abbas, 2009). Example of comprehensive framework for Islamic administration can be illustrated from the advice Caliph Umar gave to his governor:

"Not to make reception halls so that you are accessible to everyone, not to eat refined flour as it is not available to all citizens of the Ummah, not to wear thin cloth because this would make you easy going and not to ride a Turkish horse because this would make you haughty" (Abbas, 2009).

Islamic administration system supports the practice of having consensus in decision making. Thus it does not support dictatorial leadership, authoritarian attitude and one man decision making (Abbas, 2009). The beauty of Islamic system is because it upholds social,

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economic and administrative justice (Abbas, 2009). Social justice relates to fulfilling public need and requirement. While economic justice ensures that the distribution of wealth is for all people. Administrative justice on the other hand stress on accountability and fair treatment to people.

Islamic administration system also recognizes public participation. Ibne Khaldun stressed that people participation would stabilize the society as they feel that they share the administrative process (Abbas, 2009). Besides, in the golden age of Islam, the great success of public administration is determined by its efficiency and administrators who fear Allah (Abbas, 2009).

Islamic administration needs to depend on core value of Islam to ensure its success. One of the core values in Islam that should be embedded in Islamic administration is trust. Trust is the commandment from Allah that must be carried out in relationship with God and fellow human beings. It is the foundation of ethics and morals when dealing with society in economic activity and life. The trust will create conditions of honest people, trustworthy, transparent and fair in every transaction and collaboration, so as to create a conducive working environment, bring blessing to the parties concerned and lead to the benefit of mankind as a whole. The opposite of trust is treason, is the source of evil that significant in contributing to the destruction of humanity, outbreaks of manipulation, unhealthy conspiracy, cheating, moral decadence, unjust and monopolies of wealth. For indeed all evil deeds is treacherous. Our Prophet Muhammad PBUH is recognized and exemplary

due to trust. Many people reverted to Islam because they are attracted and fascinated by trust practiced by the Prophet.

The importance of trust is mentioned in Al Quran for example in Surah An-Nisa verse 58 and Surah Al-Mu'minun verse 8.

إِنَّ ٱللَّهَ يَأْمُرُكُمْ أَن تُؤَدُّوا۟ ٱلْأَمَٰنَٰتِ إِلَىٰٓ أَهْلِهَا وَإِذَا حَكَمْتُم بَيْنَ ٱلنَّاسِ أَن تَحْكُمُوا۟ بِٱلْعَدْلِ ۚ إِنَّ ٱللَّهَ نِعِمَّا يَعِظُكُم بِهِۦٓ ۗ إِنَّ ٱللَّهَ كَانَ سَمِيعًۢا بَصِيرًا ﴿٥٨﴾

Indeed, Allah commands you to render trusts to whom they are due and when you judge between people to judge with justice. Excellent is that which Allah instructs you. Indeed, Allah is ever Hearing and Seeing (Ibnu Kathier, 2007b).

وَٱلَّذِينَ هُمْ لِأَمَٰنَٰتِهِمْ وَعَهْدِهِمْ رَٰعُونَ ﴿٨﴾
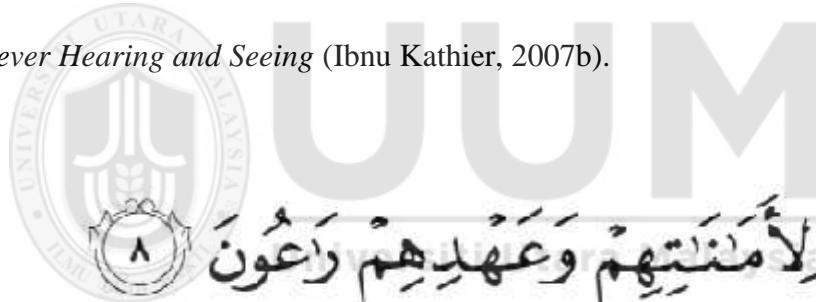
and who are faithful to their trusts and to their pledges (Ibnu Kathier, 2007d).

Trust is vital to encourage people to participate in profit making activity (Zeffane, 2012) and is increasingly recognized as important also in nonprofit making activity such as in education (Short, 2014). Having trustworthy employees for example, is as asset to an organization. This is no exception to zakat institutions. Trust in nonprofit organizations like zakat institutions will bring credibility to the organizations from the perspective of its stakeholders. Furthermore, the image and reputation of zakat institutions would also be higher if they have trustworthy employees. In the collection and distribution stages, zakat

institutions should have the value of trust. Misappropriation and misconduct can be avoided if zakat institutions uphold trust in its working environment.

Nowadays, organizations turn to good governance to increase its efficiency and performance. Good governance has three prominent features namely; (1) the recognition of theoretical and practical component of governance and also the various elements contained in each component; (2) the recognition of various goals, and (3) the recognition of various fields and level of governance (Mohd Zaidi & Mohd Sani, 2011).

The first features signify that theoretical and practical component of governance must complement each other. Theory alone cannot produce any impact if it does not being put into practice. This is in line with the concept of knowledge and practice in Islam. Knowledge from legitimate source (Holy Quran and Hadith) must be converted into practice to seek pleasure of Allah. Governance built from this platform (to seek pleasure of Allah) will definitely produce the best outcome as it is guaranteed by Allah the Al Mighty.

Allah already provides guidelines to His servants to live in this world. Allah knows what is best for His servants and they are guided by Holy Quran and Hadith. These guidelines are always relevant because its cover all aspects of human life and will always be relevant at all times. Allah through His Prophet (PBUH) already guarantees that those who follow Holy Quran and Hadith will not go astray. Unfortunately, the reluctant of Muslims to fully practice this guideline had caused many problems and put governance into dispute.

The second feature implies that goals are important to organizations. Since organizations have various aims and goals, recognition of the diversity in the goals must be established. Hence, necessary resources including qualified man power must be identified to attain praiseworthy goals (Mohd Zaidi & Mohd Sani, 2011). For example, certain Islamic ruler in the past, practised a unique way in selecting a person to fill up government post. In this regard, the name of that person was announced to the public for feedbacks. Reliable feedbacks relating to the qualities of that person are analyzed before decision is made whether to appoint him or not.

Besides, organizations also need to consider all elements in good governance although some of the elements are controversial. For example elements that relate to religiosity practice is considered controversial to some organizations. Hence the focus only on main elements likes integrity and accountability is inadequate. In addition, good governance also requires the main function of goal is restored to its appropriate place in the process (Mohd Zaidi & Mohd Sani, 2011).

Besides, definition relating to governance should reflect Islamic perspective. Therefore Muslims not only need to produce their own definition of governance but also to formulate what governance is in Islam (Mohd Zaidi & Mohd Sani, 2011). This is crucial as there is an enormous difference between Islamic and Western perspective especially relating to the ultimate goal. Therefore the application of the concept proposed by Western countries in the Islamic based environment is totally inappropriate.

Governance in Islam not only tries to achieve praiseworthy goal but also tries to evade any inappropriate positioning of goals. Thus both positive and negative aspects are covered in the governance. This in line with the concept of enjoins good and forbid evil *(amar ma'ruf nahy munkar)* as stated in Surah Ali Imran verse 110 (Ibnu Kathier, 2007b).

The third feature indicates that good governance requires recognition for all level of governance with individual as the origin (Mohd Zaidi & Mohd Sani, 2011). Such recognition is important as it covers a wider scope rather than limit the understanding and application of governance solely to public or private sector. The emphasis on individual as the origin is because normally perception of individual reflects the society. For example justice that is perceived by individual is equivalent to what perceived by society. Besides, individuals are responsible for their own action since they will act for their own salvation (Mohd Zaidi & Mohd Sani, 2011). In Islam, the ultimate goal of individual and society never contradict each other where the ultimate goal is to seek pleasure of Allah.

Good governance can assist zakat institutions in several ways. Zakat institutions can depend on good governance in monitoring the behavior of zakat employees. This will give positive effect by forcing desirable behavior from zakat employees (Kamil, 2002; Ram Al Jaffri, 2010b). Furthermore the concept of good governance that is based on Islamic foundation should be more powerful in addressing organizational problem. For example accountability concept in Islam is stricter than the conventional one. This is because accountability in Islam not only holds people to be responsible in this world but also in the hereafter. In addition accountability in Islam is strengthened by faith and shariah which

give adequate control in preventing undesirable behavior (Mohd Zaidi & Mohd Sani, 2011). Besides, zakat institutions can also use good governance to restore public confidence. This is because the application of good governance in zakat institutions would provide indication that zakat is efficiently managed (Aidit, 1989).

United Nations Development Programme (UNDP) (1997) has come out with principles on good governance. Graham, Amos and Plumptre (2003) refined UNDP principles into five main principles:

1. Legitimacy and voice;
2. Direction;
3. Performance;
4. Accountability; and
5. Fairness

Firstly, legitimacy and voice require all people either men or women be given right in decision making. It also considers differing interest of people in achieving a broad consensus. The second principle, direction, focuses on strategic vision where long term perspective on good governance is emphasized. The third principle, performance, requires organizations serving all their stakeholders. Organizations also should produce outcome that satisfy stakeholders' needs and ensure resources are sensibly utilized. The fourth principle, accountability, highlights that decision makers are accountable for their actions. It also involves transparency where disclosure, accessibility of information and sufficiency of information are to be considered. Lastly, fairness emphasizes on equal opportunities for

men and women. It also concern with the enforcement of law without bias. In the context of zakat institutions, Islamic law (shariah) should be the cornerstone in managing zakat affairs so that the relevancy of Islamic legal framework can be preserved (Norazlina & Abdul Rahim, 2011a).

Principles relating to governance developed by UNDP, OECD, MCCG, the World Bank and other relevant authorities are adapted in developing zakat institution's governance. These principles are added with value from Islamic concept to enhance its applicability in the Islamic institutions (Norazlina & Abdul Rahim, 2011a).

2.6.1   Zakat Governance during the Era of Caliph Umar Abdul Aziz

The administration of Caliph Umar Abdul Aziz is just 2 years and 5 months but zakat management during his era showed remarkable reformation (Faisal, 2011; Ram Al Jaffri, Norfaiezah, et al., 2016). His government has managed to eliminate poverty at that time. The principle that been used by Caliph Umar Abdul Aziz is to enrich people. Caliph Umar Abdul Aziz made people rich until there were no persons entitled to receive zakat (Radieah, 2015). This fact was confirmed by Umar Acid who went on to say: "By Allah, the Caliph Umar Abdul Aziz did not die until there comes a man with wealth that has been accumulated and the man said to the crowd:" Take my money as much as you want ". But nobody want to receive it (as all are rich) and Umar Abdul Aziz was truly make his people rich " (Faisal, 2011).

He emphasizes religious practice among people who have been remiss in the luxury world (Abdul Latip, 2013). Caliph Umar Abdul Aziz himself had a high appreciation of religion because since childhood he has memorized the Al Quran and have gain knowledge from leading scholars of Islam. Caliph Umar Abdul Aziz had ordered his people to offer prayers in congregation and the mosques were used as the place to learn the law of God as what happened in the days of the Prophet Muhammad PBUH and the rightly-guided caliphs (Abdul Latip, 2013). He also ordered the collection and compilation of the hadith of Prophet PBUH. The reforms carried out by the Caliph Umar Abdul Aziz was his efforts to bring himself and his people closer to God against the worldly affairs. Caliph Umar Abdul Aziz became an idol to his people in the matters of worship. When the hearts of the people tempered with love of God and the Prophet, while the soul of the people was taught by the Al Quran, the programs that is disobedience was removed and the activities of worship celebrated, then people's attitudes slowly changed from love to the world to love the hereafter. These are basic things that contribute to the success of Caliph Umar Abdul Aziz in managing poverty during his reigns.

Caliph Umar Abdul Aziz has a great character, lovable, pious and ascetic (Radieah, 2015). His story that uses two candles in his home, one for the use of state affairs and another is for family usage proves the fact that he was very cautious with property, especially involving people's property (Abdul Latip, 2013). All expenses for the state was dealt with the austerity and cautious on the grounds that it is the property of the people (Radieah, 2015). This was evident when he strongly criticized and sack the wasteful officers and all forms of state banquet is not authorized to use state property (Abdul Latip, 2013).

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In addition, the nature of the leader and people who feel enough *(qana'ah)* with what they have had helped Caliph Umar Abdul Aziz to well manage the treasury. *Qana'ah* habits that Caliph Umar Abdul Aziz inculcated in his people contribute to peace and prosperity. The effectiveness of his leadership is seen to be linked to the attitude of the caliph as leader who cares about the poverty of his people. Charity of his people is taken care where he raised the wages of the workers until it equal the wages of government officers (Abdul Latip, 2013). This is one of the major contributors on how Caliph Umar Abdul Aziz successfully in managing poverty in his reigns.

Caliph Umar Abdul Aziz also set justice as a priority in his administration. He wants all people be treated equally regardless of descent and status so that justice can flawlessly implemented (Abdul Latip, 2013). He stood for justice is equal justice in the time of Caliph Umar Al-Khatab which has long been awaited by the people who previously have always been oppressed by an arrogant and despotic chiefs. Example of justice that was implemented by Caliph Umar Abdul Aziz is his reclaim the treasures that was abused by previous family of caliph and return it to the treasury (Abdul Latip, 2013; Radieah, 2015). He also sacked incompetent officer, officer who abuse the power and unqualified officer who was appointed on the influence from caliph family.

The administration of Caliph Umar Abdul Aziz was 2 years and 5 months. The period is too short for a government, but the Caliph Umar Abdul Aziz has proved otherwise. During this short period, the Umaiyyah government getting stronger because there is no internal rebellion, less irregularities, citizens get a proper service and become rich to the extent that

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Baitulmal is full with zakat property because nobody want to receive zakat. Most of them already rich or at least they can be independent. All this is the merit of Caliph Umar Abdul Aziz that should become a model for present government. In the short period of time, he was also able to change the government system towards the government that receive blessing from Allah and become example of all time. A record that cannot be followed by others except those who really sincere in placing Allah and the messenger in its rightful place.

Here lies the quality of the leader and the people who make the reign of Caliph Umar Abdul Aziz managed to eradicate poverty. Efficient caliph and effective strategies bring impressive success to zakat management. Accordingly, the nature of leadership and the people during the reign of Caliph Umar Abdul Aziz be applied in zakat institutions in Malaysia. The leaders of zakat institution in Malaysia need to show their qualities as a leader who can bring people closer to God. Thus, leaders who hold power in zakat institution should be sincere, honest and eager to uphold the teachings of Islam as they are able to influence the actions of their subordinates and the Muslim community as a whole. Any policies, programs and activities aimed at empowering people should be accompany with reform programs so that leaders and people are more closer to Allah and the messenger like the era of Caliph Umar Abdul Aziz. Peace and prosperity will be enjoyed by the people and the country if the institution is managed by leaders who are competent and trustworthy and is supported by a robust implementation strategy (Radieah, 2015). It has been proved at the time of Caliph Umar Abdul Aziz and is not impossible that this history can be repeated again in this day.

Zakat governance during the era of Caliph Umar Abdul Aziz has shown some important variables to be learnt. First, Caliph Umar Abdul Aziz inculcates accountability to Allah as main fundamental. He put the effort to make his people to gain more Islamic knowledge so that the faith of his people can be increased. People with strong accountability to Allah will have good behaviour and this normally been reflected in their action. Thus, accountability to Allah would create people who is trustworthy and this enable them to honestly and sincerely fulfill their accountability when dealing with fellow humans. As a result, strong accountability to Allah can hinder the people from irregularities and abuse of power. Second, Caliph Umar Abdul Aziz ensure that only competent officers are remained in his administration whereas incompetent officers are sacked. The outcome from his action will give positive effect to service quality whereby competent officers will enhance service quality of his administration. Another aspect that can be observed from Caliph Umar Abdul Aziz is the way he treat his people. He promoted justice in his administration and want his people to be treated equally. In addition, he also removed all sort of restriction and bureaucracy so that it will ease his people to meet him and discuss their problem. Third, religiosity of employees are emphasized via initiative made by caliph to bring the people closer to Allah. Programs and activities that can enhance faith are intensified so that employees have strong defense against their own lust. Normally, people with weak faith will be prone to sin and this statement has been proved in history. However, under the administration of Caliph Umar Abdul Aziz, the religiosity of his people has reach supremacy level because their leader have shown good examples to them. Strong religiosity enable Caliph Umar Abdul Aziz strengthen his administration. Fourth, Caliph Umar Abdul Aziz enforce the law that been revised to protect the people from injustice. For example,

before Umar Abdul Aziz became the caliph, there is an incident where the family of previous caliph seize the treasure owned by the people in a way that is not right. This incident create dissatisfaction among the people because they do not receive fair treatment from the caliph family and felt that they are being oppressed. This condition makes people at that time unable to live in peace and tranquility. So, when Umar Abdul Aziz became caliph, he returned back the treasure to the real owners to ensure that the justice is done to his people.

2.7 Governance in Zakat Institutions

Zakat institutions are given the responsibility to collect zakat fund and to ensure justice is done in distributing it to zakat recipients. Focus on zakat collection has attracted a lot of attention from researchers (Aidit, 1989; Hairunnizam et al., 2007; Kamil, 2002; Kamil & Ahmad Mahdzan, 2002; Ram Al Jaffri, 2010b; Sanep et al., 2006; Zainol, 2008). Similar observation was noticed for zakat distribution studies (Hailani, 2009; Hairunnizam, Sanep, & Radiah, 2012; Mahyuddin, 2012; Muhammad Yamin, 2007; Mujaini, 2009; Nurfadilah, Hasan, & Nurhidayah, 2008; Patmawati, 2008; Rahisam, 2008). These two activities (zakat collection and zakat distribution) are the primary concern of zakat institutions. To facilitate zakat institutions in managing zakat fund effectively and efficiently, a search for good governance is desired. A lot can be learnt by looking at how successful companies operate their business. In order to response to tight competition in global market, these companies search and upgrade themselves with best governance practice. Such attitude should also be imitated by nonprofit organization like zakat institutions. Governance of zakat institutions need to be updated with new knowledge and concept which is practical to the current

environment. Therefore, fundamental knowledge on governance is critical in achieving this objective. With good governance, zakat institutions can ensure the delivery of superior services and earn admiration from their stakeholders. Zakat institutions must undertake transformation process if they want their organization to be 'healthier'.

Figure 2.1 shows the overall picture of zakat institution's governance in Malaysia. Board of directors and audit committee are responsible to monitor and evaluate management's performance. Meanwhile, management with the support from employees will ensure that zakat activities run smoothly to achieve the objectives of zakat institutions. Basically the activities in zakat institutions relate to zakat collection and zakat distribution.
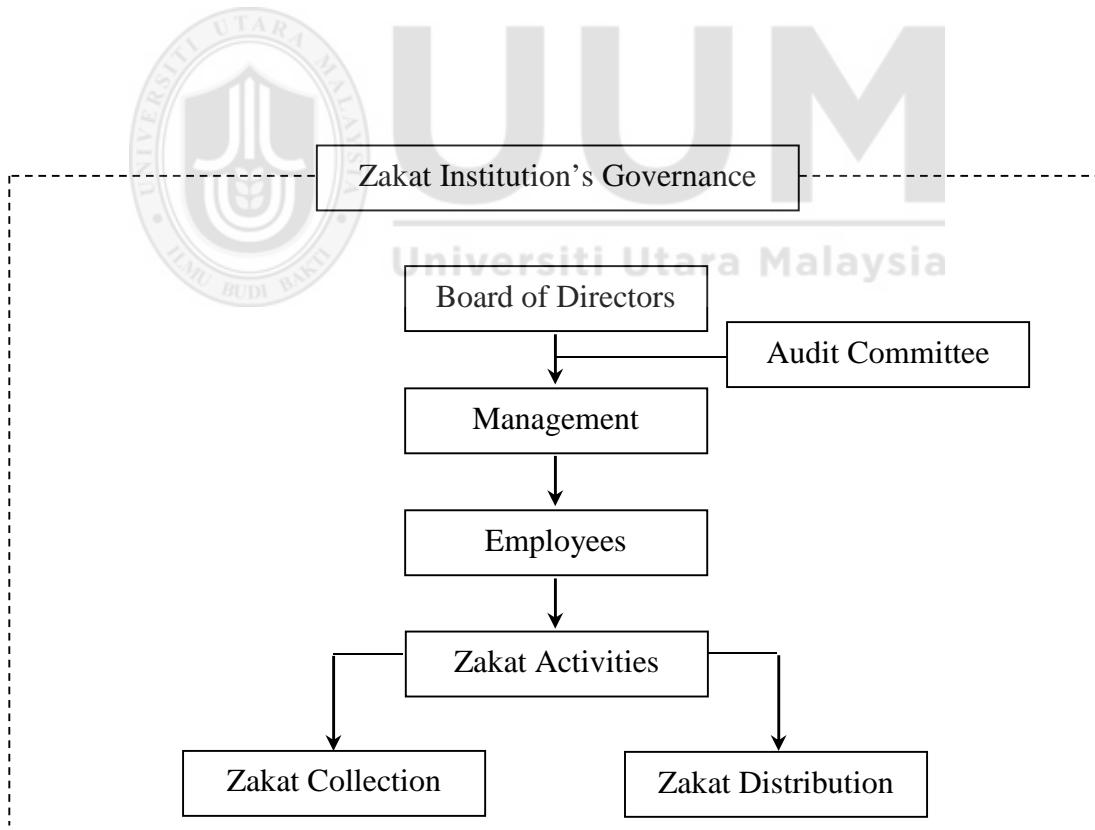
Figure 2.1
Zakat Institution's Governance

At the moment many studies have done on corporate governance (Alexander & Weiner, 1998; Cadbury Committee, 1992; Hamilton, 2000; Sehgal & Mulraj, 2008; Shawal & Hasan, 2007). However, it is hard to find any literature that can explain about zakat institution's governance. Although one can assume that zakat institution's governance is equivalent to that of corporate governance, the zakat institution's governance would have different emphasis. This is because the environments of these two institutions are different. Corporate governance operates in highly regulated environment whereas zakat institution's governance operates in loosely regulated environment. Ram Al Jaffri (2010b) and Nur Barizah and Hafiz Majdi (2010) go further by saying zakat environment is loose in term of law and enforcement. Besides, many concepts and management models used in corporate governance are imported from Japan and Western countries (Fadzila Azni, 2010). These concept and models do not focus on relationship with the creator (Allah). Fadzila Azni (2010) also stated that zakat institutions needs to incorporate relationship between human being and Allah (vertical relationship), relationship among human being and relationship between human being and nature (horizontal relationship) in its governance or management model. Zakat institutions cannot use concept and management models developed by Japan and Western countries because they are not aligned with Islamic principles and philosophy. The governance of zakat institutions should be on the basis of shariah or Islamic law. Zakat institutions differ from other social institutions where the spirit of zakat is not only for this world but also for the hereafter.

There are few studies on the governance of zakat institutions in Malaysia. Study by Norazlina and Abdul Rahim (2011a) about the efficiency of zakat institutions has come out

with several determinants. They found that the efficiency of zakat institutions in Malaysia is significantly determined by zakat payment system, computerized zakat system, board size, audit committee and decentralization. Meanwhile Shawal and Hasan (2007) study the elements of corporate governance that being practiced by zakat institutions in Malaysia. They found that generally zakat institutions adopted the practice of corporate governance. However, less emphasis is given on certain aspect such as stakeholders' participation in policy development. In addition, Abd Halim, Rozman and Ahmad (2007) review the performance of zakat institutions in Malaysia and propose a model for performance indicators which include dimensions such as input, output, process and quality.

Next section will discuss about variables that are expected to constitute zakat institution's governance.
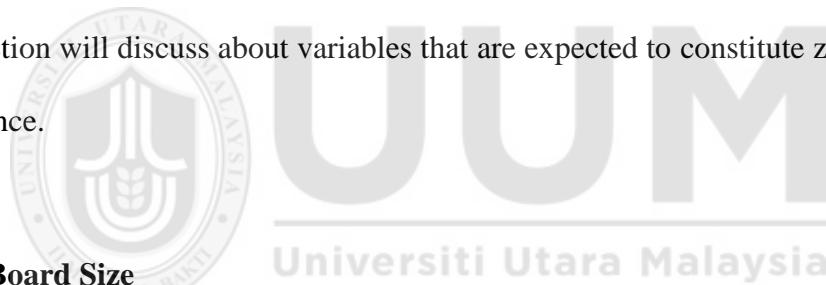
2.7.1 Board Size

Board size refers to the number of directors on the board (Zahra & Pearce, 1989). It may involve the combination of executive and non-executive directors. Executive directors are viewed as employees of the company whereas non-executive directors are outsiders who have no relationship with the company. It is important that board has a balance number of executive and non-executive directors. Balance in the board is vital as it can avoid domination in decision making (Cowan, 2004; MCCG, 2007).

Studies in Malaysia revealed that board size bring positive impact to firm performance (Zubaidah, Nurmala, & Kamaruzaman, 2009). Meanwhile, comparison between the size

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of the board revealed that small board size is preferred (Noor Afza & Ayoib, 2009). Board size also has been studied in the context of zakat institutions. Norazlina and Abdul Rahim (2013) used board size and active board of directors as proxies for board attributes. They found that board size is significant in determining the efficiency of zakat institutions in Malaysia.

There is no specific ruling regarding the number of directors on the board. However findings from literatures did make some suggestion. For example, some researchers tend to favor smaller board size as it result better performance (Vafeas, 2000; Yermack, 1996). Other researchers argue that larger boards are better because the possibility of having independent directors with diverse skill and experience is higher (Klein, 2002a; Xie, Davidson, & DaDalt, 2003). In the US, the board size is between eight to eleven directors (Ning, Davidson III, & Wang, 2010). In Malaysia, the average number of directors on board is eight people (Noor Afza, 2010; Rokiah, 2010; Zubaidah et al., 2009). MCCG provides the following general suggestion which relate to board size: *"Every board should examine its size, with a view to determining the impact of the number upon its effectiveness"* (MCCG, 2007). Other findings revealed that board size and financial statement fraud is positively related (Beasley, 1996). Besides employees' representatives on the board would enhance board size and composition (Demirbas & Yukhanaev, 2011).

In the context of zakat institutions, board size varies according to the structure used by zakat institutions. Table 2.2 provides information relating to the number of board member for zakat institutions. For example small board size is observed for Pusat Kutipan Zakat

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(PKZ) Pahang with four people. Whereas largest board size is observed in Majlis Agama Islam Perak (MAIPk) with twenty three people. For the remaining states (Kedah, Melaka, Perlis and Sabah), the board size is not known due to the unavailability of information. Obviously, privatized zakat institutions have lower board member as compared to zakat institutions that use conventional structure.

Table 2.2
Board Size

Zakat Institutions	Board Member	Source
Pusat Kutipan Zakat Pahang	4	(PKZ Pahang, 2012)
Pusat Pungutan Zakat, Majlis Agama Islam Wilayah Persekutuan	6	(PPZ-MAIWP, 2012)
Pusat Zakat Negeri Sembilan	9	(PZNS, 2012)
Lembaga Zakat Selangor	10	(LZS, 2012)
Pusat Urus Zakat Pulau Pinang	10	(PUZ-MAINPP, 2012)
Tabung Baitulmal Sarawak	12	(TBS, 2012)
Majlis Agama Islam Kelantan	16	(MAIK, 2012)
Majlis Agama Islam Dan Adat Melayu Terengganu	16	(MAIDAM, 2012)
Majlis Agama Islam Johor	17	(MAIJ, 2012)
Majlis Agama Islam Perak	23	(MAIPk, 2012)

2.7.2   Board Independence

Board independence refers to board members who are not the employees of the company or its auditors and do not have any significant relationship with the company (Iyengar,

Land, & Zampelli, 2010). Cowan (2004) defines independence by referring to non-executive directors that are not engaging in the operational matters of the company. Ayoib and Nooriha (2009) argue that board independence exists when the fraction of non-executive directors is higher. This lead to an understanding that the determination of board independence normally depend on the number of non-executives directors (Noor Afza, 2010) because they are perceived to be more independent (Hermalin & Weisbach, 1991; Kang, Cheng, & Gray, 2007). Their independencies enable them to exert pressure for managers to show good performance (Bonazzi & Islam, 2007; Cowan, 2004) and thus contribute significantly to boards' effectiveness (Cowan, 2004; Fama & Jensen, 1983). The presence of non-executive directors can prevent the management from the practice of income smoothing (Ayoib & Nooriha, 2009). In addition, firms with a lower number of non-executive directors are more likely to experience financial statement fraud (Beasley, 1996).
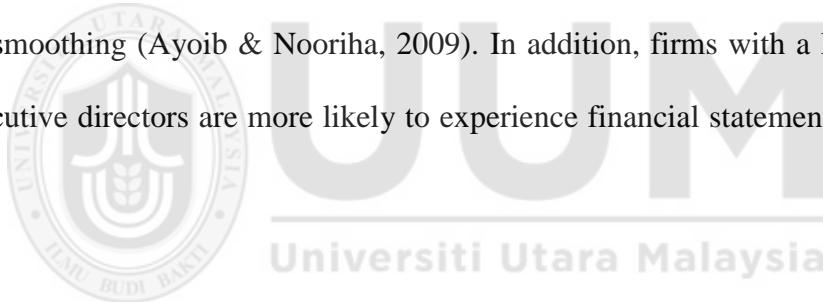
There is also argument that the number of non-executive directors representation on the board should be increased in order to strengthen board independence (Cadbury Committee, 1992). Furthermore, board independence which is represented by non-executive directors reflect good corporate governance (Demirbas & Yukhanaev, 2011). Therefore, non-executive directors should be filled by people who have sufficient experience, skills, caliber and credibility where independent judgment could be easily provided (MCCG, 2007).

According to agency theory, board independence could be impaired or compromised with the presence of CEO duality (Abdelsalam & El-Masry, 2008). Gul and Leung (2004) provide supporting evidence by saying CEO duality not only can reduce board independence, but it also affects the ability to monitor managers effectively. In addition, the proponents of agency theory claimed that non-executive directors are more effective in carrying out the monitoring function on managers (Ben-Amar & Zeghal, 2011; Bonazzi & Islam, 2007).

Past studies about board independence reveal mixed results. In Australia, companies are found to have a high level of board independence (Kang et al., 2007). In Indonesia, Malaysia, Thailand and South Korea, board independence is found effective for average performing firms, but ineffective for low and high performing firms (Ramdani & van Witteloostuijn, 2010). Besides, the quality of financial information and executive actions are found to have direct relationship with board independence (Dechow, Sloan, & Sweeney, 1996; Klein, 2002a). Board independence also is positively related with timeliness of corporate internet reporting (Abdelsalam & El-Masry, 2008). However, no relationship is found between board independence and earnings quality (Iyengar et al., 2010).

In the context of zakat institutions, the proportion of non-executive directors on the board is higher. For example LZS revealed that eight out of ten people on its board are non-executive directors (LZS, 2012). Whereas for PPZ-MAIWP, all six people that occupied the board of directors are non-executive directors (PPZ-MAIWP, 2010a). For PZNS, eight

out of nine people on the board are non-executive directors (PZNS, 2012). For other states, the number of non-executive directors cannot be identified due to unavailability or missing information. Overall, the above findings indicate that board independence of zakat institutions is at good level.

2.7.3 Board Expertise

Various definition of board expertise is given in the literatures. Fama and Jensen (1983) regard directors who assemble on several corporate boards as experts. Noor Afza (2010) defined directors who have extensive knowledge in a particular area as expert. Besides, board expertise also refers to directors with professional qualification such as Certified Public Accountant (CPA) or experience in corporate financial management (Agrawal & Chadha, 2005).

Board expertise has received widespread attention from many parties in the corporate sector (Agrawal & Chadha, 2005). In the US, stock market requires board member to be financially literate and at least one director with financial expertise (Agrawal & Chadha, 2005). This is because directors with expertise and experience in accounting or finance are more likely to be able to detect problems in financial reporting (Agrawal & Chadha, 2005). In Malaysian context, MCCG (2007) provide guideline for appointing director where criteria such as skills, knowledge, expertise and experience must be considered.

Previous studies have provided some findings relating to board expertise. Gul and Leung (2004) argued that board expertise is capable in reducing the influence of CEO duality.

Another findings suggested that board with financial expertise can lower the possibility of restatement in the companies (Agrawal & Chadha, 2005). However, the possibility of restatement is high if the CEO belongs to the founding family (Agrawal & Chadha, 2005). In addition, experience of non-executive directors is found to have positive relationship with director's expertise (Westphal & Milton, 2000).

Board expertise also has close relationship with monitoring capability. Gul and Leung (2004) stated that the expertise of outside directors is more dominant for successful board monitoring and firm performance. Besides, the expertise of independent directors in financial aspect adds value in overseeing financial reporting practices of a firm (Agrawal & Chadha, 2005). However, they can perform monitoring function effectively only if they are provided with enough incentive and have adequate expertise (Beekes, Pope, & Young, 2004). In relation to expertise, tenure also is said to give positive effect to the performance of non-executive director in monitoring. Long tenure for non-executive directors enables them to equip themselves with more information about the company and thus assist in monitoring (Hermalin & Weisbach, 1991). In contrast, long tenure of executive directors would give negative effect to the company as monitoring activities are likely to reduce (Kim, 2011).

In the context of zakat institutions, board expertise is defined as having directors with diverse background, experience and wide knowledge in Islamic and corporate affairs. In some zakat institutions especially those who use conventional structure, the tendency to appoint more directors with Islamic knowledge and background is higher (MAIDAM,

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2012; MAIJ, 2012; MAIK, 2012; MAIPk, 2012). This creates imbalance between the proportion of Islamic expert with financial and management expert.

2.7.4 Audit Committee Independence

Klein (2002b) provides three definitions for audit committee independence. First, independence is based on the percentage of non-executive directors in the audit committee. Second, all members in audit committee are non-executive directors. Third, majority of members in the committee are independent of management.

A few initiatives were taken by regulatory bodies to restore audit committee independence to where it should belong. The introduction of more stringent guideline is hoped to bring positive effect once it is implemented. For example the New York Stock Exchange (NYSE) and the National Association of Securities Dealers (NASD) introduced guideline to improve independence of audit committee by having more non-executive directors in the committee (Abbott, Parker, & Peters, 2004; Carcello & Neal, 2000).

Audit committee independence is capable to assist auditors in performing their job professionally. In reality, auditors face ethical dilemma because the issuance of going concern opinion affects their service tenure. Clients who receive going concern opinion might retaliate by terminating the auditors. Thus, protection from audit committee is required to allow auditors performing their job without fear of being terminated (Carcello & Neal, 2000). To effectively play this role, audit committee needs to have greater

independence from management. This is crucial as protection to auditors is higher if audit committee has greater independence and governance expertise (Carcello & Neal, 2003).

There are several factors that affect audit committee independence. Literature revealed that long tenure with the company strengthened audit committee independence (Carcello & Neal, 2003). Besides, the number of executive directors in audit committee also affects audit committee independence. For example, the issuance of going concern report is low when executive directors dominate audit committee (Carcello & Neal, 2000). This shows that the presence of executive directors in audit committee has negative effect with audit committee independence (Carcello & Neal, 2000). Therefore the way to enhance audit committee independence is by minimizing the number of executive directors in audit committee.
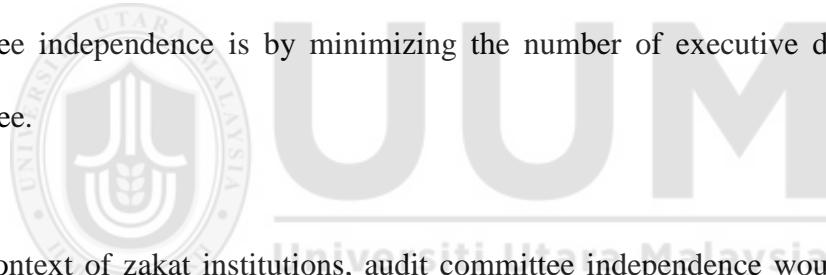
In the context of zakat institutions, audit committee independence would guarantee the transparency and integrity of zakat institutions (LZS, 2010b). Besides, it is capable to prevent dysfunctional behavior by ensuring that activities conducted are based on the objectives, rules as well as policies and procedures (PPZ-MAIWP, 2010a).

2.7.5 Audit Committee Expertise

Audit committee expertise is defined as past employment experience in accounting or finance, hold professional certification in accounting, or other related experience in financial management (Blue Ribbon Committee, 1999). Besides, audit committee expertise also exist when all directors are financially literate with one of them has expertise in

accounting or financial management (Abbott et al., 2004). Cadbury Committee (1992) suggests that the audit committee must evaluate the adequacy of its expertise and has to add additional experts if necessary. Also, the disclosure of financial expert in audit committee must be made to the public (Carcello, Hollingsworth, & Neal, 2006; Flynn, 2009; Raghunandan & Rama, 2007).

Past studies reveal various findings about audit committee expertise. Abbott, Parker, Peters and Raghunandan (2003) found that audit committee expertise has significant positive relationship with audit fees. In their study, audit committee expertise is defined as having at least one member with financial expertise. McDaniel, Martin and Maines (2002) study the effects of having directors with financial expertise and financial literacy on financial reporting. They found that financial expertise lead to financial reporting quality. They further conclude that directors with only financial literacy may not provide sufficient assistance for audit committee. In another study, audit committee expertise is found to have negative relationship with financial restatement (Abbott et al., 2004). This suggests that the presence of audit committee expertise can lower the inclination for earnings restatement in the companies (Abbott et al., 2004). The result gives an indication that audit committee expertise is able to improve financial reporting process (Abbott et al., 2003).

Several studies examined the effect of audit committee expertise and experience on monitoring judgment (Abbott et al., 2004, 2003; DeZoort, 1998; DeZoort & Salterio, 2001). DeZoort, Hermanson and Houston (2003) stated that experience and qualification of committee members affect monitoring judgments. Besides, audit committee members

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with internal control experience is able to make more accurate judgment than those without such experience (DeZoort, 1998). In addition, greater experience of audit committee members in internal control leads to increased support to the auditors when discussing auditing issues with management (Abbott et al., 2003; DeZoort & Salterio, 2001).

Studies also have been conducted to examine the relationship between audit committee expertise and audit committee effectiveness. Abbott et al. (2003) emphasizes that effective audit committee must have members with adequate financial experience. As such, audit committee must be occupied by members with the expertise in accounting, financial reporting and auditing (Abbott et al., 2003). Blue Ribbon Committee (1999) provides further support by saying directors with financial literacy are able to overseeing the corporate accounting and financial reporting. Flynn (2009) reported that perception on earning quality diminishes when financial expert is the CEO instead of a CPA. This suggests that in order to promote effectiveness of audit committee, financial expert must be put at its appropriate place.

In the context of zakat institutions, audit committee expertise is defined as having individual with experience in financial statement analysis or hold accounting qualification (Blue Ribbon Committee, 1999; Carcello et al., 2006; Raghunandan & Rama, 2007). It is crucial for zakat institutions to emphasize on audit committee expertise since members of audit committee with professional expertise are capable to boost stakeholders' confidence by promoting transparency and accountability in the report. With the presence of audit committee expertise, zakat institutions are able to examine rationality of explanations given

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by the management (DeZoort & Salterio, 2001). Besides, audit committee with financial expertise is less likely to experience any incidence of internal control problems (Krishnan, 2005). At present, little is known about audit committee expertise of zakat institutions as no information is made available except for state of Selangor (LZS, 2010b).

2.7.6 Audit Committee Diligence

Audit committee diligence is based on the number of audit committee meetings held in one year (Menon & Williams, 1994; Saibaba & Ansari, 2011). Audit committee is considered diligence if it holds at least three meetings in a year (Menon & Williams, 1994). In Malaysian context, audit committee should meet at least three or four times a year (MCCG, 2000; Norman, Takiah, & Mohd Mohid, 2007). However the revised MCCG suggests that audit committee should hold its meeting at least twice a year (MCCG, 2007).

Several researches highlight the number of audit committee meetings as the proxy for audit committee diligence (Norman et al., 2007; Raghunandan & Rama, 2007). Number of audit committee meetings is used as the proxy due to the availability of information in the annual report (DeZoort, Hermanson, Archambeault, & Reed, 2002). Raghunandan and Rama (2007) provide support by stating the number of meetings is the only publicly available quantitative measure for audit committee diligence. However, the extent of audit committee work cannot be measured by the number of meetings held (Menon & Williams, 1994).

In relation to monitoring mechanism, audit committee diligence will contribute to effective monitoring and audit committee effectiveness (Menon & Williams, 1994; Norman et al., 2007; Song & Windram, 2004). This is because monitoring function of audit committee is improved with a high frequency of meeting (Abbott et al., 2003; Norman et al., 2007). On the other hand, audit committee will not become an effective monitor if only small number of meetings is held (Menon & Williams, 1994).

Prior research found that companies with active audit committee are more likely to employ auditors who are industry specialist (Abbott & Parker, 2000). In their study, active audit committee refer to at least audit committee meeting is held twice a year. Active audit committee is also found to have a significant and negative relationship with the incidence of restatement (Abbott et al., 2004). In addition, Norman et al. (2007) found that companies with frequent audit committee meetings record fewer earnings management. A negative relationship is also found between insider ownership and audit committee meeting frequency (Greco, 2011).

Audit committee diligence is also found to have positive relationship with the following variables: firm performance (Saibaba & Ansari, 2011); firm size (Carcello, Hermanson, Neal, & Riley Jr., 2002; Raghunandan & Rama, 2007); audit committee size (Raghunandan & Rama, 2007; Sharma, Naiker, & Lee, 2009); demand for accounting certification (Deli & Gillan, 2000); and board activity (Raghunandan & Rama, 2007). This suggests that managers' activity can be better coordinated if the frequency of audit committee meetings is high (Vafeas, 1999).

In the context of zakat institutions, audit committee diligence give assurance for credible and reliable financial information (Cadbury Committee, 1992; Rezaee, Olibe, & Minmier, 2003). Assurance is needed because its ability to enhance information quality and increase stakeholders' confidence (Al-Alawi, Al-Kaabi, Rashdan, & Al-Khaleefa, 2009; Cadbury Committee, 1992). Besides, audit committee diligence is able to prevent the adverse scandal in zakat institutions as a result of strengthening the role of monitoring and surveillance (Rezaee et al., 2003). This would enhance compliance to good corporate governance and increases accountability of managers (Hossain & Khan, 2006). Observation in LZS reveals that it has conducted five audit committee meetings in 2010 where two of them are special audit committee meetings (LZS, 2010b). Meanwhile little is known for other states due to unavailability of information.

2.7.7 Leadership

There will always be a leader for every success story of a company. Evidence also discloses that the collapse of gigantic company is because of misconduct of its leader. Leadership is defined as the use of power to influence people (Butler, 2009). Whereas in Islam, leadership is defined as a trust where leader and his followers is expected to do good deeds (Khaliq, 2009). Leader that understands the above philosophy will make sure his action align with Islamic requirement. According to Johnson (1998) leadership is a critical element for organization survival. It plays an important function in the implementation of effective corporate governance and assist in regaining lost of stakeholder trust (Bandsuch et al., 2008). Many researchers test this variable and found it to be significant (Abernethy, Bouwens, & Lent, 2010; Ekaterini, 2010; Luk, 2009; Rank, Carsten, Unger, & Spector,

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2007). Finding from research by Rank et al. (2007) demonstrate that there is strong correlation between participative leadership and proactive service performance. This study was conducted in financial services organization to examine the relationship between bank employees and their supervisor.

Key resources for Islamic leadership principles are Holy Quran, example by Holy Prophet, wise Caliphs and pious followers (Syed Omar, Djasriza, & Fatimah, 2007). Under the Islamic perspective, leaders must have admirable quality in order to promote justice in the governance (Mohd Zaidi & Mohd Sani, 2011). Hadith narrated by Umar (RA) also show that leaders must perform their function effectively and efficiently as they will be questioned by Allah about their leadership (Imam Muslim, 1997). The Prophet Muhammad (PBUH) already warned Muslims the important of putting a right leader in place. His advice can be evidenced from the statement that says honesty is lost when the power or authority comes in the hands of unfit persons. Nathan and Ribiere (2007) support the above statement by saying that intelligent leaders motivate ethical behaviors, impart good value and respect for stakeholders. However strong commitment and support are required from all levels of organization especially board of directors to allow it happen.

In the context of zakat institutions, leadership to be practiced must meet the requirement of Islam since Islam provides a complete guideline to its follower that covers every aspect of human life. Furthermore, leadership and motivational concepts in Islam is inclusive than concepts in conventional theories. Therefore, solid Islamic leadership can be developed through Islamic framework (Khaliq, 2009).

Leadership also can be scrutinized from the role played by CEO, the most powerful officer in the company (Barros & Nunes, 2007). In small business, normally CEO plays two roles: as chairman of the board and company president. However in large companies, these two roles are separated to avoid conflict of interest (Barros & Nunes, 2007). CEO duality is defined as a situation where a person is holding two roles simultaneously as the CEO and also the chairman of the board (Bliss et al., 2007; Wan Zanani, Shahnaz, & Nurasyikin, 2008). This practice invites problem because board independence will be threatened and monitoring efficiency will be reduced (Shamsul Nahar, 2004).

Several researches have highlighted the findings about CEO duality. For example Lam and Lee (2008) found positive relationship between CEO duality and performance of non-family companies and negative relationship between CEO duality and performance of family companies. They concluded that CEO duality is appropriate to non-family controlled companies but not appropriate for family owned company. In addition high number of independent directors on the audit committee reduces the effect of CEO duality (Bliss et al., 2007). This finding suggests that CEO dominance due to its duality function is reduced with the presence of independent audit committee (Bliss et al., 2007). Another research found that for firms that do not merge, positive relationship between CEO compensation and firm performance is moderated by CEO duality (Dorata & Petra, 2008). In contrast, Griffith, Fogelberg and Weeks (2002) found that there is no relationship between CEO duality and bank performance. In the context of zakat institutions, the practice of CEO duality is not appropriate since it will invite negative perception from zakat stakeholders. Besides, agency theory does not provide support to CEO duality

(Ramdani & van Witteloostuijn, 2010). This is because the board that will monitor the management is chaired by CEO who is the head in management team. Therefore CEO is believed to use its power to influence the decision into his favor (Barros & Nunes, 2007). Furthermore the presence of CEO duality will jeopardize the independence of directors in the committees and thus affecting governance efficiency in zakat institutions. The above discussion come to a conclusion that leadership is a very important variable and it is predicted to give impact to the governance of zakat institutions.

2.7.8 Participation

Employees participation is defined as the involvement of employees in decision making process in order to improve the sustainability of the company (Owusu, 1999). Schubert (2008) found that employee participation is required in German law which enables employees to involve in the administration board. Austrian and French law also legalized the employees participation in the administrative board and this increases the responsibility of the employees in the companies (Schubert, 2008). However, employees participation in governance for developing countries still remain mysterious (Waheduzzaman, 2010).

Binyaseen (2010) pointed out three main dimensions in determining the level of participation which is organizational, physical planning and personal characteristics. He also found that misallocation of staff in their workplaces occur because they were placed in the zones that go against their personal characteristics. Misallocation of staff can lead to poor services and productivity and thus affects the perception of external stakeholders (Lievens, Hoye, & Anseel, 2007).

The practice of employees participation give good effect to the companies where it assist the companies to achieve its objective and ensuring the implementation of good governance practices (Stuart, 2002). Besides, employees participation also lead to employees retention and satisfaction (Magowan, 2010). Retention of employees is critical so that it will not disturb the planning and strategy that have been made. The effect of losing good employees is very costly to the organization as it involves time, effort and training for replacements (Buck & Watson, 2002). One of the factors that have been identified to encourage employees retention is employees learning (Govaerts, Kyndt, Dochy, & Baert, 2011). Besides, they also found that age has a significant positive relationship with retention (Govaerts et al., 2011). Employees' retention could also be achieved through improving employees' satisfaction. For example, intention to stay is higher if employees feel satisfied with their work and how organization treats them (Churintr, 2010; Rust, Stewart, Miller, & Pielack, 1996).
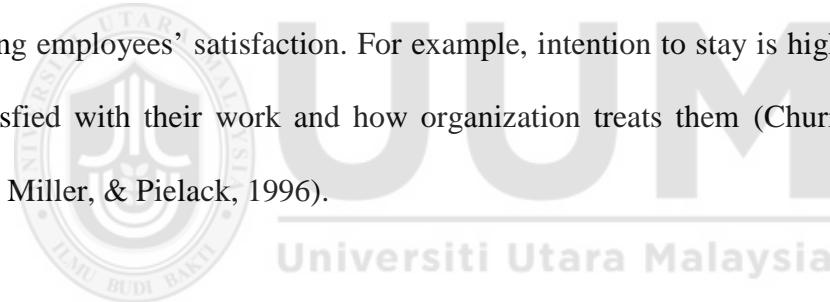
The importance of employees in the organization causes the management to regard them as source of competitive advantage (Lievens et al., 2007). Thus employees need to be given greater role to recognize their importance (Hsieh, 2006; Lievens et al., 2007). One of the ways is through the practice of employees' participation. The company that holds to this concept is found to last longer and perform better (Magowan, 2010). In addition, Magowan (2010) also found that employees participation enhanced employees motivation and loyalty. The mechanisms that can be used to encourage employees participation are employees representation on boards and governance processes where their viewpoints are considered in arriving at important decisions (Magowan, 2010; OECD, 2004). Such

practices are also appropriate for zakat institutions. Participation from zakat employees would contribute to quality decision making (Aidit, 1989). Besides it also improves relationship between zakat employees at various levels. Indirectly, governance of zakat institutions can undergo transformation processes for improvement.

In zakat institutions, employees are regarded as group of people that directly involve in giving services to zakat stakeholders. One of the issues faced by zakat institutions is relating to shortage of employees (Mohd Sani, personal communication, October 11, 2010). Shortage of employees is normally caused by two factors; retirement and introduction of new job specification (Govaerts et al., 2011). Retirement cause organization loses valuable employees due to a risk of losing knowledge and experience of that employee. Meanwhile, the introduction of new job specification tends to increase work load of existing employees if new recruitment is not made. Several researchers did suggest zakat institutions to increase its work force (Aidit, 1989; Mohd Ali, 1989). Mohd Ali (1989) stated that the failure of zakat institutions to increase its work force has contributed to lack of enforcement of zakat law. However, the selection of employees must acknowledge certain criteria such as knowledge, good values and appropriateness for the applied post (Aidit, 1989). This is important to ensure zakat institutions have sufficient caliber employees to execute its daily operation and attain efficiency. Otherwise, this will provide negative effect to the satisfaction of zakat stakeholders and governance of zakat institutions.

2.7.9   Accountability

Accountability is defined as a concept that holds public officials responsible for their actions and decisions (The World Bank, 1991; United Nations Economic and Social Council, 2006). Ackerman (2005) defined accountability as a "*proactive process by which public officials inform and justify their plans of action, their behavior and results and are sanctioned accordingly*". In Islam, accountability is based on trust (Mohamad Zaini, 2011). The guideline for trust is to follow Holy Quran and Hadith. Therefore people who engage in the organization must understand and appreciate this concept so that they can translate it into their work.

Accountability is the prerequisite for good governance (UNESCAP, 2007). Many private and public sector embrace this concept to ensure the survival of their organizations. Besides, this concept is applicable to all institutions in this world (UNESCAP, 2007). Cadbury Committee (1992) elaborate further by saying effective accountability is the core concept of good corporate governance system. However, to function effectively, accountability requires the present of transparency concept (UNESCAP, 2007). This concept also has been embedded in MCCG launched in March 2000 (MCCG, 2007).

There are several findings from the literature that highlight the importance of accountability. For example Licht (2002) found that accountability can be considered as public norm of governance. This means that the public want managers to be held accountable for their decision. However accountability is not a worldwide concept (Licht, 2002). In some countries like Netherlands and Germany, the concept that has been used is

responsibility which has close meaning to accountability. Licht (2002) further highlighted that the implementation of corporate accountability between the countries are not the same, thus providing diversity in their corporate governance systems. Clapp (2005) distinguishes corporate responsibility from corporate accountability by saying corporate responsibility refers to recognition by business of their role in sustainable growth whereas corporate accountability involves the use of law to encourage sustainable growth.

In the context of zakat institutions, accountability requires managers and employees to be accountable to board of directors and zakat stakeholders. Accountability also motivates good performance and efficiency from zakat institutions in every aspect of management (Abd Halim, Nor Azizah, Norida, & Nur Zehan, 2015). According to Cadbury Committee (1992) board of directors and stakeholders are responsible to make accountability successful. Board of directors can do so by providing quality information to zakat stakeholders whereas zakat stakeholders should show their readiness in exercising their responsibilities to zakat institutions. At present, accountability of zakat institutions is being questioned and this situation contributes to low confidence towards zakat institutions (Aidit, 1989; Hairunnizam et al., 2011). However the problem can be overcome by practicing greater accountability (Aguilera, 2005). Such practice would avoid any possibility for misconduct by zakat officers and thus offer maximum protection to zakat stakeholders. The above discussion gives indication that accountability is important in zakat institution's governance.

2.7.10 Transparency

Transparency is one of the key elements in governance. Several researchers tend to agree with the statement (Bandsuch et al., 2008; Bhasin, 2010; Cadbury, 2000; Ionescu, 2010). The importance of transparency to governance can be evidenced through statement like transparency is lifeblood of governance (Cadbury, 2000). This element enables shareholders and users of financial statement make accurate decision. Transparency is also capable in reducing information asymmetry as it allows all people to obtain the same information (Chen, Chung, Lee, & Liao, 2007). Normally good governance exists when companies have good information transparency (Chiang, 2005). And good information transparency is reflected through accuracy and accessibility of the information (Bandsuch et al., 2008).

Transparency has been defined differently in various fields. In the context of business environment, transparency is defined as the availability of specific information to stakeholders (Bushman, Piotroski, & Smith, 2004). Others describe transparency as checks and balance system (Zandstra, 2002); increase flow of reliable information (Chipalkatti, Le, & Rishi, 2007); enhanced perceptive on firm's practices (Chen et al., 2007) and encourage better communication (Parum, 2005). In this study, transparency is defined as the sharing of critical information where the disclosure is sufficiently being made and that information should be accessible to all zakat stakeholders.

Greater transparency together with proper monitoring would enhance investors' confidence (Bhasin, 2010; Ionescu, 2010; Roohani, Furusho, & Koizumi, 2009). However,

transparency requires strong regulations and support from board and senior management to allow its acceptance (Bhasin, 2010; Bhat, Hope, & Kang, 2006; Zandstra, 2002).

Transparency can be interpreted into two main components namely financial transparency and governance transparency. Financial transparency relates to timeliness of financial disclosure whereas governance transparency relates to governance disclosure that hold executive and directors accountable (Bushman et al., 2004). These components complement each other and need to be practiced in order to promote total transparency. In the context of zakat institutions, information relating to zakat collection and distribution is very sensitive and therefore should be revealed to zakat stakeholders to avoid negative perceptions. Besides, information about governance such as directors' remuneration, tenure and experience should also be shared.

There are several findings that discuss about transparency in the organization. For example Sunhilde and Hajnalka (2009) found that sensitive information relating to board and executive is less disclosed compared to financial information. This situation indicates that total transparency is not being practiced. And when this happen, the possibility of fraud to occur is high (Zandstra, 2002). Besides that companies with poor information transparency will incur greater agency costs (Chen et al., 2007). Meanwhile Bhat et al. (2006) reported positive relationship between governance transparency and analyst forecast accuracy. They further added that governance transparency is very important especially when legal enforcement of the company is weak.

In the context of zakat institutions, transparency also has become a priority. For example PPZ-MAIWP showed their commitment in pursuing good governance by ensuring the existence of transparency in their reports (PPZ-MAIWP, 2009). Besides, a number of zakat institutions also take an initiative to use information and communication technology (ICT) in promoting transparency. The introduction of e-zakat for example has brought positive outcome by improving the transparency of zakat institutions (Shawal, 2009). It is believed that when transparency increases, public suspicion and distrust will be minimized (Rahmani & Ratnawati, 2014).

2.7.11 Service Quality

Service quality has attracted the interest of many researchers (Parasuraman, Zeithaml, & Berry, 1985; Pariseau & McDaniel, 1997; Reeves & Bednar, 1994; Teas, 1993). According to Parasuraman et al. (1985) business accomplishment and survival depend on the ability to deliver quality service. Carmen (1990) supports the statement by saying quality is a key factor for business survival.

Quality has been defined in so many ways and yet the definition is still inconclusive. Crosby (1979) defined quality as "conformance to specifications". Other researchers defined quality as meeting or exceeding customers' expectation (Parasuraman et al., 1985). Quality also is defined as *"professional and polite service"*, *"accomplish information needs of customers"* and *"pleasant environment and facilities"* (Zaiton, Goon, & Wan Hajrah, 1998). Reeves and Bedner (1994) reported that the definition of quality starts with *"quality is excellence"*, to *"quality is value"*, to *"quality is conformance to*

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specifications", to *"quality is meeting or exceeding customers' expectations"*. Berry, Zeithaml and Parasuraman (1985) defined service quality as comparison between customer expectations before the service and their experience after the service. This definition is consistent with the finding that customers' satisfaction can be achieved if the service experience is beyond their expectations (Bitner, 1990; Carmen, 1990; Cronin & Taylor, 1992). In the context of zakat institutions, service quality is defined as all kind of services that meet the expectations of zakat stakeholders and contribute to their satisfaction.

An instrument known as service quality (SERVQUAL) was developed to measure customers' perceptions of service quality. After undergo refinement, SERVQUAL has five dimensions that is tangibles, reliability, responsiveness, assurance, and empathy (Parasuraman, Zeithaml, & Berry, 1988). Carmen (1990) adapts SERVQUAL instrument and test it in four new setting; tire store, placement center, dental clinic and hospital to measure its replication. He found that customization of items are needed to each setting because the dimensions are not totally generic. Cronin and Taylor (1994) critique the usage of SERVQUAL instrument and propose service performance (SERVPERF) as an alternative. Whereas Teas (1993) argued that service quality model suffer from conceptual and operational definitions of expectations.

The question might be raised on how service quality can become part of governance. The World Bank (1991) stated that a capacity and efficiency issue in public sector management is one of the key dimensions of governance. The focus on capacity and efficiency issues in public sector management is essential as it relates to the development of a company. The

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prospects for development are poor if the capacity of the public sector to manage the economy and deliver public services is weak (The World Bank, 1991). The above statement reinforces the importance of service quality to governance. Hence for organization to come out with good governance, service quality must be considered. This is because only by delivering best service quality can guarantee that the organization development is in good prospect.

In zakat environment, zakat stakeholders are affected by decisions made by the management of zakat institutions. In addition, the existence of zakat institutions is to serve these groups. Therefore, it is reasonable to expect that stakeholders' perception on service quality of zakat institutions influence zakat institution's governance. If service quality is provided to zakat payers, motivation to pay zakat could be enhanced and they could calmly perform their obligatory duty. For zakat recipients, service quality would increase their satisfaction towards zakat institutions. For other remaining stakeholders, positive perception towards zakat institution would be created.

2.7.12 Information Technology

The concept of information technology (IT) governance is getting popular and this was evidenced via the growing number of IT governance literatures. This variable plays a significant role in governance of the organization by ensuring appropriate return on technology investments (Brown & Grant, 2005; Trites, 2004). Despite its popularity, IT governance needs are still underutilized in university environment (Noor Azizi, 2008). This

may due to directors who are not really understand about governance issues relating to IT (Trites, 2004).

IT governance carries various meaning to researchers. Weill and Ross (2004b) defined IT governances as framework that promotes appropriate behavior in using IT where emphasis is given on decision rights and accountability. Besides it is also an essential part of corporate governance and requires senior management's attention (Ko & Fink, 2010; Lin et al., 2010). IT governance combines leadership, organizational structure and processes to achieve organization objectives (IT Governance Institute, 2003). IT governance also covers strategic planning in relation to the use of technology, integrity of control and management information systems and risks related to IT (Trites, 2004).

IT governance consist of three dimensions namely structure, process and people. Structure refers to how IT function is carried out (Ko & Fink, 2010). It deals more with control and management. IT governance structure is vital as it will determine the benefit that organizations could acquire from IT (Weill & Ross, 2004b). Nowadays, organizations are required to take up governance framework that is strict and transparent due to law enforcement. This force the organizations to revise its existing governance structure to meet the requirement (Brown & Grant, 2005). Meanwhile process can be viewed as IT activities that align strategically IT and business. Process would enable IT to support the strategic business objectives (Ko & Fink, 2010). Process under IT governance focuses more on stability and ability to sustain. People, another dimension of IT, however is given less emphasis (IT Governance Institute, 2003). People combine human elements like

leadership and other human skills. IT governance requires human skills to ensure organization objective can be achieved (IT Governance Institute, 2003). In relation to leadership, Weill and Ross (2004b) found that quality in making IT decisions differentiate between top performing organization and ordinary organization. A similar situation is also expected for zakat institutions where optimum usage of IT in governance usually shows better performance. LZS and PPZ-MAIWP are examples of zakat institutions that are successful in manipulating IT to their advantage (PPZ-MAIWP, 2010a; Shawal, 2009). In contrast, state like Kedah is a bit skeptical when it comes to IT decisions (Mohd Sani, personal communication, October 11, 2010).

Several studies have reported favorable findings for IT governance. Weill and Ross (2004a) found that companies with better IT governance enjoy 25% higher profits than poor governance companies. Besides, IT governance offers competitive advantage, increase in productivity, value creation, efficiency in disseminating information and managing resources (IT Governance Institute, 2003). In addition, IT governance links IT decisions with company objectives and allow performance and accountability to be monitored (Weill & Ross, 2004b). This motivates contemporary business to recognize the significant role played by IT (Trites, 2004). However, it all depend on whether managers are fully aware the potential of IT governance. Lin et al. (2010) found that awareness of IT governance among senior management in Malaysian companies has increased. This is important because awareness of IT governance process contribute to the governance effectiveness (Weill & Ross, 2004b). In the context of zakat institutions, awareness of top management towards IT governance in some states is still low. This perhaps due to lack of understanding

about IT governance and old minded of its superior officer that resists to change (Mohd Sani, personal communication, October 11, 2010). In this study IT governance refers to the use of technology to facilitate decision making, improving its governance processes, ensuring better services to stakeholders and assisting the achievement of strategic objectives.

2.7.13 Religiosity

Islam is the only religion accepted by Allah as stated in Surah Ali Imran verse 19 (Ibnu Kathier, 2007b). Islam is defined as the complete submission of man to Allah (Maududi, 2011). In the Holy Quran, the definition of Islam can be found in Surah Al Baqarah verse 177 (Ibnu Kathier, 2007c) and Surah An-Nisa verse 136 (Ibnu Kathier, 2007b) which touch about pillars of faith and pillars of Islam. Besides Islamic religion is defined as surrender to God's commandments (Fam, Waller, & Erdogan, 2004). The concept promoted by Islam such as accountability, transparency and good leadership are all relevant to be applied in governing the organizations. However discussion about the relationship between religiosity and zakat institution's governance has not yet been found in the literature. Thus examining this variable in the context of zakat institution's governance would offer significant contribution in fulfilling the existing gap.

Religiosity is part of good governance under the Islamic perspective. However none of the principles in governance pioneered by western countries emphasize on religiosity in total (Blue Ribbon Committee, 1999; Cadbury Committee, 1992; Hampel Report, 1998; OECD, 2004). The most that come close to religiosity is the concept of moral obligation (Darwall,

2010; Leonard & Cronan, 2005; Zandstra, 2002). However, the concept is loose because it does not focus on a relationship with Allah (God). Islam is the way of life which indicates that Islam is a comprehensive system and affects all aspects of human life including governance (Abdul Ghafar & Achmad, 2010; Almoharby, 2011). Therefore the separation of religion in governance should not be practiced by Islamic organizations like zakat institutions. Prophet Muhammad (PBUH) already proved that governance which is based on true Islamic teaching will spur a country towards excellence. Under the legacy of Prophet Muhammad (PBUH) and his companions, the administration of Islamic countries is at supremacy level. The secret to their success is because the fear of God (Mohd Zaidi & Mohd Sani, 2011). This element should be embedded into governance of zakat institutions to address behavioral problems of zakat employees and able to differentiate zakat institution's governance from conventional governance. Besides, board of directors, managers and employees at all level must exercise their religious knowledge to generate efficient and effective administration.

In zakat environment, several studies have used religiosity variables to explain the existing phenomenon. However those studies focus more on compliance behavior of zakat. For example Kamil (2002) stated that there is inverse relationship between religiosity and compliance behavior of zakat on employment income. The reasonable justification given is Muslims with high religiosity tend to pay zakat directly to zakat recipients without using zakat institutions as mediator. Another study by Zainol (2008) demonstrates positive relationship where Muslims with high religiosity would also have high intention to pay zakat on employment income. Ram Al Jaffri (2010b) found that one dimension of

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religiosity namely non-compulsory worship has influence on the relationship between subjective norm and behavioral intention. Meanwhile, Hairunnizam et al. (2011) found that religiosity factor is significant in influencing income level of the needy. Another study that focus zakat on saving found that religiosity can predict zakat compliance behavior on saving (Farah Mastura & Zainol, 2015). Such diverse findings give an indication that this variable would have some influence in zakat institution's governance.

In this study, religiosity is defined as the perception of zakat payers towards the religiosity of zakat employees in the governance of zakat institutions. This study expects that religiosity of zakat employees would play an influencing role in zakat institution's governance. High religiosity would indicate strong influence to zakat institution's governance and lead to better performance (Nurul Nurhidayatie, Roshaiza, Mohammad Rodzi, & Mohd Nazli, 2014). On the other hand, low religiosity would indicate less influence to zakat institution's governance. The focus of religiosity is on zakat employees because they are responsible in administrating zakat affairs. Incidence such as bribery, misuse of power would not occur if the religiosity of zakat employees is strong.

Religiosity also can be viewed from collective perspective and can be related to the *shura* practice. *Shura* is simply the concept of decision making in Islam in which decisions are made as a group rather than individual. Normally the decisions made in the groups are better than individual decisions. This concept is very important in the system of Islamic government. For example, the practice of *shura* concept in the reign of Caliph Umar Abdul

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Aziz has contributed to the success of his administration, especially in zakat management (Abdul Latip, 2013).

Command relating to shura can be found in Surah Ali Imran verse 159:

فَبِمَا رَحْمَةٍ مِّنَ ٱللَّهِ لِنتَ لَهُمْ ۖ وَلَوْ كُنتَ فَظًّا غَلِيظَ ٱلْقَلْبِ لَٱنفَضُّوا۟ مِنْ حَوْلِكَ ۖ فَٱعْفُ عَنْهُمْ وَٱسْتَغْفِرْ لَهُمْ وَشَاوِرْهُمْ فِى ٱلْأَمْرِ ۖ فَإِذَا عَزَمْتَ فَتَوَكَّلْ عَلَى ٱللَّهِ ۚ إِنَّ ٱللَّهَ يُحِبُّ ٱلْمُتَوَكِّلِينَ ﴿١٥٩﴾

So by mercy from Allah, [O Muhammad], you were lenient with them. And if you had been rude [in speech] and harsh in heart, they would have disbanded from about you. So pardon them and ask forgiveness for them and consult them in the matter. And when you have decided, then rely upon Allah. Indeed, Allah loves those who rely [upon Him] (Ibnu Kathier, 2007b).

There are several roles played by *shura* in Islam. First, s*hura* plays an important role in determining the leader of an Islamic state. For examples, *shura* is used to appoint a Caliph after the death of Prophet Muhammad PBUH. Second, *shura* bringing people and government together. *Shura* was attended not only by the government, but also followed by other groups such as academician, businessman and so on. A decision in the meeting, is not subject to government decisions but also take into account the views and opinions of subordinates including the crowds. The meeting process brought public closer to each other and give them the opportunity to express their views on issues that concern the general public. Thus, harmonization in the country can be created.

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Third, *shura* also play a role in spreading Islam to all corners of the country that adopts such system. That is why Islam gives huge emphasizes in the concept of *shura*, especially in handling worldly affairs which must be enforced by religion. Moreover, *shura* enables people to think and use their wisdom to voice their opinions on an issue (Muqtedar Khan, 2002). *Shura* can also save the leaders from sin, especially in the implementation of a law. This is because, if leaders use their own decisions, probably their decision are based on personal interest. Fourth, *shura* acts as an advisor in the Islamic leadership. Advisor is an important element that must exist in the Islamic leadership because it provides guide to the leadership. Therefore, *shura* is vital because it contribute to the success of a leadership. *Shura* also is viewed as an advisor to any decision made by a leader in his leadership. Further than that, the *shura* not only can solve the problems in the administration, but it also act as a field to discuss strategy and work specialization within an Islamic leadership. Fifth, *shura* assists in establishing a noble character in leadership. *Shura* is a concept of meeting involving the participation of many experts, for which each member is entitled to express opinions without any restrictions (Muqtedar Khan, 2002). *Shura* process held in a safe state, each member respecting the views of each other. Thus, indirectly *shura* successful build good morals among its members. The sequence of these will lead to the emergence of leaders who are open minded, respect the opinions of others, positive attitude to criticism, do not hurt other people either through words and deeds, and so on. With the birth of these values, an excellent leadership can be formed via *shura*.

Shura is a concept that should exist within the Muslim community. Without *shura*, Muslims will lose the benefit and strength that is needed to properly manage the country.

Moreover, the *shura* is a religious obligation and its implementation is necessary to fulfill the Islamic requirement as shown by the Prophet Muhammad PBUH and his companions. Therefore, Allah exhorts Muslims to implement it. However, its implementation should be among those who qualify and they are responsible for the realization of the true role of *shura*.

Every individual activity within the organization must follow the guidelines set by the organizations. Normally, guidelines that have been set have been agreed upon by all members involved through shura practice. So, the decision made is not an individual decision but collective decision which meets the requirements of *shura* (Muqtedar Khan, 2002). The shared values of an organization constitute individual values in which all individuals are subject to the shared values of the organization formed through the *shura* process. For example, the value of religion formed through the practice of *shura* by Caliph Umar Abdul Aziz cultivated on his people will make his people's religion individually increased. The impression of increasing the value of this individual religion makes his people produce qualities such as *qana'ah* and *zuhud* which help the Caliph to govern more effectively (Abdul Latip, 2013).

2.7.14 Law

Law is defined as the imposition of certain rules to encourage desirable behavior from the people (Gully-Hart, 2005; Kamil, 2002; Ram Al Jaffri, 2010b; Zainol, 2008). Law is an important element to govern the administration of an institution and ensure that

organizations are well managed. As such it is regarded as main mechanism to control and outline jurisdiction of an institution (Mohd Ali, 1989).

In addition, the law can be strengthened with the use of punishment. Sutinen and Kuperan (1999) assert that the imposition of the punishment may prevent individuals from committing an offense. This show that punishment will make people follows the law that being enforced. Besides that law would trigger individuals to perform their responsibility (Kamil, 2002). Also, individual compliance would be enhanced if the law is seen as having a strict action power and severe penalties (Ram Al Jaffri, 2010b).

Law is closely related with governance of an organization. This is understood as governance involves people and will only succeed if all the people in that organization play their role effectively. The presence of law will ensure every person act accordingly and assist in developing good governance. In US, Sarbanes-Oxley act was passed in 2002 and this law is used to restore public confidence in corporate governance (Wikipedia, 2011).

A number of researches reported the relationship between law and governance (Dambachultem & Sodno, 2006; Morita & Zaelke, 2005; OECD, 2005). The statement that good governance is subject to effective law shows the existence of this relationship (Morita & Zaelke, 2005). However there are difficulties faced by companies in achieving good governance. For example Dambachultem and Sodno (2006) identified lack of law enforcement and lack of power in addressing violation of law requirements as some of the

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difficulties. Another difficulty is the oversight of corporate governance standards (OECD, 2005).

In taxation field, there are a few findings that relates to law. For example Malkawi and Haloush (2008) found that there is insufficient law in Jordan to prevent tax evasion and suggest the imposition of severe civil and criminal penalties to solve the problem. Another finding reveals that ambiguity and complexity of tax law have negative relationship with voluntary tax compliance behavior (Blumenthal, Christian, & Slemrod, 2001).

There are several studies in the context of zakat that relate to law. For example Mohd Ali (1989) noticed that weaknesses in zakat law contribute to the lack of effectiveness of zakat collection. This affects the collection and distribution of zakat. Another study by Kamil (2002) revealed that there is positive relationship between perception about zakat law and compliance behavior of zakat on employment income. Zainol (2008) also provide supportive evidence where his finding demonstrates significant relationship between perceptions about zakat law with zakat compliance behavioral intention on employment income.

The above findings give an indication that law would have some influence in zakat institution's governance. This study will look at law from the perspective of zakat stakeholders. The emphasis is given on how law contributes to good governance of zakat institutions. This is because good governance practices must be consistent with the rule of law and that law must be adequate (OECD, 2004; The World Bank, 1991).

2.7.15 Enforcement

Enforcement is defined as the enforcing of certain rules to encourage desirable behavior from the people (Gully-Hart, 2005; Kamil, 2002; Ram Al Jaffri, 2010b; Zainol, 2008). Mohd Ali (1989) added that enforcement can encourage compliance to regulation. This is critical to enable organizations achieve its strategic objectives.

In addition, the use of punishment would strengthen the enforcement as it may prevent individuals from committing an offense (Sutinen & Kuperan, 1999). This show that punishment will make people follows the law that being enforced. Besides that enforcement would trigger individuals to perform their responsibility (Kamil, 2002). Also, individual compliance would be enhanced if enforcement is seen as having a strict action power and severe penalties (Ram Al Jaffri, 2010b). Bhasin (2005) supports the statement by saying compliance to corporate governance rules is a big challenge that requires better enforcement.

The relationship between enforcement and governance has been highlighted in many researches (Dambachultem & Sodno, 2006; Morita & Zaelke, 2005; OECD, 2005). In achieving good governance, difficulties such as lack of law enforcement and lack of power in addressing violation of law requirements need to be overcome (Dambachultem & Sodno, 2006). Another difficulty is the enforcement of corporate governance standards (OECD, 2005). Morita and Zaelke (2005) further added that law without enforcement deteriorates progress towards sustainable development. Another finding stated that when legal

enforcement is weak, significant back up from other governance element like transparency is really required (Bhat et al., 2006).

In taxation field, there are a few findings that relates to enforcement. For example, the use of deterrence model which is widely used in policy making and law enforcement in taxation (Murphy, 2008). In addition Ho and Wong (2008) reported that strict enforcement produce positive result on tax compliance.

Several studies also being found in the context of zakat that relates to enforcement. For example Aidit (1989) point out that enforcement on zakat law is very minimum. This affects the collection and distribution of zakat. Three reasons were identified that contribute to this problem namely zakat law is insufficient to enable full enforcement, zakat institutions refuse to prosecute and authorities did not play an active role (Aidit, 1989).

The above findings give an indication that enforcement would have some influence in zakat institution's governance. This study will look at enforcement from the perspective of zakat stakeholders. The emphasis is given on how enforcement contributes to good governance of zakat institutions. This is because good governance practices must ensure that its law is fully enforced (OECD, 2004; The World Bank, 1991).

2.8   Theoretical Assumptions

This study combines the strength of two theories namely stakeholder theory and agency theory as underlying theories. Both theories received strong recognition in studies related

to governance (Abbasi, 2009; Branco & Rodrigues, 2007; Donaldson & Preston, 1995; Eisenhardt, 1989; Friedman & Miles, 2002; Jensen & Meckling, 1976; Simmons & Lovegrove, 2005). Agency theory focuses only on relationship between companies and its shareholders. Stakeholder theory extends that relationship by focusing also on other stakeholders. This is aligned with the objective of zakat institutions in providing justice to all parties. The following section would provide discussion on these theories.

2.8.1 Stakeholder Theory

Freeman (2010)[8] defines stakeholders as *"any group or individual who can affect or is affected by the achievement of the organization's objectives"*. Meanwhile Clarkson (1995) defined stakeholders as *"persons or groups that have, or claim, ownership, rights, or interests in a corporation and its activities, past, present, or future"*. Beside, stakeholders are group that have legitimate interest in the corporation (Donaldson & Preston, 1995). The fundamental concept of stakeholder theory is protection should not only being given to shareholder but also to other parties (stakeholders) where companies' decision would have an impact on them.

Frooman (1999) raised three important questions that need to be addressed in stakeholder theory. First, who are the stakeholders of a company? Second, what do the stakeholders' desire from the company? Lastly, how the stakeholders' fulfill their desire? Therefore, firms must accurately identify their stakeholders so that they could give most excellent service and look after the interest of these groups (Freeman, 2010). Stakeholder theory tries

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[8] Book written by Freeman in 1984 was reprinted again in 2010.

to tackle the question of who is important to the organization and what really counts (Freeman, 2010).

Stakeholder theory has been used in many governance studies. Collier (2008) highlights the use of stakeholder theory in the context of accountability, one of the dimensions for governance. Besides, this theory also has been applied in corporate social responsibility context where the companies are required to give consideration to all groups affected by their decisions (Branco & Rodrigues, 2007). Other contexts that apply stakeholder theory are; annual report environmental disclosures (Elijido-Ten, 2009); corporate social and environmental performance (Clarkson, 1995; Elijido-Ten, 2009); stakeholder management for organizational sustainability (Garvare & Johansson, 2010); marketing strategy development in a nonprofit organization (Knox & Gruar, 2007); franchising decision-making (Altinay & Miles, 2006); success or failure of e-government service (Luk, 2009) and managerial misconduct (Culpan & Trussel, 2005). However, in governance of zakat institutions, stakeholder theory has not yet been tested.

The essence of stakeholder theory is protection should be given to all stakeholders. This is in line with zakat principles that provide social justice to Muslim at large. Stakeholder theory requires an organization to identify who are their stakeholders. According to Frooman (1999) the identification of stakeholders is one of the important questions need to be addressed in stakeholder theory. This concept being applied in zakat institutions where zakat stakeholders have been identified into six groups namely zakat payers, zakat employees, zakat recipients, federal government, state government and Muslim society.

Zakat stakeholders are then further classified into primary stakeholders and secondary stakeholders to indicate their importance to zakat institutions. Primary stakeholders consist of zakat payers, zakat employees and zakat recipients whereas the remaining zakat stakeholders fall under the category of secondary stakeholders.

This study has placed stakeholder theory as main underlying theory. Stakeholder theory is suitable because the essence of stakeholder theory is protection should be given to all stakeholders. This aligns with the spirit of zakat institutions in providing economic and social justice to all parties. Furthermore, stakeholder theory requires an organization to identify who are their stakeholders. According to Frooman (1999) the identification of stakeholders is one of the important questions need to be addressed in stakeholder theory. This concept being applied in zakat institutions where zakat stakeholders have been identified into six groups namely zakat payers, zakat employees, zakat recipients, federal government, state government and Muslim society. Zakat stakeholders are then further classified into primary stakeholders and secondary stakeholders to indicate their importance to zakat institutions. Primary stakeholders are defined as groups where their involvement ensures the continuity of an organization (Clarkson, 1995). In this study, primary stakeholders consist of zakat payers, zakat employees and zakat recipients whereas the remaining zakat stakeholders fall under the category of secondary stakeholders. They are regarded as primary stakeholder based on the identification in the stakeholder theory.

Figure 2.2 shows the overview of stakeholders for a firm. It identifies parties that are directly or indirectly affected by company's decision. The complication of modern

business environment requires companies to focus also to other stakeholders such as governments, competitors, consumer advocates, environmentalists, special interest groups (SIG), media and local community organizations. Previously, focus is only given to owners, customers, employees and suppliers who have direct relationship with the companies (Freeman, 2010).
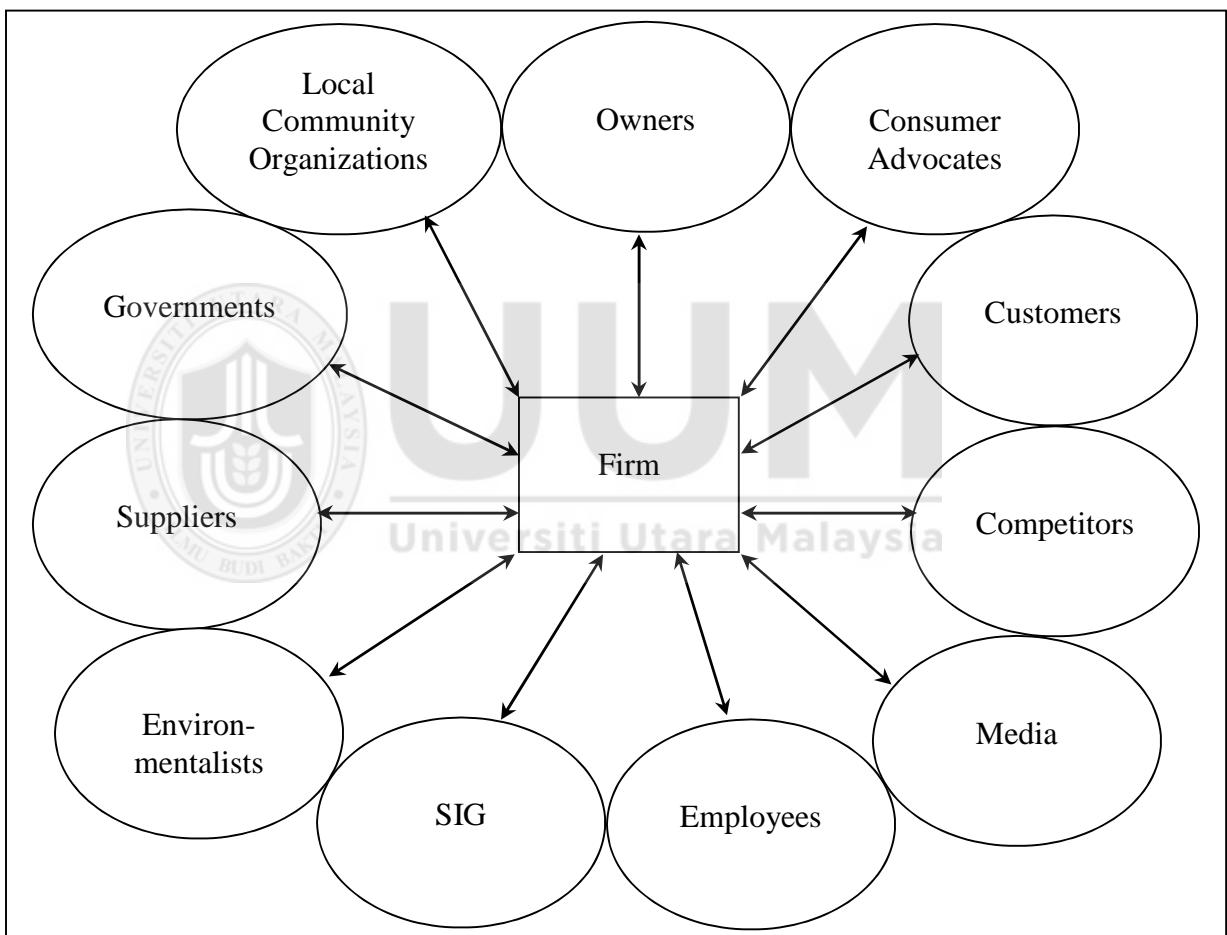
Figure 2.2
Stakeholder View of Firm
Source: Freeman, 2010, p.25.[9]

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[9] The groups listed here are examples of categories of stakeholders. Meaning the list is not exhaustive.

In the context of zakat institutions, the stakeholders of zakat institutions are zakat payers, zakat recipients, state government, federal government, employees and Muslims society. Figure 2.3 shows the stakeholder view of zakat institutions. The two-headed arrows represent give and take relationship between stakeholders and zakat institutions. For example zakat payers pay zakat to zakat institutions (give relationship) and in return they receive receipts from zakat institutions that entitle them to get tax rebate (take relationship). Same thing goes to zakat recipients where they give personal and financial information to zakat institutions and in return they receive zakat fund from zakat institutions. Employees on the other hand, give service to zakat institutions and in return they receive salaries from zakat institutions.
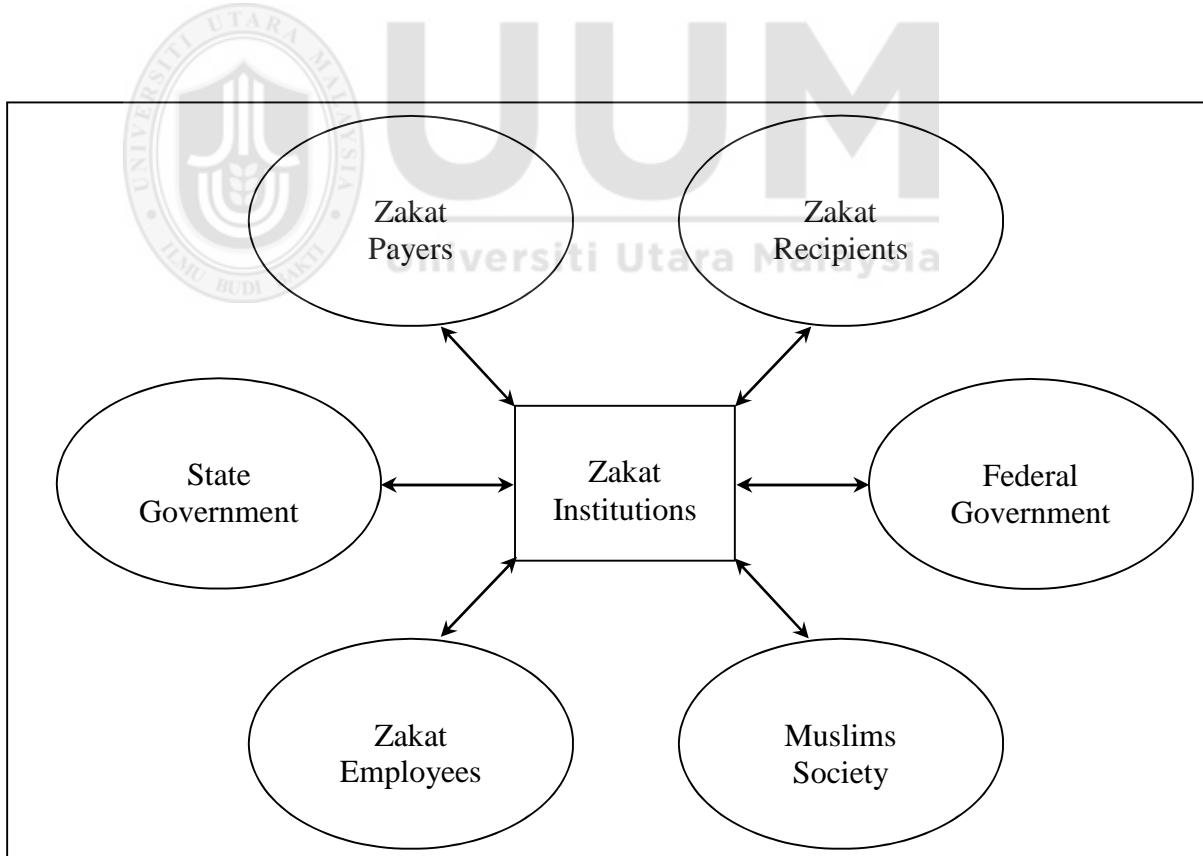
Figure 2.3
Stakeholder View of Zakat Institutions
Source: Author's own

Stakeholders of zakat institutions were identified from stakeholder view of firm introduced by Freeman. However some modification of the term is required to suit and represent zakat environment. Table 2.3 presents the term used for zakat institutions which actually have the same meaning with Freeman's stakeholder view of firm.

Table 2.3
Stakeholder View of Zakat Institutions and Firm

Stakeholder view of zakat institutions	Stakeholder view of firm (Freeman)
Zakat payers	Suppliers
Zakat recipients	Customers
State government	Owners
Federal government	Governments
Zakat employees	Employees
Muslims society	Consumer Advocates, Environmentalists, SIG, Media, Competitors and Local Community Organization

2.8.2   Stakeholder Theory from the Islamic Perspective

Stakeholder theory is closer to principles in Islam because it give emphasis on property rights and contractual framework. Islam refers property rights as stakeholders right to take part in the decision making process because they are affected via the actions taken by the organizations. In Islam, the ultimate owner of all properties is Allah and human beings are given the role as trustees only. Therefore, human beings must administer and use the property according to the will of Allah. This has been stated in Surah Al-Hadiid verse 7:

<div dir="rtl">

ءَامِنُوا بِٱللَّهِ وَرَسُولِهِۦ وَأَنفِقُوا مِمَّا جَعَلَكُم مُّسْتَخْلَفِينَ فِيهِ فَٱلَّذِينَ ءَامَنُوا مِنكُمْ وَأَنفَقُوا لَهُمْ أَجْرٌ كَبِيرٌ ۝

</div>

Believe in Allah and His Messenger and spend out of that in which He has made you successors. For those who have believed among you and spent, there will be a great reward (Ibnu Kathier, 2007e).

From Islamic perspective, the concept of collectivity is used where a property should be shared with others in the communities as they also have right on that property (Azid, Asutay, & Burki, 2007). Besides that Islam also stress that the property of others cannot be abused. Thus, if the property is obtained via illegal way, the right to that property is automatically lost.

In terms of contractual framework, everybody who involve in any business has to meet his contractual obligation (Azid et al., 2007). Islam is very concerned in fulfilling the contractual obligations. This is stated in Surah Al-Ma'idah verse 1:

<div dir="rtl">

يَٰٓأَيُّهَا ٱلَّذِينَ ءَامَنُوٓا أَوْفُوا بِٱلْعُقُودِ أُحِلَّتْ لَكُم بَهِيمَةُ ٱلْأَنْعَٰمِ إِلَّا مَا يُتْلَىٰ عَلَيْكُمْ غَيْرَ مُحِلِّي ٱلصَّيْدِ وَأَنتُمْ حُرُمٌ إِنَّ ٱللَّهَ يَحْكُمُ مَا يُرِيدُ ۝

</div>

O you who have believed, fulfill [all] contracts. Lawful for you are the animals of grazing livestock except for that which is recited to you [in this Qur'an] - hunting not being permitted while you are in the state of ihram. Indeed, Allah ordains what He intends (Ibnu Kathier, 2007f).

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This is important and encouraged in Islam because it promote justice and prevents betrayal. As discussed before, the conventional stakeholder theory is concerned with stakeholders' rights and interest. This is similar with the Islamic corporate governance theory on stakeholder model. Islamic corporate governance also stresses on the importance of maximizing the welfare of all stakeholders through the property rights and contractual obligation principles. Supporters of the agency theory condemn the stakeholder theory as it potentially brings about conflict of interests when the organizations have to consider all stakeholders' interest. This is alleviated in Islam because Islam promote the principle of public interest.

In Islam, the best of mankind for man is the most beneficial to the human being because of the nature of those who do good and prevent evil and believe in Allah SWT. This statement is pointed out in Surah Ali Imran verse 110:

كُنتُمْ خَيْرَ أُمَّةٍ أُخْرِجَتْ لِلنَّاسِ تَأْمُرُونَ بِالْمَعْرُوفِ وَتَنْهَوْنَ عَنِ الْمُنكَرِ وَتُؤْمِنُونَ بِاللَّهِ ۗ وَلَوْ ءَامَنَ أَهْلُ الْكِتَٰبِ لَكَانَ خَيْرًا لَّهُم ۚ مِّنْهُمُ الْمُؤْمِنُونَ وَأَكْثَرُهُمُ الْفَٰسِقُونَ ﴿١١٠﴾

You are the best nation produced [as an example] for mankind. You enjoin what is right and forbid what is wrong and believe in Allah. If only the People of the Scripture had believed, it would have been better for them. Among them are believers, but most of them are defiantly disobedient (Ibnu Kathier, 2007b).

Muslims are the best people who are born to the benefit of mankind and our Prophet Muhammad PBUH is the example of good moral. This is the main principle in Islam where in the relationship between human beings, one cannot cause damage to another person. If this principle is applied, agency problem can be easily addressed. The problem that is happening in the organization today is due to the damaged relationship between fellow human beings. Those who should give benefit to other human but instead they give others the disadvantages because they do not understand how important it is to maintain a brotherly relationship. This contribute to the emergence of negative traits in a person's personality such as important, greedy, tyrannical and deceptive. This is in conflict with the attributes that are highlighted in Islam that will lead to prosperity and harmony in society. The concepts of trust, honesty, sincerity and accountability are highly emphasized in Islam to safeguard the human beings. So, if these concepts are performed well by people who are entrusted, it can protect all stakeholders from suffering loss.
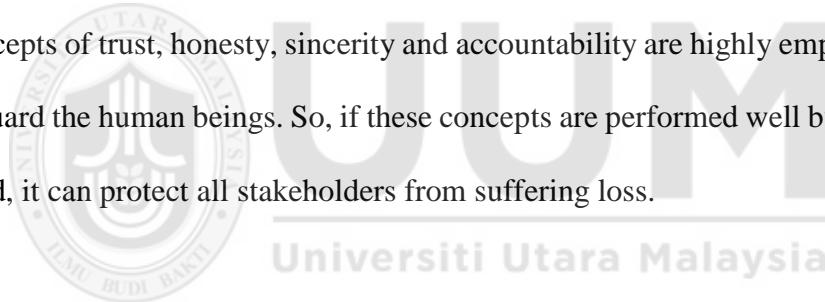
2.8.3 Agency Theory

Agency theory is one of the most influential theories in explaining principal-agent relationship (Eisenhardt, 1989; Jensen & Meckling, 1976). Agency theory originates from the work done by Jensen and Meckling in 1976. However the idea relates to agency theory come from earlier researchers like Ronald Coase in 1937 and Armen Alchian and Harold Demsetz in 1972 (Abbasi, 2009). Jensen and Meckling (1976) defined agency relationships as a contract where the principals appoint the agent to execute job on their behalf and that agent is entrusted with power to make decision.

Table 2.4 provides general overview about agency theory. It highlights the main concept of agency theory and identify agency problem. In general, agency theory attempts to address the conflicting goal between principal and agent and different risk preferences between them. This theory also assumes that agent has more information than principal thus creating information asymmetry.

Table 2.4
Overview of Agency Theory

Main idea	Relationships between principal and agent
Unit of analysis	Contract between principal and agent
Human assumptions	Self-interest, bounded rationality, risk aversion
Organizational assumptions	Partial goal conflict among participants Efficiency as the effectiveness criterion Information asymmetry between principal and agent
Information assumption	Information as a purchasable commodity
Contracting problems	Moral hazard, adverse selection, risk sharing
Problem domain	Principal has different goals and risk preferences than agent

Source: Eisenhardt, 1989, p.59

Agency theory is widely used in studying governance of an organization and several studies can be used as supporting evidence. Study by Nicholson and Kiel (2007) highlighted that agency theory offers assistance in understanding the role that directors may play in their organization in order to give impact to the organization's performance. While Dorata and Petra (2008) highlighted that CEO duality will promote agency issues. Therefore agency theory argues that role of board chair and CEO need to be alienated to protect shareholder

interests (Bliss et al., 2007; Fama & Jensen, 1983). In addition agency theory proposes that the increase number of independent directors on board would increase monitoring efficiency. This reduces the opportunity for managers to pursue their own interest at the expense of owners (Nicholson & Kiel, 2007). Beside agency theory also offers some benefit to the organization. For example agency theory benefits internal control (Adams, 1994) and improve efficiency within organizations (Jones, 1995).

The understanding of agency theory could assist the management of zakat institutions to better understand their governance. Although zakat institutions are operating in different environment, the basic structure and problem are still the same. Hence, concepts in agency theory can be studied and used in resolving any conflict that strike zakat institutions.

Agency theory is very common when discussing about ownership and control in an organization (Abbasi, 2009; Crowther & Martinez, 2007; Fama & Jensen, 1983). This theory stated that conflict of interest in the company arises due to separation of ownership and control. Jensen and Meckling (1976) identify this conflict as an agency problem. This problem exists because manager may not always serve shareholders' interest (Bonazzi & Islam, 2007). This relates to three fundamental assumptions relating to agents and principals relationship. First, both parties are presumed to be normal. Second, they are presumed to have self-interest. Third, managers (agents) are presumed to be risk-averse than the principals (Jensen & Meckling, 1976). These assumptions require active controlling and supervision from boards (Huse, 2005). Hence, agency theory suggested that board is given the responsibility to inspire desirable behavior from agent (Kim, 2011).

This suggestion involves agency cost for the company to ensure agent acting on behalf of owners (Jones, 1995).

Separation of ownership and control cause problem such as: conflict of interest between principals and agents (Eisenhardt, 1989; Jensen & Meckling, 1976), difference risk preference between principals and agents (Eisenhardt, 1989; Jensen & Meckling, 1976), moral hazard problem because of agents' attitude (Abbasi, 2009; Eisenhardt, 1989) and information asymmetry between the principal and agent (Abbasi, 2009; Eisenhardt, 1989; Jensen & Meckling, 1976; Jones, 1995). The failure of agent to adequately pursue the interests of the principal is due to agency problem such as moral hazard and adverse selection. Inability of the principal to adequately verify agent's effort contributes to moral hazard (Jones, 1995). Whereas adverse selection occur when agent does not behave as desired by the principal (Eisenhardt, 1989).

In the context of zakat institutions, ownership and control of zakat institutions are also being put under two different parties. State government is the principal or owner of zakat institutions whereas CEO of zakat institutions will be acting as an agent. Thus conflict of interest still occurs in zakat institutions as highlighted by agency theory. Although for some state like Kedah, zakat institution is put directly under Sultan (Kamil, 2002; Ram Al Jaffri, 2010b; Zainol, 2008), it still does not eliminate the conflict since Sultan has to delegate the authority to its assistance to act on his behalf.

Kim (2011) identified three types of agency cost namely monitoring, bonding and residual loss. Monitoring cost is cost incurred by principal to monitor the company. Example of monitoring cost is internal auditing cost, controlling cost and incentives for managers (Abbasi, 2009; Adams, 1994; Jensen & Meckling, 1976; Jones, 1995; Kim, 2011). Bonding cost is cost incurred by the agent to portray that the agent is acting on behalf of the owner such as cost for financial statement to be audited (Abbasi, 2009; Adams, 1994; Jensen & Meckling, 1976; Jones, 1995; Kim, 2011). Meanwhile residual loss is loss of principal's wealth because of the decision made by agent (Abbasi, 2009; Jensen & Meckling, 1976; Kim, 2011).

Several mechanisms could be used to address agency problem. For example, principals can reduce goal conflict by providing incentive to agents if they could act in the manner desired by principals (Whipple & Roh, 2010). The provision of such incentive assists in aligning financial interest of both parties (Adams, 1994; Arthur, Garvey, Swan, & Taylor, 1993; Jensen & Meckling, 1976). In addition managers must be monitored and rewarded to ensure best decisions on behalf of shareholder are made (Jensen & Meckling, 1976). In relation to information asymmetry, agency theory stated that principal has less information than agent and this information asymmetry limit the ability of principal to effectively monitor agent (Adams, 1994). Information asymmetry can be reduced by investing in information monitoring capabilities (Fama & Jensen, 1983). Information monitoring capabilities include external audit or information technology which enables principal to obtain sufficient information to evaluate agent's behavior (Eisenhardt, 1989).

Monitoring aspect also received serious attention from some zakat institutions. For example LZS reported that it has audit committee to control and monitor its activities (LZS, 2010b). Meanwhile PPZ-MAIWP reported that its internal control is strengthened through the enforcement of periodic audit (PPZ-MAIWP, 2010a). However, no evidence was found for other zakat institutions regarding their monitoring efforts[10]. This implies that audit is given less emphasis in those institutions.

Another concept in agency theory, information asymmetry, is also occurs in zakat institutions. Information asymmetry in zakat institutions is obvious when there is no sharing of important information (Adams, 1994; Mohd Faisol et al., 2009). This can cause dissatisfaction and negative perception towards zakat institutions (Hairunnizam et al., 2009).
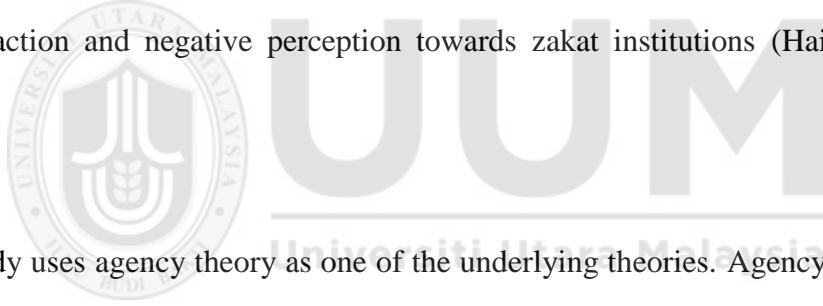
This study uses agency theory as one of the underlying theories. Agency theory has been applied in many situation and context, for example board structures (Arthur et al., 1993); CEO duality (Arthur et al., 1993); board monitoring (Bonazzi & Islam, 2007); internal audit discipline (Adams, 1994); outsourcing (Eisenhardt, 1989); performance-based contracting (Hypko, Tilebein, & Gleich, 2010); and managerial ownership (Mazlina & Ayoib, 2011). However, in the context of zakat institution's governance, the applicability of this theory has not yet been tested. Zakat institutions have unique environment where it is loose in term of law and enforcement (Kamil, 2002; Ram Al Jaffri, 2010b; Zainol, 2008).

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[10] Website survey of zakat institutions was conducted on March 14, 2012.

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Therefore, the application of agency theory in that context would enrich the existing knowledge.

As a conclusion, agency theory does offer some understanding about relationship between principals and agents and how their goals can be aligned together. It would be interesting to see the application of agency theory in nonprofit organization like zakat institutions. This is because the supremacy of agency theory is capable to address agency problem in any types of organization (Fama & Jensen, 1983).

2.8.4 Agency Theory from the Islamic Perspective

Agency problems becoming intensify when organizations are not transparent and thus contribute to many ethical issues which are not compliance with the teachings of Islam. Agency theory promote the idea that agents are delegated power by the principles to manage the organization with the aim of profit maximization (Azid, 2007) and from Islamic perspective this is known as trust. Thus, the agents must give their best service to fulfill their responsibilities. However, agents are normally selfish and opportunistic individuals and tend to disregard the importance of their accountabilities and responsibilities. Allah has warned us in Surah Al-Baqarah verse 284:

لِّلَّهِ مَا فِي ٱلسَّمَٰوَٰتِ وَمَا فِي ٱلْأَرْضِ ۗ وَإِن تُبْدُوا۟ مَا فِىٓ أَنفُسِكُمْ أَوْ تُخْفُوهُ يُحَاسِبْكُم بِهِ ٱللَّهُ ۖ فَيَغْفِرُ لِمَن يَشَآءُ وَيُعَذِّبُ مَن يَشَآءُ ۗ وَٱللَّهُ عَلَىٰ كُلِّ شَىْءٍ قَدِيرٌ ﴿٢٨٤﴾

To Allah belongs whatever is in the heavens and whatever is in the earth. Whether you show what is within yourselves or conceal it, Allah will bring you to account for it. Then He will forgive whom He wills and punish whom He wills, and Allah is over all things competent (Ibnu Kathier, 2007c).

In addition, agents have the access to private information relating to company management that is important in decision making and normally the principals are not alert of such information (Adams, 1994). Certainly, agents have the duties to convey important information to the principals and are expected to perform their duties transparently. Regrettably, in many situations agents are unable to do so and this obviously breaches the values in Islam as stated in Surah Al-Ma'idah verse 119:

قَالَ ٱللَّهُ هَٰذَا يَوْمُ يَنفَعُ ٱلصَّٰدِقِينَ صِدْقُهُمْ ۚ لَهُمْ جَنَّٰتٌ تَجْرِى مِن تَحْتِهَا ٱلْأَنْهَٰرُ خَٰلِدِينَ فِيهَآ أَبَدًا ۚ رَّضِىَ ٱللَّهُ عَنْهُمْ وَرَضُوا۟ عَنْهُ ۚ ذَٰلِكَ ٱلْفَوْزُ ٱلْعَظِيمُ ﴿١١٩﴾

Allah will say, "This is the Day when the truthful will benefit from their truthfulness." For them are gardens [in Paradise] beneath which rivers flow, wherein they will abide forever, Allah being pleased with them, and they with Him. That is the great attainment (Ibnu Kathier, 2007f).

Furthermore, principles are not treated fairly by agents because the agents have violated the trust given to them. Islam highlight the principle of justice in the relationship between human beings. It is stated in Surah Al-Ma'idah verse 8:

$$\text{يَٰٓأَيُّهَا ٱلَّذِينَ ءَامَنُوا۟ كُونُوا۟ قَوَّٰمِينَ لِلَّهِ شُهَدَآءَ بِٱلْقِسْطِ وَلَا}$$

$$\text{يَجْرِمَنَّكُمْ شَنَئَانُ قَوْمٍ عَلَىٰٓ أَلَّا تَعْدِلُوا۟ ٱعْدِلُوا۟ هُوَ أَقْرَبُ لِلتَّقْوَىٰ}$$

$$\text{وَٱتَّقُوا۟ ٱللَّهَ إِنَّ ٱللَّهَ خَبِيرٌۢ بِمَا تَعْمَلُونَ ۝}$$

O you who have believed, be persistently standing firm for Allah, witnesses in justice, and do not let the hatred of a people prevent you from being just. Be just; that is nearer to righteousness. And fear Allah; indeed, Allah is acquainted with what you do (Ibnu Kathier, 2007f).

Agency theory also emphasizes on the protection that should be given to the shareholders. In this theory, the focus is only on the relationship between human beings. However, Islam has different view from agency theory. From the perspective of Islam, the relationship is widen not only between human beings but also with God. This relationship is mentioned in Surah Ali Imran verse 112:

$$\text{ضُرِبَتْ عَلَيْهِمُ ٱلذِّلَّةُ أَيْنَ مَا ثُقِفُوٓا۟ إِلَّا بِحَبْلٍ مِّنَ ٱللَّهِ وَحَبْلٍ مِّنَ ٱلنَّاسِ وَبَآءُو}$$

$$\text{بِغَضَبٍ مِّنَ ٱللَّهِ وَضُرِبَتْ عَلَيْهِمُ ٱلْمَسْكَنَةُ ذَٰلِكَ بِأَنَّهُمْ كَانُوا۟ يَكْفُرُونَ}$$

$$\text{بِـَٔايَٰتِ ٱللَّهِ وَيَقْتُلُونَ ٱلْأَنۢبِيَآءَ بِغَيْرِ حَقٍّ ذَٰلِكَ بِمَا عَصَوا۟ وَّكَانُوا۟ يَعْتَدُونَ ۝}$$

They have been put under humiliation [by Allah] wherever they are overtaken, except for a covenant from Allah and a rope from the Muslims. And they have drawn upon themselves anger from Allah and have been put under destitution. That is because they disbelieved in the verses of Allah and killed the prophets without right. That is because they disobeyed and [habitually] transgressed (Ibnu Kathier, 2007b).

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From the above discussion, it can be concluded that agency theory disobeys the Islamic principles. Whereas for the stakeholder theory, it can be said that the stakeholder theory in corporate governance is closer to Islamic way of life compared to agency theory.

2.9   Role of Zakat Stakeholders in Governance

This section will elaborate the role of zakat stakeholders in governance. Based on identification of zakat stakeholders as depicted in Figure 2.3, zakat stakeholders consist of six groups namely zakat payers, zakat recipients, state government, federal government, zakat employees and Muslims society.

2.9.1   Role of Zakat Payers in Governance

In this study, zakat payers are defined as individuals that pay zakat to zakat institutions. Zakat payers are very concern about the way zakat institutions manage zakat fund. Their satisfaction and confidence level will be at optimal level if zakat fund is properly managed and vice versa (Hairunnizam et al., 2009). Besides, zakat payers are directly affected by any changes in policy made by zakat institutions.

Zakat payers are Muslims who fulfill certain conditions that make them eligible to pay zakat (Qardawi, 2007). Five general conditions were listed for zakat payers namely Islam, free, completeness of ownership, nisab reached, and haul completed (LZS, 2010d; PPZ-MAIWP, 2010b). Zakat payers are the most important stakeholder for zakat institutions (Fadzila Azni, 2011). This statement is well understood since the survival of zakat institutions depend strongly on support from zakat payers. If zakat payers fail to play their

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role effectively, life span of zakat institutions will be put to an end. Only by the increasing amount of money provided by zakat payers would allow zakat institutions to perform their responsibility better (Patmawati, 2008). It is interesting to see that one of the objectives of zakat distribution set by LZS is to provide assurance to zakat payers and public (LZS, 2010c). This show the commitment of zakat institutions to convince zakat payers that serious attention is given to address the issue of low public confidence. Thus, the role of zakat payers in providing monetary resources is being appreciated.

Although the success of zakat system depend on the collaboration of all parties, but the collaboration from zakat payers is much more vital. Hence, they are regarded as important agents in zakat system (Hairunnizam et al., 2009). This is because only they can decide whether to pay zakat to zakat institutions or pay directly to zakat recipients. So decision made by them will bring huge impact to zakat system. If the awareness of zakat payers to pay zakat to zakat institutions could be optimized, issue relating to zakat leakages can no longer be a problem.

Zakat payers must realize the potential of zakat in contributing to Muslims society (Patmawati, 2008). Therefore effort to improve zakat collection must be intensified. Although the objective of zakat institutions is not to make profit, zakat institutions must ensure that the quality of their management is at par with other firms in corporate sector.

Zakat payers are similar to suppliers or creditors since both of them provide monetary resources to the organizations. The role of creditors was highlighted in the following

statement: *"Creditors play an important role in a number of governance systems and can serve as external monitors over corporate performance"* (OECD, 2004).

The above paragraph shows that creditors are very crucial to the organization as well as zakat payers to zakat institutions. Although one could argue that the objective of zakat payers and creditors are not the same, for example zakat payers want to fulfill their religious obligation whereas for creditors, their objective would be aiming for monetary return (profit). However their roles in providing monetary resources to the organization are similar. In zakat environment, zakat payers could play their monitoring role effectively if they are allowed to participate in the activities organized by zakat institutions. Besides, important information must be conveyed to them to avoid their dissatisfaction. However, in reality, majority of zakat institutions still fail to share important information with their stakeholders (Mohd Faisol et al., 2009; Ram Al Jaffri, 2011; Utusan Online, 2001).[11]

Besides, role of zakat payers also is to establish good relationship with zakat institutions. Such relationship is important as it would enhance the commitment of zakat payers to all activities undertaken by zakat institutions. Good relationship would create positive perception towards zakat institutions and in turn, assist zakat institutions to restore public confidence. Good relationship also alleviates zakat payers to raise their concern regarding zakat administration especially when they can smell something fishy is going on.

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[11] In addition to that, website survey of all zakat institutions in Malaysia also being carried out.

In addition, zakat payers can play proactive role in governance by highlighting public issues that need prompt attention. In many occasion, zakat payers know more information than zakat institutions due to active interaction with other zakat stakeholders, so it is their responsibility to channel the information to zakat institutions with the aim for improvement. Indirectly, they can assert pressure to zakat institutions to handle public issue sensibly.

A large number of zakat literatures were found to be focusing on zakat payers. Hairunnizam et al. (2005) studied about awareness to pay zakat and found that gender, marital status, income, spending and satisfaction toward zakat distribution are significant factors in determining zakat payment. Hairunnizam et al. (2007) found that demographic factors like age, marital status and income were significant in influencing payment of zakat on employment income. Kamil (2006) studied about the effect of law and enforcement on compliance behavior of zakat on employment income. He found that law did significantly influence compliance behavior of zakat on employment income and suggested that law to be strengthened to increase compliance behavior of zakat payers. In another setting, Ram Al Jaffri (2010a) used businessman in Kedah to examine factors that influence compliance behavior on business zakat. Based on 227 respondents, he found that knowledge, self-efficacy and interaction with amil are the key determinants of compliance behavior on business zakat.

In the context of governance, Norazlina and Abdul Rahim (2011a) categorize governance and administrative as factors that affect efficiency in zakat institutions. Governance factors

are represented by board size, proportion of professionals on board, active board of directors, audit committee and organizational structure. Whereas administrative factors cover privatization, number of branches and technology. Meanwhile Norazlina and Abdul Rahim (2011b) used three models to estimate zakat efficiency which are technical efficiency, pure technical efficiency and scale efficiency and found that zakat institutions inefficiency is caused by pure technical inefficiency. They also found that majority of zakat institutions is scale inefficient.

2.9.2 Role of Zakat Recipients in Governance

Zakat recipients are individuals that receive zakat from zakat institutions. The purpose of zakat is to lessen the burden of this group. Zakat recipients are also directly affected by any changes in policy made by zakat institutions. Zakat recipients consists of eight groups of people namely the needy, the poor, amil, muallaf, al-gharimim, al-riqab, fisabilillah and musafir, Surah At-Taubah verse 60 (Ibnu Kathier, 2007a). They are regarded as the ultimate customer for zakat institutions.

Under stakeholder theory, zakat recipients fit the definition of primary stakeholders. This group has strong influence and their dissatisfaction would seriously affect the continuity of zakat institutions (Clarkson, 1995). Since the existence of zakat institutions is to serve this customer, serious attention needs to be given in addressing issues that cause dissatisfaction to them. Besides zakat recipients need to be given specific role in governance processes (Zore, 2003). In governance, zakat recipients can play their role by providing feedback about the effectiveness of program developed and implemented by zakat institutions. They

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are the end user of the program, therefore they could provide valuable information that can be used as a basis in developing better program in the future. For example zakat institutions introduce transformation program with the aim of converting zakat recipients into zakat payers (Nubani & Abd Halim, 2015) and to provide better quality of life to zakat recipients (Abd Halim, Mohamed Saladin, Rozman, Siti Mariam, & Rashidah, 2015). Such program will only succeed if zakat recipients get enough technical and financial support from zakat institutions (Hairunnizam, Sanep, & Radiah, 2010; Patmawati, 2008). So zakat recipients need to give feedback about their progress to assist zakat institutions in determining area where additional assistance could be provided. This effort aligns with continuous improvement concept adopted by zakat institutions.

In relation to zakat distribution, zakat recipients could highlight the weaknesses in the distribution process so that improvement or effective monitoring could be undertaken. For example there is case where zakat recipients have to pay to get zakat application forms (Hairunnizam & Radiah, 2010). Such practice is resulted from poor monitoring processes by zakat institutions. This creates opportunity to irresponsible people to take advantage from it. As this incident would tarnish the image of zakat institutions, fast action is needed to rectify the practice and endorse justice to zakat recipients (Mahyuddin & Abdullah, 2011). Beside zakat recipients could highlight the bureaucracy and human resource problems that exist in zakat institutions. For example they can provide comments on unnecessary procedure and level of services provided (Abd. Hamid, 2005; Mohd Asri, 2009; Mohd Safri, 2006; Ram Al Jaffri, 2010b). However in reality zakat recipients consist of people with low education levels and this make them become inferior people with low

self-confidence. Usually zakat recipients will keep everything to themselves including their dissatisfaction. Therefore zakat officer should play proactive role in gathering the information and act as an agent on behalf of zakat recipients.

Another important role for zakat recipients is their willingness to cooperate and ask for assistance from zakat institutions. Asking financial assistance from other party involves dignity and not all individual able to do it. There are individuals who willing to suffer rather than asking from others. The ramification from that will make the effort to identify eligible zakat recipients especially the poor and needy become difficult. In some cases zakat institutions often be blamed if media is ahead of them in finding the poor and needy (Mohd Asri, 2009).

2.9.3   Role of State Government in Governance

The third stakeholder of zakat institutions is state government. The establishment of SIRC and Jabatan Hal Ehwal Agama Islam Negeri (JAIN) is for managing affair that relate to Islam. One of the responsibilities of SIRC is to manage zakat administration (Kamil, 2002; Ram Al Jaffri, 2010b). Thus state government has close relationship and strong interest in zakat institutions.

Under stakeholder theory, state government is regarded as the owner of zakat institutions. They play crucial role in governance nowadays than before. In Federal Constitution, article 74 (1)(2) gives authority to state government to regulate matters relating to Islamic affairs (Siti Mashitoh, 2007). In relation to zakat, List Two of Schedule Nine of Federal

Constitution put zakat affairs under the jurisdiction of state government. The above provision empowers every state to independently form the administration structure of Islamic affairs including zakat administration based on their discretion (Abd Halim et al., 2007; Aidit, 1989; Kamil, 2002; Ram Al Jaffri, 2011).

Contemporary owners nowadays insist on more control in governance to obtain fair treatment from the companies (OECD, 2004). This scenario transform owner to become active in the affair of companies. The concept of owner activism starts to be promoted to replace owner's traditional role (Gillan & Starks, 2000). This is due to the changing business environment that forces the role of owner to change as well. Owner demand more power and right to participate in decision making processes to protect their stake.

As owner of zakat fund, state government responsible to administer the management of zakat institutions. State government plays its role in governance in several ways. First, state government set the direction for zakat institutions via policy development. Majlis Agama Islam Wilayah Persekutuan (MAIWP), for example, is responsible to provide various services to develop Muslims economy (MAIWP, 2014). In relation to zakat, MAIWP responsible in producing policies to ensure that Muslims social economic system is preserved. Such policy must support the objective of zakat institutions to portray good governance in managing zakat fund. There is strong relationship between development of policy and zakat management. The first will determine strategy to be adopted in zakat management whereas the later will show the evidence of how effective the policy that has

been introduced. Therefore both elements need to be critically evaluated so that the end result will ensure fairness to zakat recipients (Mahyuddin & Abdullah, 2011).

Second, state government needs to ensure zakat distribution is handled effectively and efficiently. Public expects zakat institutions to show good performance in managing zakat fund (Norazlina & Abdul Rahim, 2011a), so it is under the responsibility of state government to realize that expectation. However, at this moment, criticism on zakat distribution is still being voiced out by zakat stakeholders (Hairunnizam et al., 2009; Mohd Asri, 2010). Such criticism influences the perception on zakat distribution and in turn will affect the zakat stakeholders' trust towards zakat institutions (Mohamad Zulkurnai, Ram Al Jaffri, & Muhammad Syahir, 2016). It is also found that zakat payers will pay zakat when they believe that zakat funds are managed efficiently (Azura & Ram Al Jaffri, 2016). This provides an indication that room for improvement in zakat management still exist. Therefore, state government is responsible to guarantee that zakat institutions will always undergo continuous improvement for the sake of its stakeholders. One of the ways to accomplish this is through effective monitoring. Evidence had shown that fraud occur because the owner did not play this role very well. Weak monitoring provides the opportunity to the irresponsible individual to commit a fraud. The consequences from that would threaten the survival of the organizations in the long run. Therefore the performance of zakat institutions must be effectively monitored to make sure all its activities are carried out properly and accomplishing the objectives.

Although state government is the owner of zakat institutions in many states, there is some uniqueness in Kedah where Jabatan Zakat Negeri Kedah (JZNK) was placed directly under the power of Sultan (Kamil, 2002; Ram Al Jaffri, 2010b). This uniqueness is due to the privilege given to every state to establish its own style in managing Muslims affairs as stated in Federal Constitution. Therefore, for Kedah, state government does not have power in zakat administration compared to other states.

The governance structures for zakat institutions in Malaysia are summarized in Table 2.5. Basically three structures of governance are used. Under conventional governance, collection and distribution are managed by Baitulmal. This type of governance structure indicates that SIRC hold absolute power over the collection and distribution process. For partial privatized governance, collection is handled by corporate zakat office but distribution is still being managed by Baitulmal. The last structure, fully privatized governance, signifies that the collection and distribution process are managed by corporate zakat office.

A part from that, state government also needs to review the situation of zakat institutions in providing services to zakat stakeholders. Any issue that will disturb the smooth running of zakat institutions need to be given attention. For example, whether there is a need to add more staff to support the operation of zakat institutions or whether existing facilities are capable in providing convenience to zakat stakeholders. Role played by state government in this aspect would help in enhancing good perception towards zakat institutions.

Table 2.5
Governance Structure for Zakat Institutions

	Types of Governance		
	Conventional	**Partial Privatized**	**Fully Privatized**
Definition	Collection and distribution are not privatized.	Collection is privatized but distribution is not privatized.	Collection and distribution are privatized.
States	Perlis Kedah Perak Kelantan Terengganu Johor	Wilayah Persekutuan Melaka Negeri Sembilan Pahang	Selangor Pulau Pinang Sarawak Sabah

Source: PPZ-MAIWP, 2010a

2.9.4   Role of Federal Government in Governance

Federal government also has an interest in zakat institutions. For example federal government has established JAWHAR under Prime Minister Department on 27 March 2004. The reason behind its establishment is to ensure the administration of wakaf, zakat and hajj are properly arranged, systematic and effective (JAWHAR, 2011). This is to assist zakat department at state level or state religious council to follow standard financial management and accounting and to strengthen procedure on zakat collection and zakat distribution.

Federal government is the key behind the success of governance. Its role in governance was highlighted with the following paragraph:

"…governments establish the overall institutional and legal framework for corporate governance" (OECD, 2004).

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In the context of zakat institutions, federal government contribute to legal framework by ensuring that zakat institutions follow the legal framework that has been set. Since the federal government has the authority, it needs to play this role effectively otherwise public interest will be put at stake. Therefore role played by federal government in governance is very critical.

Worldwide corporate scandals put federal government into more challenging situation. Federal government needs to be aggressive in monitoring how organizations manage their business and ensure public interest is not jeopardized by irresponsible people. The impact from such scandal forces the federal government to play active role in governance. Thus contribute to the increase in the awareness about the role that federal government play in the corporate environment (Freeman, 2010). Besides, refurbish organization integrity and public confidence has become additional role for the federal government (Coglianese, Healey, Keating, & Michael, 2004). For zakat institutions, federal government has to make sure that the objective of governance is achieved. The objective of governance is to nourish and increase public confidence towards the ability of government to implement policies that have been mandated. This requires zakat institutions to have solid governance structure to counter any problem that might arise. The performance of zakat institutions is closely related in their ability to solve the organizational problems in the right way (Kettl, 2000).

Other role that federal government can play is enforcements (Coglianese et al., 2004; Freeman, 2010). Federal government need to evaluate the effectiveness of the current enforcement and what need to be done to motivate people to follow the rules and

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regulations. In reality, sometime rules, procedure and regulation that being introduced are good but it turns out to be ineffective because of poor enforcement. For example the introduction of 5S (Seiri, Seiton, Seiso, Seiketsu and Shitsuke) that relates to quality which is a good concept but reveal the shortcomings because of ineffective enforcement. As a result, in many organizations, this concept is only appreciated in the month of quality rather than to be practiced as daily habit. Besides that federal government also play important role in enhancing delivery system through policies and regulations (Mohd Najib, 2006). Federal government with the vested authority can transform and improve existing policies and regulations to meet the demands of global market. In the context of zakat institutions, federal government would need to ensure that quality of service delivery system is enhanced, good governance is stabilized and zakat institutions are strengthen (JAWHAR, 2011). The establishment of JAWHAR at national level indicates seriousness of federal government to elevate the governance of zakat institutions. JAWHAR play a role of secretariat to coordinate zakat collection and distribution among the states (Fadzila Azni, 2011; Helmi, 2004; JAWHAR, 2011). This shows the commitment of federal government to abolish negative perceptions and preserve accountability in the public delivery system of zakat institutions.

The mission of JAWHAR in improving the quality of service delivery, upgrading social economic status of Muslims and strengthening good governance will surely support its vision of becoming eminent government agency (JAWHAR, 2011). Whereas JAKIM has a mission to establish efficient and effective Islamic management in order to support its vision of becoming global leader in building remarkable Muslims civilization (JAKIM,

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2011). These two agencies are very important to Muslims people due to significant role they play in handling Muslims affairs. Mission and vision for both government agencies will only be realized with sound governance being put in practice for zakat institutions.

2.9.5 Role of Zakat Employees in Governance

Next stakeholder is zakat employees. It refers to employees who are working with zakat institutions by contributing their energy and expertise in performing specifies work and in return get salaries (Oxford Dictionaries, 2012; Wikipedia, 2012a). Employees play a very important role in governance. OECD (2004) highlights this point with the following statement:

"Employees and other stakeholders play an important role in contributing to the long-term success and performance of the corporation,.."

Modern organization considers employees as valuable assets (Freeman, 2010). This is because of the role played by them in helping the organization to achieve its goal. Productivity of the company depends very much on the ability of the employees to effectively perform the job. In the context of zakat institutions, these employees play a significant role in ensuring smooth operation of the organizations. Besides, experience and training accumulated by zakat employees during their tenure increase their value and zakat institutions will be very much affected if their services are terminated.

Many parties concern about those in control might use their power to attain personal gain and would jeopardize organizational goal. Thus the role of zakat employees in governance

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could help preventing such action. With good relationship established, zakat employees can play their role by communicating their anxiety relating to the wrong practices to the board of directors. There should not be any obstacle in preventing them from exercising this role (OECD, 2004). It is expected that good relationship between zakat employees and management could maximized the value of zakat institutions.

Beside zakat employees could also play their role by providing input to the management by highlighting procedures or policies that are not user friendly to customers. These employees understand more about the process since it is their routine to deal with customers. Complaints if any will be straightly directed to them and this would enhance their understanding about the problem faced by the customers. Therefore these employees could provide valuable information to the top management based on the interaction they had with the customers. With updated and reliable information, decision making is more accurate thus improving the quality of decision making. The insider model, which is one of models of corporate governance, also emphasize on the provision of formal rights for employees to influence any key decision made by the management.

Nowadays employees' participation is becoming popular trend in the business world. Many companies recognize the important of employees' participation and start using this strategy to make their organization more progressive and healthier. According to OECD (2004) all systems that relate to enhancing performance for employees' participation must be allowed to expand. Conventional practice that focuses on satisfying important shareholder and ignored employees' participation is no longer relevant today. It is hope that employees'

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participation could improve corporate culture of the company. Indirectly it will help the company to experience rapid economic grow and become stable. Their participation also is very crucial to the survival and sustainability of the company. However that is not the case for zakat institutions in Malaysia. The evidence disclosed that employees are not encouraged to participate in decision making process. Nor do they are allowed to express their opinion or idea in the meeting with top management (Mohd Sani, personal communication, October 11, 2010). Employees at zakat institutions just implement what already being decided. This indicates that all decisions are made using top-down approach. One of the possible explanations for this occurrence could be because majority of zakat institutions are led by conventional leaders, who are reluctant to changes and carry old mindset in their management (Mohd Sani, personal communication, October 11, 2010). Such practices are clearly inconsistent with guideline produced by OECD.

2.9.6 Role of Muslims Society in Governance

The last stakeholder of zakat institutions is Muslims society. Muslims society is defined as a group of people or individuals other than zakat payers, zakat employees, zakat recipients, state government and federal government. Besides, potential zakat payers are also fall under this group. They are considered stakeholders of zakat institutions since they have indirect interest on zakat institutions. Example of Muslims society in this study is parents and Muslims who do not eligible to pay or receive zakat.

Muslims society plays a number of roles in governance. Role that this group plays affect the continuity of the organization (OECD, 2004). Society acts as a spur to

the various activities of the company (Gemmill & Bamidele-Izu, 2002). Five key areas where society should play its major roles are: information collection and dissemination, policy development consultation, policy implementation, assessment and monitoring, and advocacy for environmental justice (Gemmill & Bamidele-Izu, 2002).

Developing public awareness and encouraging participation in organization's activity are another role that Muslim society can play (Parkhimchyk, 2010). Participation of society in the governance is very essential and must be recognized should the company want to see effective governance come to the picture (Gemmill & Bamidele-Izu, 2002). Participation of society in the governance is obvious for companies in the developed countries. Therefore a good deal of efforts is needed if similar result were to be achieved in the companies of developing countries. In the context of zakat institutions, participation could be practiced by inviting the Muslims society to express views on certain matter that requires detail discussion before final decision could be made.

Besides, society should play its role in monitoring and cultivating leaders to take care of others (Parkhimchyk, 2010). Society role in monitoring would act as a silent policeman in ensuring all policies and procedures being followed. Whereas leaders or managers who think for other would tend to be more responsible and careful when involve in decision making process. That's why relationship between Muslims society and zakat institutions must be efficiently maintained as both parties need each other to progress. Such collaboration would boost social capital and the distribution of knowledge (Parkhimchyk, 2010). Besides, the ability of society to play these roles effectively would trigger a positive

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pressure to see good governance in practice. Unlike society in developed countries, Muslims society in Malaysia is perceived to be less active in playing their role.

In relation to zakat institutions, Muslims society could provide inputs and continued pressure so that certain changes that improve the organization structure and process could be made. Their voices are very valuable and need to be listened and considered. However the final decision whether to accept, rejects or keep in view their inputs would be in the hand of top management of zakat institutions. Besides, Muslims society can also play their role by highlighting certain issue that grabs public attention. Thus from there they could influence the authority especially the government and the institutions to review back the regulations that have been made (Parkhimchyk, 2010). Hopefully, Muslims society in the developing countries could play their role actively and effectively like their counterpart in the developed countries.

2.10   Conclusion

This chapter reviews literature on governance, corporate governance, good governance and governance in zakat institutions. In the aspect of research relating to zakat, it is observed that studies relating to zakat start with the focus on zakat collection. When the study on zakat collection become saturated, then the focus of the research begins to shift to zakat distribution where many studies highlight the surplus of zakat funds that are not distributed. Currently, it is noted that studies related to zakat collection and zakat distribution are the dominant studies in zakat field. So this creates a research gap where less focus is given on other aspects of zakat such as zakat governance. Hence, it provides an opportunity for this

study to explore the existing research gaps. More or less the literature review in this chapter highlights the definition, findings and important variables in governance. This would provide support in achieving the main objective of the study that is to identify the constitution of zakat institution's governance. Chapter two also serves as a basis for the development of theoretical framework. In conjunction with that the hypotheses are then developed and will be presented in the next chapter.

CHAPTER 3

METHODOLOGY

3.1   Introduction

This chapter is divided into seven sections and starts with the introduction in section 3.1.

Next, the development of conceptual framework and hypotheses for zakat institution's

governance are presented in section 3.2 which is based on a review of literatures and

theories relating to governance in previous chapter. In subsequent section, the measurement

of variables is discussed to explain how each instrument is developed and how the variables

are measured. In section 3.4, data collection is discussed where it also comprise sampling

section that discuss about sampling size, procedure and administration. Then, followed by

data analysis in section 3.5. The result of pilot study is presented in section 3.6 and section

3.7 wrap up the chapter with conclusion.
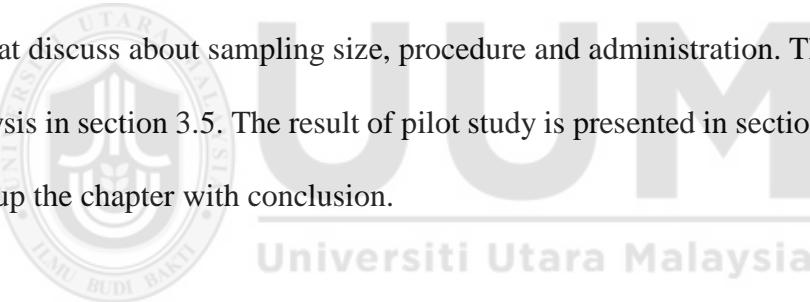
3.2   Development of Conceptual Framework and Hypotheses

The understanding about good zakat institution's governance would assist the authorities

to formulate policy or strategy to strengthen the governance of zakat institutions. Although

zakat is compulsory to eligible Muslims, zakat institutions cannot take things for granted.

Zakat administration must undergo continuous improvement to boost public confidence.

Such improvement is vital to convince Muslims to perform their noble responsibility. If

Muslims are very confident with zakat institution's governance, the tendency for zakat

collection to increase is higher and thus reducing zakat leakages. And this would allow

more funds being distributed to zakat recipients. However in the present scenario, not all

Muslims have strong confident with zakat institution's governance. Why these things happen? Probably there is some deficiency in the governance of zakat institutions. Besides that the different style of management practiced by zakat institutions also would discourage people from paying zakat to the institution. So what should constitute governance in zakat institutions? How strong the magnitude of the observed variables in zakat institution's governance? All these research questions need to be investigated since there are many factors that need consideration to attain good zakat institution's governance.

Until now tested model of zakat institution's governance is still not found in the literature. Thus, this study tries to fill up the existing gap by developing a model for zakat institution's governance. Based on the literature discussed in previous chapter, a model for conceptual framework is developed. Figure 3.1 depicts a proposed model of zakat institution's governance and thus represents a theoretical framework for this study. Figure 3.1 explain that zakat institution's governance is constituted by several variables. These variables (board size, board independence, board expertise, audit committee independence, audit committee expertise, audit committee diligence, leadership, participation, accountability, transparency, service quality, information technology, religiosity of zakat employees, law and enforcement) will be discussed in detail in subsequent section.

This study is to investigate the variables that should be constituted in the governance of zakat institutions. All hypotheses will be developed in the form of exploratory hypotheses. Thus, all observed variables will be tested to see their respective power in the respective

domain. This is necessary because to this date the constitution of zakat institution's governance still has not been addressed empirically under whatsoever perspective.
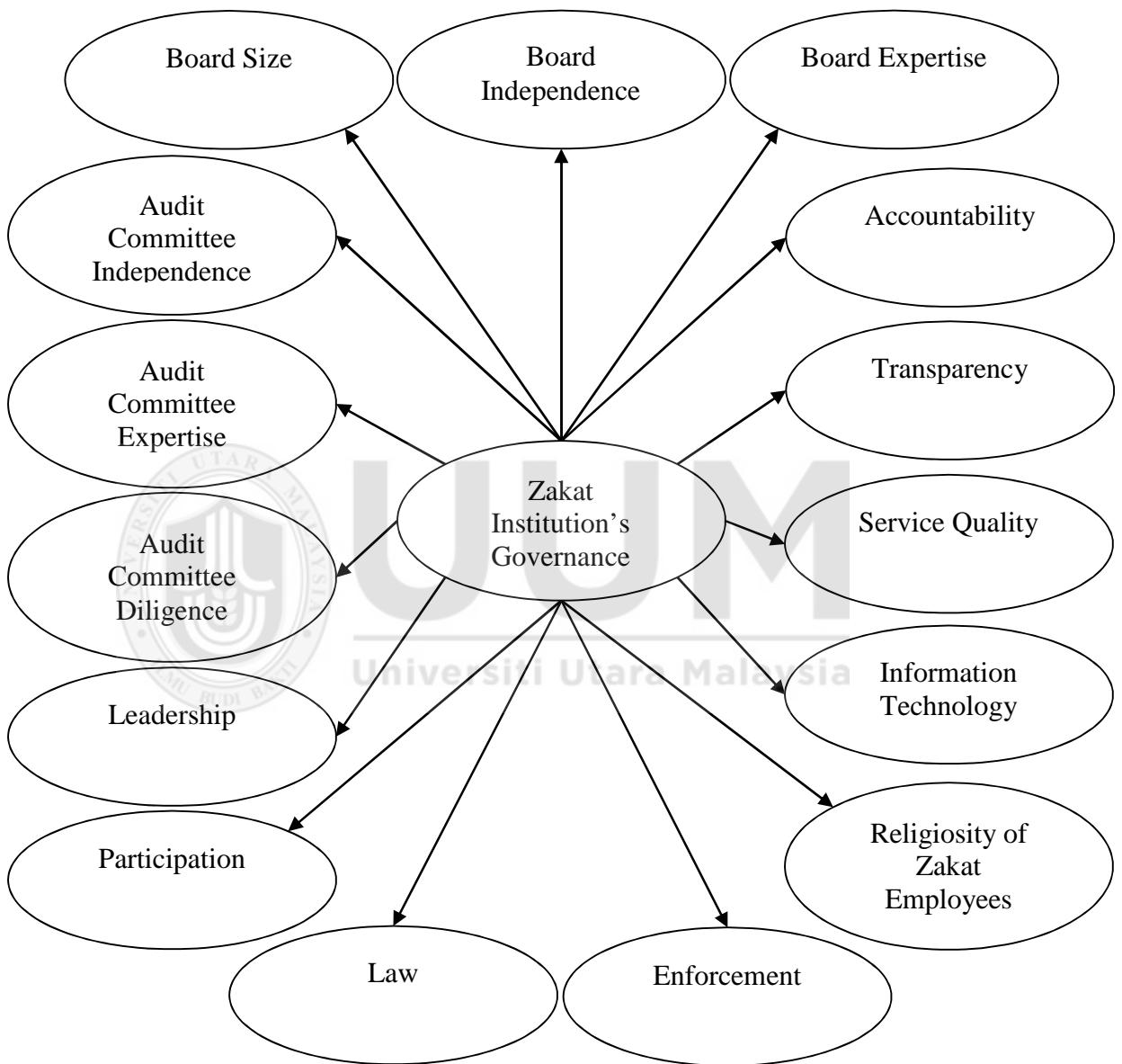
Figure 3.1
Theoretical Framework of Zakat Institution's Governance

3.2.1 Board Size

A number of studies investigate board size and governance (Cowan, 2004; Norazlina & Abdul Rahim, 2011b; Zahra & Pearce, 1989; Zubaidah et al., 2009). Overall, board size plays important role in governance and affects firm performance (Beasley, 1996; Demirbas & Yukhanaev, 2011; Zubaidah et al., 2009). Norazlina and Abdul Rahim (2011b) provide supporting evidence which indicate that governance efficiency is significantly determined by board size. In relation to size, there are studies that indicate that some companies prefer small board size because it is easier to manage and usually show a better performance (Noor Afza & Ayoib, 2009; Vafeas, 2000; Yermack, 1996). In contrast, larger board size assist in governance by accumulating diverse expertise that can lead to a better decision making (Klein, 2002a; Ning et al., 2010; Xie et al., 2003).

The above discussion leads to the following hypothesis:

H₁   Board size is one of the dimensions of zakat institution's governance.

3.2.2 Board Independence

Board independence also plays a significant role in governance. The freedom of board members to exercise their duty is important because it reflect the ability of an organization to promote good governance (Demirbas & Yukhanaev, 2011). As such board independence has become important element in governance and need to be maximized to ensure its effectiveness (Cadbury Committee, 1992). Several studies have highlighted that good governance exist when board has greater independence (Ayoib & Nooriha, 2009; Beasley, 1996; Bonazzi & Islam, 2007; Cowan, 2004; Fama & Jensen, 1983). The indicator for

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independence lies in the number of non-executive directors on board (Ayoib & Nooriha, 2009; Cowan, 2004; Hermalin & Weisbach, 1991; Kang et al., 2007; Noor Afza, 2010). Their independence is affected with the presence of CEO duality (Abdelsalam & El-Masry, 2008; Gul & Leung, 2004).

The above discussion leads to the following hypothesis:

H₂   Board independence is one of the dimensions of zakat institution's governance.

3.2.3   Board Expertise

The practice of good governance for an organization also depends on the expertise of its board members. This variable has been studied by several researchers (Agrawal & Chadha, 2005; Fama & Jensen, 1983; Gul & Leung, 2004; Noor Afza, 2010; Westphal & Milton, 2000). Past studies have shown that board expertise gives significant impact to governance by increasing monitoring and controlling capability (Agrawal & Chadha, 2005; Gul & Leung, 2004). Besides, possibility for misconduct is low when the board has greater expertise (Agrawal & Chadha, 2005). Long tenure is capable to increase board expertise and thus contribute to successful monitoring (Gul & Leung, 2004; Hermalin & Weisbach, 1991; Kim, 2011). This is because directors could accumulate more information and gain more experience during their tenure. Therefore in achieving good governance, board expertise is important and should not been overlooked.

The above discussion leads to the following hypothesis:

H₃   Board expertise is one of the dimensions of zakat institution's governance.

3.2.4 Audit Committee Independence

Greater independence of audit committee leads to effective monitoring (Carcello & Neal, 2003). This is important because it allows good governance to be promoted in the organization (Bonazzi & Islam, 2007; Cowan, 2004). Good governance can prevent corporate collapse as lately witnessed around the world (Cadbury Committee, 1992). One of the reasons for the collapse is because of ineffective audit committee to monitor dysfunctional behavior of managers (PPZ-MAIWP, 2010a). This relates closely with the independence of audit committee members in performing their monitoring task. Several studies already highlight the importance of having audit committee independence (Abbott et al., 2004; Carcello & Neal, 2000). Some regulatory body for example NYSE and NASD also makes new changes to existing regulation as an initiative to improve audit committee independence (Abbott et al., 2004; Carcello & Neal, 2000). In addition, audit committee independence enables its members to perform their job professionally and contribute to the governance efficiency (Carcello & Neal, 2003).

Based on the above discussion, audit committee independence is seen as useful element in governance. Therefore in this study, audit committee independence is hypothesized as follows:

H_4 *Audit committee independence is one of the dimensions of zakat institution's governance.*

3.2.5   Audit Committee Expertise

The effectiveness of audit committee also depends on the expertise of its members (Abbott et al., 2003). Adequate expertise in audit committee is vital in strengthening the governance of the organization (Cadbury Committee, 1992). Previous studies have shown the importance of audit committee expertise in the governance (Abbott et al., 2004, 2003; DeZoort & Salterio, 2001; McDaniel et al., 2002). High expertise of audit committee will bring monitoring effort to the supreme level and leads to governance efficiency (DeZoort, 1998). Audit committee expertise also tends to increase the positive perception of stakeholders towards the governance of the organization (Blue Ribbon Committee, 1999; Flynn, 2009). Besides, the presence of audit committee expertise can ensure that internal control and governance are at desirable level (Krishnan, 2005).

The above discussion leads to the following hypothesis:

H5   *Audit committee expertise is one of the dimensions of zakat institution's governance.*

3.2.6   Audit Committee Diligence

Audit and governance effectiveness also depends on audit committee diligence (Menon & Williams, 1994; Norman et al., 2007; Song & Windram, 2004). Active audit committee improves the monitoring function (Abbott et al., 2003; Norman et al., 2007) and leads to governance efficiency by reducing the incidence of restatement, insider ownership and earnings management (Abbott et al., 2004; Greco, 2011; Norman et al., 2007). Past studies revealed that audit committee diligence is important in strengthening the governance of an

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organization (Abbott et al., 2003; Norman et al., 2007). As part of good governance practice, the number of audit committee meeting is disclosed in annual report (Menon & Williams, 1994; Norman et al., 2007; Song & Windram, 2004). This enables the stakeholders to evaluate the activeness of audit committee in carrying out the given responsibility (DeZoort et al., 2002).

Based on the above discussion, audit committee diligence is hypothesized as follows:

H_6	*Audit committee diligence is one of the dimensions of zakat institution's governance.*

### 3.2.7	Leadership

Leadership and governance are two inseparable elements. Leader is given power to utilize resources that would enable the achievement of organization goal. The efficient governance depends very much on how successful leaders play their role. Bandsuch et al. (2008) noted that good leadership can increase stakeholders trust. Besides good leadership will ensure justice is prevailing in the governance (Mohd Zaidi & Mohd Sani, 2011) and good deeds are practiced (Khaliq, 2009). Good leadership also inspires other to move to the direction set by the organization (Nathan & Ribiere, 2007). This indicates that good leadership would contribute significantly to good governance (Certo, Lester, Dalton, & Dalton, 2006; Gils, 2005; Siciliano, 2005). However, good leadership normally depends on the strength of its CEO. A number of researches indicate that CEO is a key person in management team (Barros & Nunes, 2007; Gils, 2005). As such CEO needs to function properly due to the great impact it can confer to the organization (Shamsul Nahar, 2004).

Relationship between leadership and governance has been studied extensively in the literature especially in the corporate sector. For example Abernethy et al. (2010) found that leadership style is an important predictor of type of governance system to be used. Another finding revealed that leadership styles correlated with communication, commitment, satisfaction and effectiveness (Ekaterini, 2010). In addition, leadership also is found to have significant relationship with service performance (Rank et al., 2007).

Although research in zakat has increase substantially but there is still lack of research in examining leadership and governance of zakat institutions. Therefore these variables need to be further investigated. Leadership is expected to play important role in zakat institution's governance. Right leadership in zakat institutions would contribute to governance efficiency whereas inappropriate leadership style is said to give negative impact to the governance of zakat institutions (Mohd Sani, personal communication, October 11, 2010).

Thus, the following hypothesis will be tested:

H7   Leadership is one of the dimensions of zakat institution's governance.

3.2.8   Participation

Participation of employees in the organization and governance is vital because they are more knowledgeable in routine operation. Their contribution to governance efficiency is undisputable. Many researchers acknowledge employees contribution to the organization (Buck & Watson, 2002; Hsieh, 2006; Lievens et al., 2007; Stuart, 2002). Some researcher

goes further by saying participation of employees affect organization survival (Magowan, 2010). This indicates that there is strong link between participation of employees and organizational performance. Hence the determinant for governance efficiency is fully relies on this human element.

The positive effect of employees' participation in governance has been highlighted in many studies (Aidit, 1989; Magowan, 2010; Owusu, 1999; Schubert, 2008; Stuart, 2002). This indicates that employees' participation play a significant role in the governance of an organization. However, the effectiveness of employees' participation normally depends on personal characteristic of the employees whereby the participation would be low when the task given is not compatible with the ability of the employees (Binyaseen, 2010). Besides, Binyaseen (2010) noted that office layouts affect participation where poor office layout would hinder good work performance. Meanwhile organizational structure also affects level of participation for example decentralized structure would encourage more informal communication (Binyaseen, 2010).

In zakat institution, participation of employees in governance would play the same role like their counterpart in corporate sector. Zakat institutions also depend on employees' participation to deliver best services to its stakeholders. This makes participation of employees a critical element in governance of zakat institution. Employees that perform their work responsibly would trigger positive effect to organization. In contrast, employees that involve in unethical activity would tarnish the image of zakat institutions. Several report already raised this matter for example Radiah (2011) highlighted the issue relating

to misconduct by zakat employees. In addition the critique relating to services provided by zakat employees also being raised ("Penerima zakat bukan pengemis: Sara," 2011). Participation of employees can be increased if zakat institutions have adequate number of employees. Currently, shortage of zakat employees is experienced in almost all zakat institutions (Mohd Sani, personal communication, October 11, 2010). This increases existing employees' workload and would affect participation of employees in governance (Mohd Sani, personal communication, October 11, 2010).

The discussion on participation of employees and governance lead to the development of the following hypothesis:

H_8 *Participation of zakat employees is one of the dimensions of zakat institution's governance.*

3.2.9   Accountability

Accountability is a concept that applicable to all types of organizations (UNESCAP, 2007). This concept is a backbone to good governance system (Cadbury Committee, 1992; Licht, 2002) and has been included in MCCG (MCCG, 2007). This is because accountability will encourage compliance to law and regulations set by the organization to achieve its goal. Besides, once this concept is appreciated and practiced, it would make all people serve the interest of organization and this contributes to governance efficiency. A part from that accountability that is based on religiosity would add confident to the governance (Mohamad Zaini, 2011). In addition, greater accountability would generate positive perception as stakeholders feel that they are adequately protected (Aguilera, 2005).

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However this concept would not success if corporation from all parties are not obtained (Cadbury Committee, 1992). In general, the practice of accountability would lead the organization to good governance (UNESCAP, 2007).

The discussion about accountability and governance lies mainly in corporate environment. There is lack of discussion in other environment especially in zakat environment. Therefore this study takes the opportunity to examine the existing gap in zakat literature.

The above discussion about accountability and governance has led to the development of the following hypothesis:

H_9 *Accountability is one of the dimensions of zakat institution's governance.*

3.2.10 Transparency

Good information transparency is the prerequisite for good governance (Chiang, 2005). The presence of good information transparency would enable stakeholders to access important information for decision making (Bandsuch et al., 2008). Hence transparency is regarded as one of the vital components of governance (Cadbury, 2000). Transparency capable to increase public satisfaction and would lead to effective governance (Chen et al., 2007). On the other hand, organizations that ignore transparency in its governance would have higher risk to be involved in misconduct (Cadbury Committee, 1992). The occurrence of corporate scandal provides solid evidence whereby lack of transparency in information dissemination is one of the contributing factors (Chen et al., 2007). This indicates that total

transparency must be practiced to avoid the negative perception from public towards the governance of the organization. Although transparency is widely discussed in corporate environment, its relevance is applicable to all environments including zakat institutions. The practiced of greater transparency in the governance of zakat institutions will increase satisfaction of zakat stakeholders. Several studies highlighted the issue relating to transparency of zakat institutions. For example study by Hairunnizam et al. (2009) found that lack of transparency relating to zakat distribution has caused dissatisfaction among zakat stakeholders. Zakat institutions also being criticized due to lack of transparency in its governance especially pertaining to zakat distribution (Mohd Asri, 2010; Radiah, 2011).

This study tries to examine transparency and governance of zakat institutions as it has not been studied before. The above discussion relating to transparency and governance has led to the development of the following hypothesis:

H_{10} *Transparency is one of the dimensions of zakat institution's governance.*

3.2.11 Service Quality

Many researchers link service quality with performance of an organization (Bitner, 1990; Zeithaml, Berry, & Parasuraman, 1996). Organizations with excellent service quality frequently show better performance than the others. Besides excellent service quality contributes to customer satisfaction (Cronin & Taylor, 1994). Organizations who manage to satisfy its customer would definitely show better performance and guarantee their survival.

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Service quality has close relationship with governance. This is because governance involves the delivery of services to clients (Ilangovan & Durgadoss, 2009). Besides, The World Bank (1991) recognized service quality as key dimension of governance. The delivery of service quality would support the good governance of an organization.

For zakat institutions, the same thing prevails and the same concept is applied in this study. Zakat institutions are given responsibility to administer zakat affairs. The collection and distribution of zakat are two main responsibilities of zakat institutions. In executing these responsibilities, various kinds of services are provided by zakat institutions. These services are open for evaluation by zakat stakeholders. Zakat institutions are affected by this evaluation in two ways. First, if the evaluation is positive, it will help to increase zakat collection. Second, negative evaluation will affect the image of zakat institutions and as a result preventing from achieving maximum collection. Therefore, service quality in zakat institutions is the key dimension of zakat institution's governance. Based on the discussion about service quality, the following hypothesis is developed:

H_{11} *Service quality is one of the dimensions of zakat institution's governance.*

3.2.12 Information Technology

Many researchers acknowledge the importance of IT governance (Brown & Grant, 2005; Trites, 2004; Weill & Ross, 2004b). For example, Weill and Ross (2004b) consider IT governance as worthwhile investment. Nowadays, the usage of IT is no longer an option but has become a basic need for an organization. Many organizations turn to IT to strengthen their governance. Organizations that adopt IT would have better chance to

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succeed (Weill & Ross, 2004a). That is why IT has become important component of corporate governance (Ko & Fink, 2010).

In the context of zakat institutions, IT and governance is still considered at infant stage. However the move towards heavily reliance on IT has been taken. For example LZS introduced eZakatPay which allow zakat to be paid through internet banking (LZS, 2010a). Meanwhile other zakat institutions upgrade their website so that information could be disseminated quickly to the public and competitive advantage could be gained. Furthermore, the use of ICT contributes to the efficiency of zakat institutions (Norazlina & Abdul Rahim, 2011a).

The above discussion shows the importance of IT and governance in an organization. However in the context of zakat institutions, the importance of IT and governance has not yet been researched. Therefore this study tries to examine the importance of IT and governance. So the following hypothesis will be tested:

H_{12} *Information technology is one of the dimensions of zakat institution's governance.*

3.2.13 Religiosity of Zakat Employees

Islam as a perfect religion covers every aspect of human life including governance of an organization. Principles taught in Islam such as honesty, discipline and accountability would lead to good governance. This was evidence through the administration of the Caliph of Islam where the practices of religiosity value strengthen the governance of Muslim country. In this study, religiosity is referring to religiosity of zakat employees.

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Nowadays the call for religiosity into the governance of an organization is more demanding especially after the collapse of gigantic companies such as Enron and Tyco. Due to that, religiosity starts to play important role not only in the governance of companies but also in the governance of nonprofit organization like zakat institutions. However, zakat literature has not yet revealed any relationship between these two elements. Kamil (2002) also noticed the same scenario for taxation literature whereby religiosity and tax compliance has not been scrutinized.

The discussion in the literature review already highlighted the importance of religiosity in an organization (Almoharby, 2011; Darwall, 2010; Ho & Wong, 2008; Sutinen & Kuperan, 1999; Zandstra, 2002). Religiosity would forbid activity such as bribery that would harm zakat institutions. Here religiosity can act as internal control for Muslim to avoid negative behavior. The realization of religiosity would assist in practice good governance. Therefore the following hypothesis is developed:

H_{13} *Religiosity of zakat employees is one of the dimensions of zakat institution's governance.*

3.2.14 Law

The importance of law in governance make this element exist in all organizations (Mohd Ali, 1989). The present of law would make people alert what can and cannot be done and what would be the consequences. In the context of governance, law act as tools to ensure the efficiency of operation. It also assists in ensuring what procedures and policy need to be adhered. This provides essential support for the establishment of sound governance.

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Effective law would put governance of an organization at supremacy level (Morita & Zaelke, 2005). Meanwhile Kamil (2002) stated that the existence of strict law forbid people from committing crime. The discussion about law leads to the conclusion that people will become serious if they fully understand what is the implication of not following the law. Findings in the literature also suggested that law is important elements in educating public (Kamil, 2002; Mohd Ali, 1989; Sutinen & Kuperan, 1999). Although the majority of the finding is not from zakat literature, the benefit that would derive from law is expected to be similar across other setting including zakat institutions. However to date there is no study that examine law and governance of zakat institutions. Therefore the following hypothesis would be examined:

H_{14} *Law is one of the dimensions of zakat institution's governance.*

3.2.15 Enforcement

Enforcement is critical to ensure compliance to regulation (Mohd Ali, 1989). The absence of this element would contribute to undesirable behavior by people. In the context of governance, enforcement would strengthen the efficiency of operation. It also assists in ensuring procedures and policy to be adhered. This provides essential support for the establishment of sound governance. Sutinen and Kuperan (1999) stated that enforcement in the form of punishment assists people to abide the rules. In addition, effective enforcement would put governance of an organization at supremacy level (Morita & Zaelke, 2005). This is supported by Dambachultem and Sodno (2006) where their study found that weak enforcement affect the governance efficiency and effectiveness. Meanwhile Kamil (2002) stated that the existence of strict enforcement limit the tendency

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for people to commit crime. The discussion about enforcement leads to the conclusion that people will become serious if they could see the effect from such enforcement.

Findings in the literature also suggested that enforcement is important element to educate public (Kamil, 2002; Mohd Ali, 1989; Sutinen & Kuperan, 1999). Although the majority of the finding is not from zakat literature, the benefit that would derive from enforcement is expected to be similar across other setting including zakat institutions. However to date there is no study that examine enforcement and governance of zakat institutions. Therefore the following hypothesis will be tested:

H_{15} Enforcement is one of the dimensions of zakat institution's governance.

3.3   Measurement of Variables

This section will provide operational definition and measurement for variables. Latent variable for this study is zakat institution's governance. Understanding of this variable is important in order to obtain thorough explanation of the phenomenon. Latent variable is constituted by unobserved variable like board size, board independence, board expertise, audit committee independence, audit committee expertise, audit committee diligence, leadership, participation, accountability, transparency, service quality, information technology, religiosity of zakat employees, law and enforcement. In this study, zakat institution's governance refers to the organization structure and process of decision making across matters that are vital to its stakeholders. Here the organization structure includes dynamic governing body with enough power to guarantee institutional integrity and to perform its responsibility align with objectives set by zakat institutions.

3.3.1 Definition of Perception

Perception is fall under social cognition. Social cognition is the way social information is gathered, organized, and interpreted (Kunda, 1999). In this study, perception is defined as the acceptance and arrangement of sensory information about people or public condition (Oskamp & Schultz, 2005). Five important characteristics of perception are immediate, selective, structured, stable and meaningful (Oskamp & Schultz, 2005). First, immediate characteristic is the awareness of a person about something in the first glance. Second, selective characteristic is the attention of a person is focused only to a few objects within his sensory distance. Third, structured characteristic is the ability of a person to arrange several stimulus into certain form, color and size. Fourth, stable characteristic is the experience of a person about an object is constant although it is viewed from different angle. Finally, meaningful characteristic is the interpretation of something is done according to person's own thought.

3.3.2 Board Size

In this study, board size is operationalized as the perception of zakat payers towards the importance of having large board size in the governance of zakat institutions. A total of 5 items are put forward to respondents to measure board size. Likert scale of 5 point is given to each item where the score is ranging from 1 to 5. The questions are adapted from previous researchers that use board size in their study (Ning et al., 2010). Example of question is "zakat institution's governance should have large board size (more than ten people)". The highest score for this variable is 25 points (5 items x 5 points) which show that large board size is very important in the constitution of zakat institution's governance.

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In contrast, the lowest score is 5 points (5 items x 1 point) which indicate that large board size is not important in the constitution of zakat institution's governance.

3.3.3   Board Independence

In this study, board independence is operationalized as the perception of zakat payers towards the importance of having independence board with freedom to speak in the governance of zakat institutions. A total of 5 items are put forward to respondents to measure board independence. Likert scale of 5 point is given to each item where the score is ranging from 1 to 5. The questions are adapted from previous researchers that use board independence in their study (Klein, 2002a). Example of question is "zakat institution's governance should appoint independence board of directors from outside". The highest score for this variable is 25 points (5 items x 5 points) which show that board independence is very important in the constitution of zakat institution's governance. In contrast, the lowest score is 5 points (5 items x 1 point) which indicate that board independence is not important in the constitution of zakat institution's governance.

3.3.4   Board Expertise

In this study, board expertise is operationalized as the perception of zakat payers towards the importance of having directors with expertise and experience in the governance of zakat institutions. A total of 5 items are put forward to respondents to measure board expertise. Likert scale of 5 point is given to each item where the score is ranging from 1 to 5. The questions are adapted from previous researchers that use board expertise in their study (Agrawal & Chadha, 2005). Example of question is "zakat institution's governance should

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be effectively monitored by the board of directors who are experts". The highest score for this variable is 25 points (5 items x 5 points) which show that board expertise is very important in the constitution of zakat institution's governance. In contrast, the lowest score is 5 points (5 items x 1 point) which indicate that board expertise is not important in the constitution of zakat institution's governance.

3.3.5   Audit Committee Independence

In this study, audit committee independence is operationalized as the perception of zakat payers towards the importance of having independence audit committee with freedom to speak in the governance of zakat institutions. A total of 5 items are put forward to respondents to measure audit committee independence. Likert scale of 5 point is given to each item where the score is ranging from 1 to 5. The questions are adapted from previous researchers that use audit committee independence in their study (Klein, 2002b). Example of question is "zakat institution's governance should be more reliable with audit committee independence". The highest score for this variable is 25 points (5 items x 5 points) which show that audit committee independence is very important in the constitution of zakat institution's governance. In contrast, the lowest score is 5 points (5 items x 1 point) which indicate that audit committee independence is not important in the constitution of zakat institution's governance.

3.3.6   Audit Committee Expertise

In this study, audit committee expertise is operationalized as the perception of zakat payers towards the importance of having audit committee directors with expertise and experience

in the governance of zakat institutions. A total of 5 items are put forward to respondents to measure audit committee expertise. Likert scale of 5 point is given to each item where the score is ranging from 1 to 5. The questions are adapted from previous researchers that use audit committee expertise in their study (Abbott et al., 2004). Example of question is "zakat institution's governance should have audit committee with experience". The highest score for this variable is 25 points (5 items x 5 points) which show that audit committee expertise is very important in the constitution of zakat institution's governance. In contrast, the lowest score is 5 points (5 items x 1 point) which indicate that audit committee expertise is not important in the constitution of zakat institution's governance.

3.3.7   Audit Committee Diligence

In this study, audit committee diligence is operationalized as the perception of zakat payers towards the importance of having frequent audit committee meeting in the governance of zakat institutions. A total of 5 items are put forward to respondents to measure audit committee diligence. Likert scale of 5 point is given to each item where the score is ranging from 1 to 5. The questions are adapted from previous researchers that use audit committee diligence in their study (Norman et al., 2007). Example of question is "zakat institution's governance should convene audit committee meeting at least three times a year". The highest score for this variable is 25 points (5 items x 5 points) which show that audit committee diligence is very important in the constitution of zakat institution's governance. In contrast, the lowest score is 5 points (5 items x 1 point) which indicate that audit committee diligence is not important in the constitution of zakat institution's governance.

3.3.8 Leadership

In this study, leadership is operationalized as the perception of zakat payers towards the importance of leadership characteristics in the governance of zakat institutions. A total of 5 items are put forward to respondents in order to measure leadership. Likert scale of 5 point is given to each item where the score is ranging from 1 to 5. The questions are adapted from previous researchers that use leadership in their study (Syed Omar et al., 2007). Example of question is "zakat institution's governance should excel with quality leadership". The highest score for this variable is 25 points (5 items x 5 points) which show that leadership is very important in the constitution of zakat institution's governance. In contrast, the lowest score is 5 points (5 items x 1 point) which indicate that leadership is not important in the constitution of zakat institution's governance.

3.3.9 Participation

In this study, participation is operationalized as the perception of zakat payers towards the importance of involvement of zakat employees in the governance of zakat institutions. Participation is measured by 5 items. Likert scale of 5 point is given to each item where the score is ranging from 1 to 5. The questions are adapted from previous researchers that use participation in their study (OECD, 2004). Example of question is "zakat institution's governance should increase the responsibility of employees in organization". The highest score for this variable is 25 points (5 items x 5 points) which show that participation is very important in the constitution of zakat institution's governance. In contrast, the lowest score is 5 points (5 items x 1 point) which indicate that participation is not important in the constitution of zakat institution's governance.

3.3.10 Accountability

In this study, accountability is operationalized as the perception of zakat payers towards the importance of accountability in the governance of zakat institutions to boost stakeholders' confidence. A total of 5 items are put forward to respondents in order to measure accountability. Likert scale of 5 point is given to each item where the score is ranging from 1 to 5. The questions are adapted from previous researchers that use accountability in their study (Brennan & Solomon, 2008). Example of question is "zakat institution's governance should increase compliance to regulation via accountability". The highest score for this variable is 25 points (5 items x 5 points) which show that accountability is very important in the constitution of zakat institution's governance. In contrast, the lowest score is 5 points (5 items x 1 point) which indicate that accountability is not important in the constitution of zakat institution's governance.

3.3.11 Transparency

In this study, transparency is operationalized as the perception of zakat payers towards the importance of transparency activities such as disclosure, accuracy, timeliness and dissemination of information of zakat institutions in ensuring good zakat governance. A total of 5 items are put forward to respondents in order to measure transparency. Likert scale of 5 point is given to each item where the score is ranging from 1 to 5. The questions are adapted from previous researchers that use transparency in their study (Bandsuch et al., 2008). Example of question is "zakat institution's governance should ensure that information can be accessed by all parties". The highest score for this variable is 25 points (5 items x 5 points) which show that transparency is very important in the constitution of

zakat institution's governance. In contrast, the lowest score is 5 points (5 items x 1 point) which indicate that transparency is not important in the constitution of zakat institution's governance.

3.3.12 Service Quality

Service quality is operationalized as the perception of zakat payers towards the importance of this variable in the governance of zakat institutions. Service quality is measured by 5 items. Likert scale of 5 points is given to each item where the score is ranging from 1 to 5. The questions are adapted from previous researchers that use service quality in their study (Gotlieb, Grewal, & Brown, 1994). Example of question is "zakat institution's governance should ensure that customers receive friendly treatment". The highest score for this variable is 25 points (5 items x 5 points) which show that service quality is very important in the constitution of zakat institution's governance. In contrast, the lowest score is 5 points (5 items x 1 point) which indicate that service quality is not important in the constitution of zakat institution's governance.

3.3.13 Information Technology

In this study, information technology is operationalized as the perception of zakat payers towards the importance of information technology in the governance of zakat institutions to facilitate decision making, improving its governance processes, ensuring better services to stakeholders and assisting the achievement of strategic objectives. Information technology is measured by 5 items. Likert scale of 5 point is given to each item where the score is ranging from 1 to 5. The questions are adapted from previous researchers that use

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information technology in their study (Norazlina & Abdul Rahim, 2011a). Example of question is "zakat institution's governance should be able to disseminate information faster via information technology". The highest score for this variable is 25 points (5 items x 5 points) which show that information technology is very important in the constitution of zakat institution's governance. In contrast, the lowest score is 5 points (5 items x 1 point) which indicate that information technology is not important in the constitution of zakat institution's governance.

3.3.14 Religiosity of Zakat Employees

In this study, religiosity is operationalized as the perception of zakat payers towards the importance of religiosity of zakat employees in the governance of zakat institutions. A total of 5 items are put forward to respondents in order to measure religiosity. Likert scale of 5 points is given to each item where the score is ranging from 1 to 5. The questions are adapted from previous researchers that use religiosity in their study (Ram Al Jaffri, 2010b). Example of question is "zakat institution's governance should be more convincing when the employees always read Al-Quran". The highest score for this variable is 25 points (5 items x 5 points) which show that religiosity of zakat employees is very important in the constitution of zakat institution's governance. In contrast, the lowest score is 5 points (5 items x 1 point) which indicate that religiosity of zakat employees is not important in the constitution of zakat institution's governance.

3.3.15 Law

Law is operationalized as the perception of zakat payers towards the importance of having effective law in the governance of zakat institutions. Respondents are required to answer 5 items. Likert scale of 5 points is given to each item where the score is ranging from 1 to 5. The questions are adapted from previous researchers that use law in their study (Kamil, 2002). Example of question is "zakat institution's governance should have its own law unit". The highest score for this variable is 25 points (5 items x 5 points) which show that law is very important in the constitution of zakat institution's governance. In contrast, the lowest score is 5 points (5 items x 1 point) which indicate that law is not important in the constitution of zakat institution's governance.

3.3.16 Enforcement

Enforcement is operationalized as the perception of zakat payers towards the importance of having effective enforcement in the governance of zakat institutions. A total of 5 items are put forward to respondents in order to measure enforcement. Likert scale of 5 points is given to each item where the score is ranging from 1 to 5. The questions are adapted from previous researchers that use enforcement in their study (Mohd Ali, 1989). Example of question is "zakat institution's governance should have strong enforcement unit". The highest score for this variable is 25 points (5 items x 5 points) which show that enforcement is very important in the constitution of zakat institution's governance. In contrast, the lowest score is 5 points (5 items x 1 point) which indicate that enforcement is not important in the constitution of zakat institution's governance.

3.4   Data Collection

This section describes data collection process, and questionnaires arrangement as well as discussion about sampling such as sample size and sampling procedure.

3.4.1   Collection of Data

This study applies survey method through questionnaires for data collection. This method is appropriate because respondents are scattered all over Malaysia. In addition, survey provides fast, effective and accurate information (Zikmund et al., 2010). Besides this method also allow researchers to include many social economic variables in the study (Andreoni et al., 1998). The questionnaire is sent to respondents through post once the sampling process had completed. Then, when the results have been obtained, interviews with zakat institutions will be arranged to confirm the results.

3.4.2   Arrangement of Questionnaires

The questionnaire for this study is divided into 16 parts. This include (A) Board Size, (B) Board Independence, (C) Board Expertise, (D) Audit Committee Independence, (E) Audit Committee Expertise, (F) Audit Committee Diligence, (G) Leadership, (H) Participation, (I) Accountability, (J) Transparency, (K) Service Quality, (L) Information Technology, (M) Religiosity of Zakat Employees, (N) Law, (O) Enforcement and (P) Demography. All parts are in the form of construct for certain variables except demography. Sample questionnaire can be found in the Appendix A.

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3.4.3 Sampling

Unit analysis for this study is individual zakat payers. Zakat payers are fall under the category of primary zakat stakeholders. Zakat payers are targeted since they represent direct relationship in zakat activities (see Figure 3.2). Furthermore, findings from the literatures suggested that this group contribute significantly to the problem relating to dissatisfaction towards zakat institutions (Hairunnizam et al., 2009; Mohd Safri, 2006). Donaldson and Preston (1995) also provide clue relating to identification of stakeholders where the interest of stakeholders to the organizations is the main indicator. Therefore it is appropriate to get perception from zakat payers about zakat institution's governance.
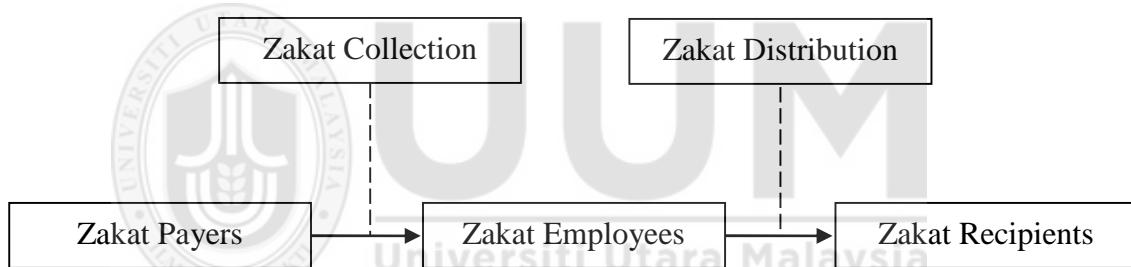
Figure 3.2
Relationship between Primary Zakat Stakeholders

In general, Figure 3.2 shows the direct relationship between primary zakat stakeholders where zakat payers pay zakat to zakat employees who then redistribute it to zakat recipients. Zakat employees are the proxy for zakat institutions. The first phase is the relationship between zakat payers and zakat employees which relates to zakat collection whereas the second phase is the relationship between zakat employees and zakat recipients which relates to zakat distribution. This direct relationship justify why zakat payers are important respondents for the study since they act as a starting point in the relationship.

Another justification is that, zakat payers are perceived to be more independent compared to zakat employees and zakat recipients who rely on zakat institutions for salary and zakat fund. Sampling framework for the study will consist of zakat payers in the year of 2010. The information will be obtained from zakat institutions in targeted state. Year 2010 is chosen because it is the latest year where the data could be obtained.

3.4.4 Sample Size

For sample size the following guideline is given. The minimum sample size is 5:1 which indicate that at least 5 observations for each variable to be analyzed. Hair, Black, Babin and Anderson (2010) propose 10:1 ratio as the more acceptable sample size.

Sample size of 1,000 respondents is set for this study. This exceeds the sample size of 384 respondents for 1,000,000 populations or more (see Table 3.1) as suggested in the sample size table provided by Krejcie and Morgan (1970). Large sample size is needed to overcome the possibility of high non response rate among Malaysian respondents as suggested by zakat researchers such as Kamil (2002) Ram Al Jaffri (2010a) and Zainol (2008). This sample size also exceed suggestion by Hair et al. (2010) where 100 to 400 sample size is required if the analysis want to be conducted using structural equation modeling (SEM).

Table 3.1 shows the number of zakat payers in 2010 for each state. The table revealed that on average, the number of zakat payers is almost 1 million. This provides clue to identify the population of zakat payers for the study.

Table 3.1
Number of Zakat Payers in 2010

State	Number of Zakat Payers
Selangor	2,644,185
Wilayah Persekutuan	1,094,917
Johor	1,864,081
Pahang	949,883
Kedah	857,738
Terengganu	36,583
Kelantan	Not Available
Perak	Not Available
Pulau Pinang	622,747
Negeri Sembilan	616,437
Sarawak	667,220
Perlis	155,615
Melaka	510,726
Sabah	1,076,508

Source: PPZ-MAIWP, 2010a, p.83-96

3.4.5   Procedures

This study applies simple random sampling using Statistical Packages for Social Science

(SPSS) version 19 on the list of zakat payers from Kedah, Pahang and Selangor. The use

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of simple random sampling can ensure all elements in the population have equal chance to be selected (Hair, Money, Samouel, & Page, 2007; Sekaran, 2003).

The questionnaire in this study was self-administered. For Kedah, zakat institution has identify several institutions that contribute to zakat collection. The list of institutions is given by zakat institutions and the researcher make random selection based on the list. After the institutions was chosen, the researcher go to the institutions and get the list of the staf. Then random sampling is applied on the given list. The same procedure was applied to other states (Pahang and Selangor).

3.4.6   Administration and Field Work

The list of selected respondents for the study will be identified through simple random sampling. Then, these respondents will be given with self-administered questionnaire and sufficient time for them to response. Once enough number of samples is obtained, the data collection work will be stopped.

3.5   Data Analysis

This study applied analysis technique in several levels. First level involves data filtering process and tests for multivariate assumptions. This process is done to see the position and suitability of data for statistical analysis purposes (Hair et al., 2010). After passing the first level, data is then analyzed at exploratory factor analysis (EFA) to identify the underlying structure of the variables in the study (Hair et al., 2010). At third level, SEM is applied to analyze the constructs that relates to governance of zakat institutions. The use of SEM

brings a few advantages such as the ability to test measurement model and structure model concurrently (Hair et al., 2010). Measurement model is conducted via CFA to confirm measurement scale for a given construct (Hair et al., 2010). The specific discussion about the analysis technique will be covered in the subsequent section.

3.5.1 Data Filtering Process and Multivariate Assumptions

Data filtering process comprise of three tests i.e. response bias, missing data and outliers. This process is crucial in order to clean the data into suitable format for multivariate analysis (Hair et al., 2010). For multivariate assumptions, four tests need to be carried out i.e. normality, linearity, homoscedasticity and multicollinearity. These tests serve as basis in making conclusion and preparing statistical results. It also serve as prerequisite before factor analysis and multivariate analysis is conducted (Hair et al., 2010).

Response bias test is performed to see whether there is a significant difference between two groups of respondents; one group that response earlier and the other group that response later. This test is conducted by dividing the respondents into two groups, one group with code 1 and the other group with code 2. Code 1 refers to group that response earlier whereas code 2 refers to group that response later. T test is applied to both groups where significant t value (p<0.05) indicate that data has response bias. In contrast, data is free from response bias if t value is not significant (p>0.05).

The second filtering process is relating to missing data. In order to handle the missing data, the number of questionnaires with missing data is determined. If enough number of

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samples is obtained for analysis purposes then all missing data will be excluded. However, if the sample is not enough, then remedy process will be implemented on those data.

For outliers, regression procedure is used to determine univariate and multivariate outliers. Value of z score is used to determine univariate outliers. Data is said to have univariate outliers if the value of z score is greater than $\pm$ 3.0 (Coakes & Steed, 2003). For identifying multivariate outliers, Probability Mahalanobis is used. Multivariate outliers exist if Probability Mahalanobis show value (p<0.001). Data with outliers problems are excluded from the study.

Before exploratory factor analysis (EFA) and confirmatory factor analysis (CFA) can be implemented, data filtering process and test for multivariate assumption need to be carried out first. The purpose of this test is to see the position and suitability of data for statistical analysis purposes (Hair et al., 2010). EFA and CFA are the two analyses for testing measurement model.

Data is analyzed using SPSS version 19. Later, Analysis of Moment Structures (AMOS) version 18 is used as a platform for SEM.

3.5.2 Factor Analysis

Factor analysis is a valuable tool to investigate relationships between observed and latent variables (Byrne, 2010) and is used as data reduction technique (Pallant, 2011). The

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interpretation of factor analysis is based on factor loading. High loading suggests that the variables are representative of the factor and vice versa.

Factor analysis is appropriate with larger sample size (Pallant, 2011) and some researchers put a minimum number of 300 cases (Tabachnick & Fidell, 2007). In addition, the appropriateness of factor analysis increases when many coefficients are greater than 0.3 (Pallant, 2011). Two focal approaches of factor analysis are EFA and CFA where the details are described below.

3.5.3 Exploratory Factor Analysis

EFA is used in initial stage of research to collect information about the interrelationships among a set of variables where researchers have no prior knowledge (Pallant, 2011). EFA is also used to validate and determine the number of dimension for a given concept. This analysis also aims to investigate the basis dimension for variables in the form of construct.

For this study, board size, board independence, board expertise, audit committee independence, audit committee expertise, audit committee diligence, leadership, participation, accountability, transparency, service quality, information technology, religiosity of zakat employees, law and enforcement are variables in the form of construct. Before EFA is done, the level of reliability of all constructs needs to be examined and this is done through fitness and matrix identification tests. These tests are necessary to ensure instrument consistency that would justify the use of factor analysis. Reliability analysis is vital to determine the consistency and stability of the instrument with the measured

concept. The use of Cronbach's alpha has become the norm to test internal consistency. Constructs with good alpha value are then being examined using Kaiser-Meyer-Olkin (KMO) and Bartlett's Test of Sphericity (BTOS). KMO is a measure of sampling adequacy whereas BTOS can test whether the correlation matrix is the identity matrix or not. The use of EFA is suitable when KMO value is 0.70 and above (Hair et al., 2010). Whereas for BTOS, it must be significant (Sig. = 0.000) to indicate that correlation matrix is not identity matrix.

3.5.4 Confirmatory Factor Analysis

CFA is a complex and sophisticated technique used to test specific hypotheses or theories about the basic structure underlying a set of variables (Pallant, 2011). In CFA, researchers have some knowledge about how the observed variables are linked with the latent variables (Byrne, 2010).

In this study, CFA will be used for measurement model because it capable to validate measurement scale for a given construct (Hair et al., 2010). Besides, CFA is applied to strengthen construct reliability and validity. Construct reliability is examined via composite reliability and average variance extracted. A satisfactory composite reliability must be greater than 0.70 whereas average variance extracted must be greater than 0.50 (Fornell & Larcker, 1981). Next, convergent validity and discriminant validity tests are performed to evaluate construct validity. Convergent validity measure how far the constructs relate to each other whereas discriminant validity refer to principle that measures the difference of constructs that should not be systematically related.

For measurement model, a variety of indices are used to evaluate goodness of fit model. Goodness-of-Fit Index (GFI), Root Mean Square Error of Approximation (RMSEA), Normed Chi-Square (Chi-Square/df), Normed Fit Index (NFI), Tucker-Lewis Index (TLI), Comparative Fit Index (CFI) and Adjusted Goodness of Fit Index (AGFI) are among the popular indices used. Lately, RMSEA is recognized as one of the most informative criteria in covariance structure modeling (Byrne, 2010). Goodness of fit model exist when Chi-Square/df reside between 1.0 and 2.0 (Hair et al., 2010); NFI and CFI are greater or equal to 0.95 (Hooper, Coughlan, & Mullen, 2008). However, value of NFI and CFI that are greater or equal to 0.90 is acceptable (Hair et al., 2010). For RMSEA, the value must be less than 0.10 (Byrne, 2010). Whereas value less than 0.08 indicate good model fit. In addition, value of 0.06 or lower is favored (Hooper et al., 2008; Hu & Bentler, 1999). However, lately, more stringent upper limit for RMSEA value of 0.07 seems to have become the general consensus among researchers (Steiger, 2007). The above indicators are used as the basis to evaluate the model for this study.

3.6   Pilot Study

This section presents the results of a pilot study conducted on 65 respondents. The purpose of this pilot study is to evaluate the level of reliability and validity of the instruments used. A total of 150 questionnaires were distributed to respondents in one of the district in Kedah. From that number, 71 questionnaires were returned. However, only 65 questionnaires are fit for further analysis after getting rid of missing data. The number of respondents obtained for this pilot study (65 respondents) exceeds the minimum suggestion of 38 respondents[12]

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[12] 10% x 384 (targeted sample size based on suggestion by Krejcie & Morgan, 1970)

(Hertzog, 2008). It also exceeds the number of respondents in studies undertaken by previous zakat researchers, for example 63 respondents (Kamil, 2002) and 55 respondents (Zainol, 2008).

Two types of analysis will be carried out for this pilot study namely reliability and validity analysis. Reliability analysis is done using Cronbach's alpha whereas factor analysis is used to assess the validity of the research instrument. Cronbach's alpha is chosen as it is the most widely used measure for reliability (Hair et al., 2010). Meanwhile factor analysis is chosen as it provides the researcher with an empirical assessment of the interrelationships among variables through assessment of content validity (Hair et al., 2010).

Table 3.2 reveals the value of Cronbach's alpha for all constructs in the study. Generally, the lower limit for Cronbach's alpha is 0.70 but 0.60 is acceptable in exploratory research (Hair et al., 2010). Reliability analysis for pilot data revealed that all constructs have reliability higher than the recommended level of 0.70. In general, the value of Cronbach's alpha for all constructs lies between 0.808 to 0.979.

Table 3.2
Instrument Reliability Analysis (N=65)

Variable	No. of Items	Cronbach's Alpha
Board Size	5	0.979
Board Independence	5	0.934
Board Expertise	5	0.883
Audit Committee Independence	5	0.943
Audit Committee Expertise	5	0.955
Audit Committee Diligence	5	0.958
Leadership	5	0.808
Participation	5	0.881
Accountability	5	0.945
Transparency	5	0.946
Service Quality	5	0.919
Information Technology	5	0.910
Religiosity of Zakat Employees	5	0.974
Law	5	0.933
Enforcement	5	0.890

Construct leadership recorded the lowest Cronbach's alpha with 0.808 whereas construct board size recorded 0.979 which is the highest Cronbach's alpha. The remaining 13 constructs have Cronbach's Alpha between 0.881 to 0.974. That constructs are participation, board expertise, enforcement, information technology, service quality, law, board independence, audit committee independence, accountability, transparency, audit committee expertise, audit committee diligence and religiosity of zakat employees.

After passing the reliability analysis, the constructs are then tested with validity analysis. The result for validity analysis is shown in Table 3.3. Overall, KMO value for all constructs is between 0.733 to 0.914. Construct Service Quality recorded the lowest KMO value with 0.733 but still exceed the minimum rate of 0.50 as suggested by scholar (Hair et al., 2010). Meanwhile, Construct Board Size recorded the highest KMO value with 0.914. This indicates good position for item that can be explained by other items in this construct (Hair et al., 2010). In addition, value of BTOS for all constructs is found to be significant (Sig. 0.000). This indicates that all constructs pass the matrix test. Therefore all constructs are to be retained and tested in the larger sample size.

Table 3.3
Instrument Validity Analysis (N=65)

Variable	No. of Items	No. of Factors	KMO Value	Variance Explained
Board Size	5	1	0.914	92.510
Board Independence	5	1	0.792	80.407
Board Expertise	5	1	0.866	71.526
Audit Committee Independence	5	1	0.807	82.034
Audit Committee Expertise	5	1	0.882	84.949
Audit Committee Diligence	5	1	0.901	85.751
Leadership	5	1	0.787	60.441
Participation	5	1	0.788	67.864
Accountability	5	1	0.890	82.153
Transparency	5	1	0.866	82.652
Service Quality	5	1	0.733	75.978
Information Technology	5	1	0.882	73.993
Religiosity of Zakat Employees	5	1	0.894	90.659
Law	5	1	0.870	79.709
Enforcement	5	1	0.849	71.262

Note. BTOS is significant for all constructs.

3.7   Conclusion

Chapter three introduces the proposed model for zakat institution's governance that contains 15 variables. All these variables were scrutinized from the previous studies so that it really reflect good governance in zakat institutions. This effort is taken to ensure that the proposed model offers valuable contribution to zakat institutions. Data collection for this study will be conducted via questionnaires so that first-hand information will be obtained. It is important to obtain such information as it leads to a real reflection in zakat institutions. Later, when results have been obtained, interviews with three officers from zakat institutions are conducted where each of them representing JZNK, LZS and PKZ Pahang. Interviews are conducted with the aim of confirming the results obtained so that a robust governance model can be proposed for zakat institutions. The processes involved in data collection and data analysis are tedious processes to ensure that the data is valid and reliable to support the discussion in the latter chapter. Meanwhile the feedback from the pilot study is useful to evaluate whether necessary improvement should be made before the questionnaires are distributed to the actual targeted respondents.

CHAPTER 4

RESULT AND DISCUSSION

4.1   Introduction

This chapter aims to report the result of the study and the discussion that relates to it. In general, nine sections are presented. Section 4.1 starts with the introduction whereas section 4.2 confers about descriptive statistics relating to zakat payers who are the respondents for this study. Section 4.3 discusses about data filtering process and the result of tests undertaken to fulfill multivariate assumptions. Next, the result of EFA is discussed in section 4.4 and followed by the discussion about CFA in section 4.5. Next, the discussion about second order and second objective take place in section 4.6 and 4.7 respectively. Section 4.8 presents the discussion and the last section presents the conclusion of the chapter.
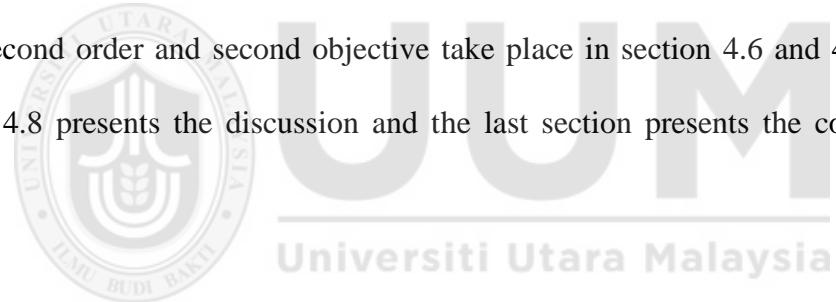
4.2   Descriptive Statistics

4.2.1   Sample Profile

1,000 self-administered questionnaires were sent to zakat payers in three states (Kedah, Pahang and Selangor). 581 questionnaires were returned with 22 unanswered questionnaires, 112 incomplete questionnaire and 16 questionnaires are outliers. Eventually, only 431 questionnaires can be used for analysis purposes and this exceeds the amount recommended by experts (Coakes & Steed, 2003; Hair et al., 2010). Coakes & Steed (2003) recommend that sample size for a study must be 20 times greater or at least 5 times greater than the number of independent variables involved. On the other hand, Hair

et al. (2010) suggest that good sample size for statistical analysis must at least 10 times greater than the number of tested variables. In addition, analysis that requires SEM approach need sample size around 200 (Hair et al., 2010). Hence, total sample of 431 with 15 independent variables already fulfilled the recommendation for statistical analyses.

4.2.2   Respondent Profile

Descriptive statistics of respondents are presented in Table 4.1. It reveals the information about gender, age, marital status, education level and states. Information relating to gender reveals that majority of respondents are female with 60.8% compared to male respondents with 39.2%. For this group (gender), t test is performed to identify whether there is significant difference or not from enforcement (one of the chosen independent variable). The result shows that there is no significant difference between male and female from enforcement (t value = 0.687, sig. = 0.493) which means that there is no bias in terms of gender. In terms of age, majority of respondents are between 30 to 39 years old (42.2%) and followed by 40 to 49 years old (33.2%). With 89.3%, it clearly shows that married respondents are the dominance group for this study whereas bachelor and others group only show small percentage i.e. 9.5% and 1.2%, respectively. The analysis on education level reveals that majority of respondents are educated at bachelor degree level (50.1%). Lastly, respondents from Kedah are the majority group with 45.5% followed by Selangor with 33.6% and Pahang with 20.9%.

Table 4.1
Descriptive Statistics for Frequency Distribution (N=431)

Demography	Frequency	Percentage (%)
Gender: Male	169	39.2
Female	262	60.8
Age: 20-29 years	64	14.9
30-39 years	182	42.2
40-49 years	143	33.2
50-59 years	42	9.7
Marital Status: Married	385	89.3
Bachelor	41	9.5
Others	5	1.2
Education Level: PhD or Master Degree	63	14.6
Bachelor Degree	216	50.1
Diploma	70	16.3
STPM or SPM	79	18.3
SRP or PMR	2	0.5
Others	1	0.2
States: Kedah	196	45.5
Pahang	90	20.9
Selangor	145	33.6

4.2.3 Analysis of the Variables of the Study

Table 4.2 highlights the descriptive statistics for each variable. Theoretical framework of

this study consists of 15 independent (exogenous) variables. Service quality recorded the highest mean with 23.84, while the lowest mean of 18.87 is recorded by board size. Meanwhile board size recorded the highest standard deviation with 4.93, whereas service quality recorded the lowest value (2.02).

Table 4.2
Descriptive Statistics for Each Variable (N=431)

Variable	No. of Item	Minimum	Maximum	Mean	Std. Deviation
Board Size	5	5.0	25.0	18.87	4.93
Board Independence	5	5.0	25.0	20.03	4.05
Board Expertise	5	15.0	25.0	23.24	2.31
Audit Committee Independence	5	9.0	25.0	21.84	3.25
Audit Committee Expertise	5	15.0	25.0	22.83	2.52
Audit Committee Diligence	5	10.0	25.0	21.00	3.29
Leadership	5	15.0	25.0	22.03	2.46
Participation	5	14.0	25.0	22.15	2.48
Accountability	5	15.0	25.0	23.18	2.47
Transparency	5	15.0	25.0	23.03	2.45
Service Quality	5	15.0	25.0	23.84	2.02
Information Technology	5	15.0	25.0	22.82	2.44
Religiosity	5	14.0	25.0	23.58	2.34
Law	5	15.0	25.0	22.83	2.51
Enforcement	5	10.0	25.0	22.13	2.99

4.3   Data Filtering and Multivariate Assumptions

Data filtering needs to be done to ensure the suitability of the data for multivariate analysis. Three types of data filtering that have been performed are response bias, missing data and outliers.

4.3.1   Response Bias

For response bias, *t* test is applied on two groups of respondents; earlier group and later group. Table 4.3 shows the result of response bias test performed on 15 independent variables. The significant value for the independent variable is ranging from 0.678 until 0.000 which indicate that majority of the variables show the value that is not significant. Information technology recorded the highest value whereas religiosity recorded the lowest value. The result suggests that the data has no serious problem of response bias.

4.3.2   Missing Data

1,000 questionnaires have been distributed to respondents in 3 states (Kedah, Pahang and Selangor). From the total questionnaires distributed, 559 questionnaires were filled and returned. Then, the identification process of incomplete response was conducted. The process had revealed 112 questionnaires with missing data. Since enough number of samples is attained therefore all missing data are excluded from the study (Hair et al., 2010). After the exclusion process, the total questionnaire left is 447 and this figure is sufficient to undergo further analysis (Hair et al., 2010).

Table 4.3
Independent Samples Test

Variable	t test for Equality of Means	
	t	Sig.
Board Size	-1.357	0.175
Board Independence	-3.592	0.000
Board Expertise	-3.147	0.002
Audit Committee Independence	-3.131	0.002
Audit Committee Expertise	-1.040	0.299
Audit Committee Diligence	-0.949	0.343
Leadership	-1.320	0.188
Participation	-2.501	0.013
Accountability	-1.810	0.071
Transparency	-1.486	0.138
Service Quality	-2.361	0.019
Information Technology	-0.415	0.678
Religiosity	-3.890	0.000
Law	-2.999	0.003
Enforcement	-1.511	0.131

4.3.3   Outliers

After performing the outliers test, 16 data have been identified to have outliers problem because they have a Mahalanobis D^2 with a probability less than or equal to 0.001. Table 4.4 highlighted those data where their values range from 0.0000 until 0.0009. All 16 data were excluded from the study.

Table 4.4
Outliers Test

No	DataSet	P_MAH_1
1	106	0.0000
2	135	0.0000
3	164	0.0000
4	104	0.0000
5	152	0.0000
6	156	0.0000
7	150	0.0000
8	303	0.0000
9	328	0.0001
10	197	0.0002
11	387	0.0002
12	119	0.0002
13	323	0.0003
14	329	0.0004
15	259	0.0008
16	66	0.0009

After filtering process, the data undergo normality, linearity, homoscedasticity and multicollinearity test to fulfill multivariate assumptions. Details of tests that have been conducted are described below.

4.3.4   Normality

In assessing normality, skewness and kurtosis of the data is examined. Normality assumption is fulfilled when statistic value of skewness and kurtosis is $\pm$ 2.58 (Coakes & Steed, 2003). Table 4.5 reveals the value of skewness and kurtosis for all independent variables. The result indicates that all independent variables do not violate normality assumptions except for religiosity variable. Hence, this variable must undergo transformation process in order to fulfill normality assumption.

Three types of transformation available to transform the data i.e. logarithmic transformation, square root transformation and inverse transformation. The formula for transformation depend on the direction of the skewness either positive or negative. In this study, the distribution is negatively skewed (-1.802), so the formula is:

Maximum value + 1 – old variable

= 25 + 1 – Religiosity

The calculation for transformations is as follows:

∫ Logarithmic transformation

   New variable = LG10 (26 – Religiosity)

∫ Square root transformation

   New variable = SQRT (26 – Religiosity)

∫ Inverse transformation

   New variable = 1 / (26 – Religiosity)

Table 4.5
Statistical Result of Skewness and Kurtosis for All Variables

Variable	Skewness		Kurtosis	
	Statistic	Std. Error	Statistic	Std. Error
Board Size	-0.786	0.118	0.159	0.235
Board Independence	-0.896	0.118	0.551	0.235
Board Expertise	-1.242	0.118	0.936	0.235
Audit Committee Independence	-0.898	0.118	0.531	0.235
Audit Committee Expertise	-0.851	0.118	-0.129	0.235
Audit Committee Diligence	-0.486	0.118	-0.212	0.235
Leadership	-0.683	0.118	0.130	0.235
Participation	-0.466	0.118	-0.500	0.235
Accountability	-1.139	0.118	0.456	0.235
Transparency	-0.988	0.118	0.026	0.235
Service Quality	-1.740	0.118	2.454	0.235
Information Technology	-0.846	0.118	-0.177	0.235
Religiosity	-1.802	0.118	2.915	0.235
Law	-0.988	0.118	0.345	0.235
Enforcement	-0.831	0.118	0.146	0.235

Table 4.6 shows the statistic value for skewness and kurtosis after transformation has been made for religiosity variable based on three options available. The result indicates that logarithmic transformation give better value than square root & inverse transformation. Therefore, LGTRELIG will be used in subsequent analysis.

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Table 4.6
Statistical Result for Religiosity Variable after Transformation

Variable	Skewness		Kurtosis	
	Statistic	**Std. Error**	**Statistic**	**Std. Error**
LGTRELIG	0.947	0.118	-0.678	0.235
SQTRELIG	1.275	0.118	0.495	0.235
INTRELIG	-0.661	0.118	-1.451	0.235

4.3.5 Linearity

Linear relationship between independent variables is assumed since factor analysis is based on correlation (Pallant, 2011). In practical situation, only some combination of variables needs to be tested to assess linearity assumption (Tabachnick & Fidell, 2007). Table 4.7 shows the result of linearity test that have been conducted. It revealed that linearity assumption has not been violated.

Table 4.7
Pearson Correlation for Some Combination of Independent Variables (N=431)

	Bsize	**Acexp**	**Lead**	**Acct**	**Enfor**
Bsize	1				
Acexp	.142**	1			
Lead	.220**	.509**	1		
Acct	.167**	.599**	.481**	1	
Enfor	.186**	.427**	.297**	.439**	1

Notes. **Correlation is significant at the 0.01 level (2-tailed),
Bsize = Board Size, Acexp = Audit Committee Expertise,
Lead = Leadership, Acct = Accountability, Enfor = Enforcement.

4.3.6 Homoscedasticity

Homoscedasticity assumption is assessed by performing Levene's test on all matrix variables against non-matrix variable (gender). Homoscedasticity assumption is fulfilled when p value is not significant (p>0.001). Table 4.8 highlights the result of Levene's test whereby only board size shows significant p value, whereas the other 14 variables show the p value as not significant. Overall, a homoscedasticity assumption has been fulfilled since almost all variables show the p value as not significant.

4.3.7 Multicollinearity

In this study, multicollinearity assumption is examined via Pearson correlation. Serious multicollinearity problem exist if the correlation between independent variables is above 0.8 (Hair et al., 2010). Table 4.9 highlights the result of multicollinearity test. The result show that highest value is 0.697 (a correlation between board expertise and audit committee expertise) whereas the lowest value is 0.072 (a correlation between board size and religiosity). Based on the result, multicollinearity assumption has not been violated as all the independent variables recorded the value less than 0.9 (Hair et al., 2010; Pallant, 2011).

There is another approach to test multicollinearity i.e. by using Tolerance and Variance Inflation Factor (VIF). Data will suffer multicollinearity problem if Tolerance value is less than 0.10 and VIF is greater than 10 (Hair et al., 2010; Pallant, 2011). However this approach is not applicable for this study since it requires the presence of dependent variable.

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Table 4.8
Homoscedasticity Test

Matrix Variable	Non Matrix Variable Gender	
	Levene Statistic (F value)	Level of Sig. (p<0.001)
Board Size	14.489	0.000
Board Independence	0.830	0.363
Board Expertise	1.592	0.208
Audit Committee Independence	2.754	0.098
Audit Committee Expertise	0.004	0.948
Audit Committee Diligence	0.015	0.903
Leadership	0.563	0.454
Participation	0.903	0.343
Accountability	0.549	0.459
Transparency	2.535	0.112
Service Quality	1.109	0.293
Information Technology	3.499	0.062
Law	1.106	0.294
Enforcement	2.100	0.148
Religiosity	0.033	0.855

Table 4.9
Pearson Correlation for All Independent Variables (N=431)

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Bsize (1)	1														
Bind (2)	0.122^{*}	1													
Bexp (3)	0.185^{**}	0.302^{**}	1												
Acind (4)	0.091	0.585^{**}	0.395^{**}	1											
Acexp (5)	0.142^{**}	0.253^{**}	0.697^{**}	0.461^{**}	1										
Acdil (6)	0.255^{**}	0.266^{**}	0.324^{**}	0.288^{**}	0.413^{**}	1									
Lead (7)	0.220^{**}	0.270^{**}	0.466^{**}	0.314^{**}	0.509^{**}	0.415^{**}	1								
Part (8)	0.261^{**}	0.199^{**}	0.461^{**}	0.358^{**}	0.549^{**}	0.438^{**}	0.462^{**}	1							

Notes. *Correlation is significant at the 0.05 level (2-tailed), **Correlation is significant at the 0.01 level (2-tailed),
Bsize = Board Size, Bind = Board Independence, Bexp = Board Expertise, Acind = Audit Committee Independence,
Acexp = Audit Committee Expertise, Acdil = Audit Committee Diligence, Lead = Leadership, Part = Participation,

Table 4.9 (Continued)

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Acct (9)	0.167**	0.311**	0.485**	0.465**	0.599**	0.394**	0.481**	0.530**	1						
Trans (10)	0.124*	0.228**	0.503**	0.394**	0.602**	0.324**	0.398**	0.546**	0.573**	1					
Servq (11)	0.128**	0.218**	0.526**	0.323**	0.507**	0.336**	0.466**	0.424**	0.530**	0.619**	1				
IT (12)	0.112*	0.205**	0.471**	0.386**	0.533**	0.351**	0.457**	0.478**	0.541**	0.530**	0.593**	1			
Relig (13)	-0.072	-0.212**	-0.377**	-0.374**	-0.404**	-0.300**	-0.288**	-0.397**	-0.427**	-0.394**	-0.449**	-0.398**	1		
Law (14)	0.099*	0.247**	0.416**	0.444**	0.551**	0.354**	0.360**	0.456**	0.519**	0.551**	0.498**	0.558**	-0.512**	1	
Enfor (15)	0.186**	0.195**	0.371**	0.364**	0.427**	0.296**	0.297**	0.409**	0.439**	0.421**	0.399**	0.477**	-0.405**	0.526**	1

Notes. *Correlation is significant at the 0.05 level (2-tailed), **Correlation is significant at the 0.01 level (2-tailed),
Acct = Accountability, Trans = Transparency, Servq = Service Quality, IT = Information Technology,
Relig = Religiosity, Law = Law, Enfor = Enforcement.

4.4   Exploratory Factor Analysis

The suitability of factor analysis needs to be determined first before factor analysis can be performed. Hence, matrix data should be inspected to justify the use of factor analysis. Matrix data need to have sufficient correlation to ensure the suitability of factor analysis application (Hair et al., 2010). KMO and BTOS are two measurements that can be used to evaluate the suitability of factor analysis. KMO value is between zero to one where one indicates that every variable is perfectly predicted by other variable without error (Hair et al., 2010). However, this perfect situation is barely achieved. Simple rule stated that KMO value must be at least 0.50 and above before factor analysis can be applied (Coakes & Steed, 2003; Hair et al., 2010). Besides, value of BTOS for all variables should also be significant ($p < 0.05$) to convince that factor analysis is appropriate. The result of these measurements is presented in Table 4.10. Generally, the inspection of matrix data signifies satisfactory position for KMO and BTOS measurement. The lowest KMO value is 0.718 (leadership) whereas board size denote highest KMO value with 0.903. The requirement for BTOS is also being fulfilled since all variables are found to be significant (Sig. 0.000). Therefore, the use of factor analysis in this study is appropriate.

Internal consistency of the data is also being inspected via reliability analysis and is shown in Table 4.11. The result of reliability analysis revealed that all constructs have reliability higher than the recommended level of 0.70 (Hair et al., 2010). In general, the value of Cronbach's alpha for all constructs lies between 0.769 to 0.962.

Table 4.10
Suitability Test for Factor Analysis (N=431)

Variable	KMO Value	Approx. Chi-Square	Df	BTOS (Sig.)	Variance Explained
Board Size	0.903	2613.673	10	0.000	86.967
Board Independence	0.869	1519.055	10	0.000	73.799
Board Expertise	0.835	1396.267	10	0.000	71.632
Audit Committee Independence	0.867	2222.234	10	0.000	82.327
Audit Committee Expertise	0.881	1706.310	10	0.000	77.956
Audit Committee Diligence	0.886	1871.668	10	0.000	77.913
Leadership	0.718	1033.298	10	0.000	80.520
Participation	0.838	786.839	10	0.000	60.922
Accountability	0.871	2014.586	10	0.000	80.855
Transparency	0.879	1497.047	10	0.000	73.619
Service Quality	0.858	1587.302	10	0.000	75.350
Information Technology	0.868	1178.950	10	0.000	69.881
Religiosity of Zakat Employees	0.873	1695.849	10	0.000	77.305
Law	0.856	1196.686	10	0.000	68.822
Enforcement	0.843	1511.503	10	0.000	73.178

Note. KMO = Kaiser-Meyer-Olkin, Df = Degree of Freedom, BTOS = Bartlett's Test of Sphericity. All anti-image correlation between variable are above 0.5.

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Table 4.11
Instrument Reliability Analysis (N=431)

Variable	No. of Items	Cronbach's Alpha
Board Size	5	0.962
Board Independence	5	0.907
Board Expertise	5	0.898
Audit Committee Independence	5	0.946
Audit Committee Expertise	5	0.928
Audit Committee Diligence	5	0.928
Leadership	5	0.769
Participation	5	0.832
Accountability	5	0.941
Transparency	5	0.902
Service Quality	5	0.917
Information Technology	5	0.890
Religiosity of Zakat Employees	5	0.923
Law	5	0.876
Enforcement	5	0.903

Construct leadership recorded the lowest Cronbach's alpha with 0.769 whereas construct board size recorded 0.962 which is the highest Cronbach's alpha. The remaining 13 constructs have Cronbach's Alpha between 0.832 to 0.946. That constructs are participation, law, information technology, board expertise, transparency, enforcement,

board independence, service quality, religiosity of zakat employees, audit committee diligence, audit committee expertise, accountability and audit committee independence.

4.4.1 Board Size

EFA is applied on construct board size to address H_1. The result in Table 4.12 shows that only one dimension is formed in board size. This dimension is identified when eigenvalues show the amount that is greater than 1. The eigenvalues of a factor greater than 1 is considered significant (Hair et al., 2010). The dimension is able to explain about 86.967% of variance in board size. Further, the inspection on communalities value shows that the value for all items is enough, which is more than 0.50.

Table 4.12
Result of Exploratory Factor Analysis for Board Size (N=431)

	Factor	Comm.	Eigen (% Var)	Alpha
Board Size (5 items)			4.348 (86.967)	0.962
BSIZE1 (Have large board size)	.913	.833		
BSIZE2 (More robust with large board size)	.940	.884		
BSIZE3 (More reliable with large board size)	.961	.924		
BSIZE4 (Produce good idea with large board size)	.917	.842		
BSIZE5 (Effective monitoring with large board size)	.931	.866		

Note. Extraction method: Principal component analysis. BTOS is significant ($p < 0.05$).
Factor = Factor Loading, Comm. = Communalities, Eigen = Eigenvalue,
(% Var) = % of Variance, Alpha = Cronbach Alpha.

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4.4.2 Board Independence

Table 4.13 shows the result of board independence where only one dimension is formed. This construct applies EFA to test H_2. The Eigenvalues for this dimension is greater than 1 and therefore is significant (Hair et al., 2010). About 73.799% of variance in board independence is able to be explained by this dimension. The communalities value for each item is more than 0.50 which indicate that the value is sufficient as it pass the minimum requirement.

Table 4.13
Result of Exploratory Factor Analysis for Board Independence (N=431)

	Factor	**Comm.**	**Eigen (% Var)**	**Alpha**
Board Independence (5 items)			3.690 (73.799)	0.907
BIND1 (Have independence board)	.868	.754		
BIND2 (Hire independence directors from outside)	.792	.627		
BIND3 (More robust with freedom to speak)	.799	.638		
BIND4 (More reliable with independence board)	.922	.850		
BIND5 (Effective monitoring by the board)	.906	.821		

Note. Extraction method: Principal component analysis. BTOS is significant ($p < 0.05$).
Factor = Factor Loading, Comm. = Communalities, Eigen = Eigenvalue,
(% Var) = % of Variance, Alpha = Cronbach Alpha.

4.4.3 Board Expertise

Construct board expertise applied EFA to examine H_3. Only one dimension is formed in board expertise as shown in Table 4.14. The eigenvalues for this dimension is 3.582 which is greater than 1. The eigenvalues of a factor is consider important if it is greater than 1

(Hair et al., 2010). The explanation about variance in board expertise is at 71.632%. Whereas the minimum communalities value is recorded for item BEXP5 which is 0.622 (more than minimum requirement of 0.50). This shows that the communalities value is adequate for this dimension.

Table 4.14
Result of Exploratory Factor Analysis for Board Expertise (N=431)

	Factor	Comm.	Eigen (% Var)	Alpha
Board Expertise (5 items)			3.582 (71.632)	0.898
BEXP1 (Have expertise in particular field)	.826	.682		
BEXP2 (Have board with experience)	.873	.761		
BEXP3 (More robust with expert board)	.885	.784		
BEXP4 (More reliable with experience board)	.856	.733		
BEXP5 (Effective monitoring by expert board)	.788	.622		

Note. Extraction method: Principal component analysis. BTOS is significant ($p < 0.05$).
Factor = Factor Loading, Comm. = Communalities, Eigen = Eigenvalue,
(% Var) = % of Variance, Alpha = Cronbach Alpha.

4.4.4 Audit Committee Independence

H_4 which relate to construct audit committee independence is tested via EFA. It was found that for audit committee independence, only one dimension is formed as shown in Table 4.15. This dimension is identified when the result shows that the eigenvalues is greater than 1. According to Hair et al. (2010), the eigenvalues of a factor greater than 1 is considered significant. By looking at percentage of variance, the result shows that the construct is capable to describe about 82.327% of variance in audit committee independence. In respect

to communalities value, it is found that the value for all items for this construct is sufficient because the lowest value is 0.743 (ACIND3).

Table 4.15
Result of Exploratory Factor Analysis for Audit Committee Independence (N=431)

	Factor	Comm.	Eigen (% Var)	Alpha
Audit Committee Independence (5 items)			4.116 (82.327)	0.946
ACIND1 (Have independence committee)	.906	.820		
ACIND2 (Appoint independence members)	.919	.844		
ACIND3 (More robust with freedom to speak)	.862	.743		
ACIND4 (More reliable with the committee)	.940	.884		
ACIND5 (Effective monitoring by the committee)	.908	.825		

Note. Extraction method: Principal component analysis. BTOS is significant ($p < 0.05$).
Factor = Factor Loading, Comm. = Communalities, Eigen = Eigenvalue,
(% Var) = % of Variance, Alpha = Cronbach Alpha.

4.4.5 Audit Committee Expertise

The result in Table 4.16 shows that only one dimension is formed in audit committee expertise. The result is obtained through EFA to address H_5. The eigenvalues for this construct show the amount that is greater than 1 which allow the dimension to be identified. The eigenvalues of a factor greater than 1 is considered substantial (Hair et al., 2010). The result also shows that 77.956% of variance in audit committee expertise is able to be clarified by this dimension. Since the minimum communalities value is agreed at 0.50, the result in Table 4.16 shows that the value for all items is ample with the lowest value is recorded for item ACEXP1 (0.706).

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Table 4.16
Result of Exploratory Factor Analysis for Audit Committee Expertise (N=431)

	Factor	Comm.	Eigen (% Var)	Alpha
Audit Committee Expertise (5 items)			3.898 (77.956)	0.928
ACEXP1 (Have expertise in particular field)	.840	.706		
ACEXP2 (Have committee with experience)	.882	.778		
ACEXP3 (More robust with expert committee)	.905	.820		
ACEXP4 (More reliable with experience committee)	.900	.809		
ACEXP5 (Effective monitoring by expert committee)	.886	.785		

Note. Extraction method: Principal component analysis. BTOS is significant ($p < 0.05$).
Factor = Factor Loading, Comm. = Communalities, Eigen = Eigenvalue,
(% Var) = % of Variance, Alpha = Cronbach Alpha.

4.4.6 Audit Committee Diligence

Table 4.17 shows the application of EFA on construct audit committee diligence to address H_6. The result shows that only one dimension is formed in audit committee diligence. This dimension is identified when eigenvalues show the amount that is 3.896. The eigenvalues of a factor greater than 1 is considered important (Hair et al., 2010). The dimension is able to explain about 77.913% of variance in audit committee diligence. Further, the assessment on communalities value shows that the value is more than 0.50 which indicate that the value for all items is adequate.

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Table 4.17
Result of Exploratory Factor Analysis for Audit Committee Diligence (N=431)

	Factor	Comm.	Eigen (% Var)	Alpha
Audit Committee Diligence (5 items)			3.896 (77.913)	0.928
ACDIL1 (Frequent meeting)	.741	.549		
ACDIL2 (Able to function well)	.909	.826		
ACDIL3 (More robust with frequent meeting)	.932	.868		
ACDIL4 (More reliable with frequent meeting)	.926	.857		
ACDIL5 (Effective monitoring with frequent meeting)	.892	.796		

Note. Extraction method: Principal component analysis. BTOS is significant ($p < 0.05$).
Factor = Factor Loading, Comm. = Communalities, Eigen = Eigenvalue,
(% Var) = % of Variance, Alpha = Cronbach Alpha.

4.4.7 Leadership

EFA is applied on construct leadership to address H_7. In the early stage, two dimensions are formed in leadership (refer to Table 4.18). These dimensions are identified when eigenvalues for two components are greater than 1. The eigenvalues of a factor greater than 1 is considered significant (Hair et al., 2010). The two dimensions are able to explain about 80.520% of variance in leadership. The highest eigenvalues is 2.882 with 57.647% of variance explained. Meanwhile the lowest eigenvalues is 1.144 with 22.873% of variance explained. The inspection on communalities value shows that the value for all items is sufficient, which is more than 0.50 and provide justification for factor matrix extraction (Hair et al., 2010).

Table 4.18
Result of Exploratory Factor Analysis for Leadership (N=431)

Component	Communalities	Initial Eigenvalues		
		Total	**% of Variance**	**Cumulative %**
1	.818	2.882	57.647	57.647
2	.764	1.144	22.873	80.520
3	.703	.460	9.201	89.721
4	.881	.342	6.840	96.561
5	.860	.172	3.439	100.000

Note. Extraction method: Principal component analysis.

Next, Varimax rotation with Kaiser Normalization is applied to identify clearly the correlation among items and classification of components. Varimax rotation will also facilitate the interpretation of the two components. Table 4.19 shows the rotated factor loading for leadership dimension with each item has significant loading (more than 0.50). The highest factor loading is 0.933 which is recorded in item LEAD4 and the lowest is 0.669 in item LEAD3. The result also suggests that component 1 consist of 3 items (LEAD3, LEAD4 & LEAD5). Meanwhile LEAD1 and LEAD2 are the 2 items that suit component 2. All the components are named based on the characteristic of items attached to it. The suggested name for component 1 is leadership quality whereas leadership objective is suggested for component 2.

Table 4.19
Rotated Component Matrix (Varimax) for Leadership (N=431)

	Component	
	1	**2**
LEAD3 (Unite leader and employees)	.669	
LEAD4 (Meet religious requirements)	.933	
LEAD5 (Excel with quality leadership)	.922	
LEAD1 (Influence the organization)		.904
LEAD2 (Achieve organization goal)		.785

Note. Extraction method: Principal component analysis.
Rotation method: Varimax with Kaiser Normalization.

4.4.7.1 Final Position of Matrix Factor for Leadership

Leadership components formed after the factor analysis must pass some measurement criteria for reliability and validity purposes. In general, Table 4.20 reveals the final position of matrix factor for leadership. Items LEAD1 and LEAD2 in the dimension of leadership objective are dropped because it has only two items which is not advisable to proceed with subsequent analysis. The minimum requirement for items in a construct must be at least 3 items (Hair et al., 2010). In addition, leadership objective also has low alpha coefficient, i.e. 0.677. The action to drop this dimension is in line with suggestion made by scholars to drop items that have alpha value less than 0.70 (Hair et al., 2010). Meanwhile, all items in the remaining dimension (leadership quality) have factor loading exceeding 0.70. This situation indicates that more than 50% of variance explained for leadership quality has been obtained. Coefficient alpha for leadership quality is at satisfactory level with 0.843, exceeding the recommended level of 0.70. KMO and BTOS value indicate that the data is

suitable for factor analysis. Percentage of variance explained for this dimension is 77.549%.

Table 4.20
Result of Exploratory Factor Analysis for Leadership (Final) (N=431)

	Factor	Comm.	Eigen (% Var)	Alpha	Action
Leadership Quality (3 items)			2.326 (77.549)	0.843	Retain
LEAD3 (Unite leader and employees)	.798	.638			
LEAD4 (Meet religious requirements)	.924	.854			
LEAD5 (Excel with quality leadership)	.914	.835			
Leadership Objective (2 items)			1.534 (76.698)	0.677	Delete
LEAD1 (Influence the organization)	.876	.767			
LEAD2 (Achieve organization goal)	.876	.767			

Note. Extraction method: Principal component analysis. BTOS is significant ($p < 0.05$).
Factor = Factor Loading, Comm. = Communalities, Eigen = Eigenvalue,
(% Var) = % of Variance, Alpha = Cronbach Alpha.

4.4.8   Participation

Based on result in Table 4.21, it was found that construct participation formed only one dimension. The analysis is done via EFA to address H_8. Eigenvalue for construct participation is 3.046 thus allow the dimension to be identified since the eigenvalues is greater than 1. According to Hair et al. (2010) the eigenvalues of a factor is considered significant if the value is greater than 1. Meanwhile, based on the percentage of variance, construct participation is able to explain about 60.922% of variance in participation. Communalities value on the other hand, shows the value greater than 0.50 for all items.

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Table 4.21
Result of Exploratory Factor Analysis for Participation (N=431)

	Factor	Comm.	Eigen (% Var)	Alpha
Participation (5 items)			3.046 (60.922)	0.832
PART1 (Contribute idea)	.763	.582		
PART2 (Promote employees to voice out)	.788	.621		
PART3 (Involvement in decision making)	.731	.535		
PART4 (Enhance responsibility)	.782	.611		
PART5 (Reliable if sensitive to employees' opinion)	.835	.697		

Note. Extraction method: Principal component analysis. BTOS is significant (p < 0.05).
Factor = Factor Loading, Comm. = Communalities, Eigen = Eigenvalue,
(% Var) = % of Variance, Alpha = Cronbach Alpha.

4.4.9 Accountability

It was found that only one dimension exist for accountability as shown in Table 4.22. The result is based on EFA which is applied to address H_9. The results also revealed that accountability construct formed one dimension as shown in Table 4.22. This dimension is identified when eigenvalues show the amount that is greater than 1. The eigenvalues of a factor greater than 1 is considered significant (Hair et al., 2010). The explanation power of this dimension is at 80.855% which can be considered as quite high. Further, the examination on communalities value shows that the value for all items is sufficient, which is more than 0.50.

Table 4.22
Result of Exploratory Factor Analysis for Accountability (N=431)

	Factor	Comm.	Eigen (% Var)	Alpha
Accountability (5 items)			4.043 (80.855)	0.941
ACCT1 (Practice accountability)	.868	.753		
ACCT2 (Compliance to regulations)	.903	.816		
ACCT3 (Fraud prevention)	.879	.773		
ACCT4 (More reliable with accountability)	.929	.862		
ACCT5 (More responsible with accountability)	.916	.838		

Note. Extraction method: Principal component analysis. BTOS is significant ($p < 0.05$).
Factor = Factor Loading, Comm. = Communalities, Eigen = Eigenvalue,
(% Var) = % of Variance, Alpha = Cronbach Alpha.

4.4.10 Transparency

EFA is applied on construct transparency to address H_{10}. The result in Table 4.23 shows that only one dimension is formed in transparency. This dimension is identified when eigenvalues show the amount that is greater than 1. The eigenvalues of a factor greater than 1 is considered significant (Hair et al., 2010). The dimension is able to explain about 73.619% of variance in transparency. Further, the inspection on communalities value shows that the value for all items is adequate, which is more than 0.50.

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Table 4.23
Result of Exploratory Factor Analysis for Transparency (N=431)

	Factor	Comm.	Eigen (% Var)	Alpha
Transparency (5 items)			3.681 (73.619)	0.902
TRANS1 (Access to all parties)	.743	.553		
TRANS2 (Timely disclosure)	.845	.714		
TRANS3 (Accurate disclosure)	.907	.823		
TRANS4 (Sufficient disclosure)	.911	.830		
TRANS5 (Reliable information reporting)	.872	.761		

Note. Extraction method: Principal component analysis. BTOS is significant ($p < 0.05$).
Factor = Factor Loading, Comm. = Communalities, Eigen = Eigenvalue,
(% Var) = % of Variance, Alpha = Cronbach Alpha.

4.4.11 Service Quality

Table 4.24 shows the result of service quality where only one dimension is formed. This construct applies EFA to test H_{11}. The Eigenvalues for this dimension is greater than 1 and therefore is significant (Hair et al., 2010). About 75.350% of variance in service quality is able to be explained by this dimension. The communalities value for each item is more than 0.50 which indicate that the value is sufficient as it pass the minimum requirement.

Table 4.24
Result of Exploratory Factor Analysis for Service Quality (N=431)

	Factor	Comm.	Eigen (% Var)	Alpha
Service Quality (5 items)			3.768 (75.350)	0.917
SERVQ1 (Practice service quality)	.844	.712		
SERVQ2 (Ensure fast service)	.857	.734		
SERVQ3 (Ensure friendly service)	.911	.830		
SERVQ4 (Ensure fair service)	.897	.804		
SERVQ5 (More reliable with service quality)	.829	.688		

Note. Extraction method: Principal component analysis. BTOS is significant ($p < 0.05$).
Factor = Factor Loading, Comm. = Communalities, Eigen = Eigenvalue,
(% Var) = % of Variance, Alpha = Cronbach Alpha.

4.4.12 Information Technology

Construct IT applied EFA to examine H_{12}. Only one dimension is formed in IT as shown in Table 4.25. The eigenvalues for this dimension is 3.494 which is greater than 1. The eigenvalues of a factor is consider important if it is greater than 1 (Hair et al., 2010). The explanation about variance in IT is at 69.881%. Whereas the minimum communalities value is recorded for item IT2 which is 0.818 (more than minimum requirement of 0.50). This shows that the communalities value is adequate for this dimension.

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Table 4.25
Result of Exploratory Factor Analysis for Information Technology (N=431)

	Factor	**Comm.**	**Eigen (% Var)**	**Alpha**
Information Technology (5 items)			3.494 (69.881)	0.890
IT1 (Better decision making)	.837	.701		
IT2 (Fast information dissemination)	.818	.669		
IT3 (Save time)	.863	.745		
IT4 (Reduce employees' burden)	.824	.679		
IT5 (More reliable with information technology)	.837	.700		

Note. Extraction method: Principal component analysis. BTOS is significant ($p < 0.05$).
Factor = Factor Loading, Comm. = Communalities, Eigen = Eigenvalue,
(% Var) = % of Variance, Alpha = Cronbach Alpha.

4.4.13 Religiosity of Zakat Employees

The result in Table 4.26 shows that only one dimension is formed in religiosity of zakat employees. The result is obtained through EFA to address H_{13}. The eigenvalues for this construct show the amount that is greater than 1 which allow the dimension to be identified. The eigenvalues of a factor greater than 1 is considered substantial (Hair et al., 2010). The result also shows that 77.305% of variance in religiosity of zakat employees is able to be clarified by this dimension. Since the minimum communalities value is agreed at 0.50, the result in Table 4.26 shows that the value for all items is ample with the lowest value is recorded for item RELIG1 (0.841).

Table 4.26
Result of Exploratory Factor Analysis for Religiosity of Zakat Employees (N=431)

	Factor	Comm.	Eigen (% Var)	Alpha
Religiosity of Zakat Employees (5 items)			3.865 (77.305)	0.923
RELIG1 (Perform jemaah prayer)	.841	.708		
RELIG2 (Always recite Al-Quran)	.892	.796		
RELIG3 (Read religious books)	.901	.812		
RELIG4 (Attend religious class)	.907	.822		
RELIG5 (Perform non compulsory fasting)	.853	.728		

Note. Extraction method: Principal component analysis. BTOS is significant (p < 0.05).
Factor = Factor Loading, Comm. = Communalities, Eigen = Eigenvalue,
(% Var) = % of Variance, Alpha = Cronbach Alpha.

4.4.14 Law

Table 4.27 shows the application of EFA on construct law to address H_{14}. The result shows that only one dimension is formed in law. This dimension is identified when eigenvalues show the value of 3.441. The eigenvalues of a factor greater than 1 is considered important (Hair et al., 2010). The dimension is able to explain about 68.822% of variance in law. Further, the assessment on communalities value shows that the value is more than 0.50 except for item LAW1 (0.481). Therefore, item LAW1 was dropped to ensure the communalities value is at 0.50 and above.

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Table 4.27
Result of Exploratory Factor Analysis for Law (N=431)

	Factor	Comm.	Eigen (% Var)	Alpha
Law (5 items)			3.441 (68.822)	0.876
LAW1 (Has own law unit)	.694	.481		
LAW2 (Clear zakat law)	.843	.710		
LAW3 (Adequate zakat law)	.881	.776		
LAW4 (Zakat law that can be enforced)	.870	.758		
LAW5 (Zakat law is always reviewed)	.846	.717		

Note. Extraction method: Principal component analysis. BTOS is significant ($p < 0.05$).
Factor = Factor Loading, Comm. = Communalities, Eigen = Eigenvalue,
(% Var) = % of Variance, Alpha = Cronbach Alpha.

4.4.14.1 Final Position of Matrix Factor for Law

Table 4.28 reveals the result after item LAW1 was dropped. The result shows that all items

have communalities exceeding 0.50 and Cronbach alpha also increase to 0.895. The highest

factor loading is 0.889 which is recorded in item LAW4 and the lowest is 0.861 in item

LAW5. KMO and BTOS value indicate that the data is suitable for factor analysis.

Percentage of variance explained for this dimension is now increasing to 76.124%.

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Table 4.28
Result of Exploratory Factor Analysis for Law (Final) (N=431)

	Factor	Comm.	Eigen (% Var)	Alpha
Law (4 items)			3.045 (76.124)	0.895
LAW2 (Clear zakat law)	.867	.751		
LAW3 (Adequate zakat law)	.873	.762		
LAW4 (Zakat law that can be enforced)	.889	.790		
LAW5 (Zakat law is always reviewed)	.861	.742		

Note. Extraction method: Principal component analysis. BTOS is significant (p < 0.05).
Factor = Factor Loading, Comm. = Communalities, Eigen = Eigenvalue,
(% Var) = % of Variance, Alpha = Cronbach Alpha.

4.4.15 Enforcement

Based on result in Table 4.29, it was found that construct enforcement formed only one dimension. The analysis is done via EFA to address H_{15}. Eigenvalue for construct enforcement is 3.659 thus allow the dimension to be identified since the eigenvalues is greater than 1. According to Hair et al. (2010) the eigenvalues of a factor is considered significant if the value is greater than 1. Meanwhile, based on the percentage of variance, construct enforcement is able to explain about 73.178% of variance in enforcement. Communalities value on the other hand, shows the value greater than 0.50 for all items. This gives indication that the value for all items is sufficient.

Table 4.29
Result of Exploratory Factor Analysis for Enforcement (N=431)

	Factor	**Comm.**	**Eigen (% Var)**	**Alpha**
Enforcement (5 items)			3.659 (73.178)	0.903
ENFOR1 (Strong enforcement unit)	.757	.574		
ENFOR2 (Detect those who do not pay zakat)	.863	.745		
ENFOR3 (Prosecute those who do not pay zakat)	.841	.708		
ENFOR4 (Compliance to regulation via enforcement)	.914	.834		
ENFOR5 (Frequent enforcement)	.894	.798		

Note. Extraction method: Principal component analysis. BTOS is significant (p < 0.05).
Factor = Factor Loading, Comm. = Communalities, Eigen = Eigenvalue,
(% Var) = % of Variance, Alpha = Cronbach Alpha.

4.5   **Confirmatory Factor Analysis**

Every factor resulted from EFA should undergo CFA. The purpose of this analysis is to convince that measured variables are robust and truly represents a construct. AMOS 18 software is used to conduct CFA. The analysis is implemented to meet the needs of unidimensionality, good reliability and validity.

CFA involves three levels, model specification, evaluation of validity model and model respecification (if necessary). Therefore, all variables in this study will go through these levels.

4.5.1 First Order Model for Board Size

Board size model which contain 5 items resulted from EFA is specified into first order measurement model (see Figure 4.1). From the Figure 4.1, the result of preliminary CFA reveals that the model did not show good result where $\chi^2 = 61.229$, p value $= 0.000$, GFI $= 0.942$, RMSEA $= 0.162$, TLI $= 0.957$, CFI $= 0.979$ and AGFI $= 0.826$. Although $\chi^2 = 61.229$ and the p value is significant (p $= 0.000$), however, both indices have a shortcoming as too sensitive to sample size, number of observed variables and complexity of the model. Thus, other goodness of fit index model such as GFI, RMSEA, TLI, CFI and AGFI can become the alternative to evaluate goodness of fit model (Hair et al., 2010).

Since the result indicated that the model is not fit because RMSEA is more than 0.1 and AGFI is less than 0.9, therefore, model respecification is necessary to improve the goodness of fit of the model. Model respecification is done by dropping 1 item (BSIZE4). The decision to drop BSIZE4 is because it has the lowest factor loading among the five items and has the largest value of modification index (Hair et al., 2010). After item BSIZE4 has been dropped, the result of model respecification indicated that the model fit has been achieved (see Figure 4.2). The result showed that GFI $= 0.988$, RMSEA $= 0.099$, TLI $= 0.987$, CFI $= 0.996$ and AGFI $= 0.938$. In addition, factor loadings for all items are above 0.50.
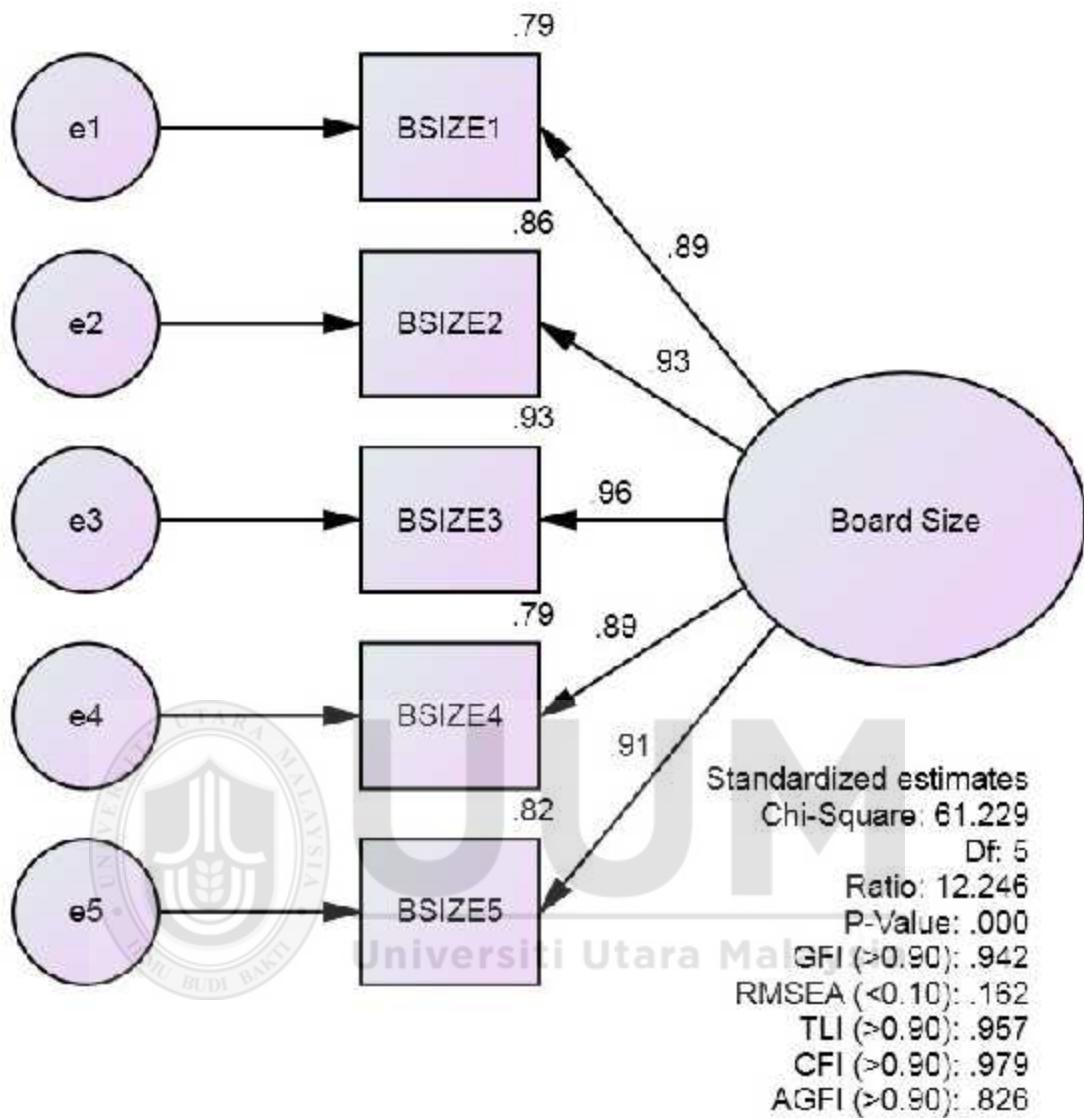
Figure 4.1
Specification of First Order Model of Board Size
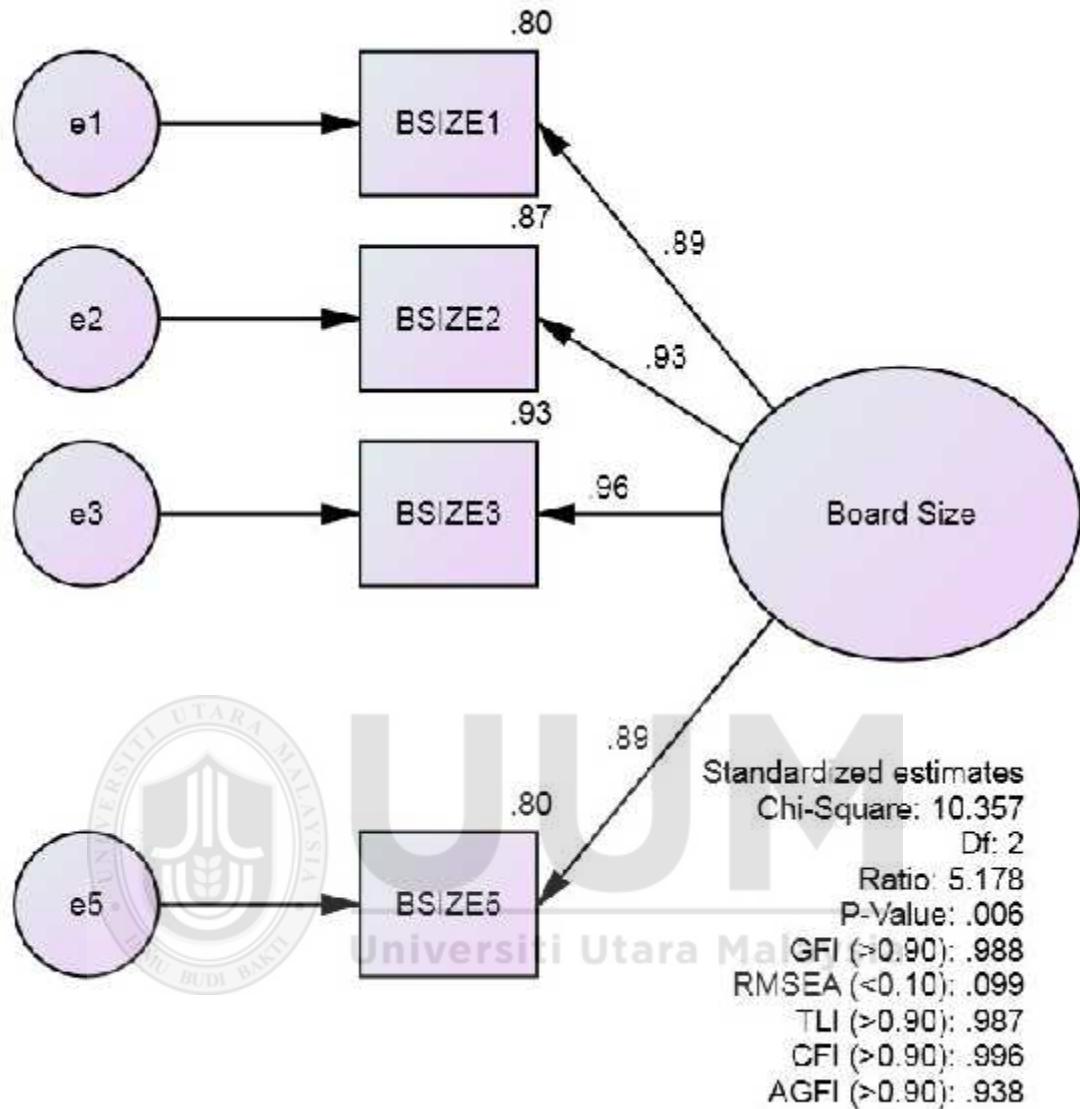
Figure 4.2
Respecification of First Order Model of Board Size

Next, convergent validity is examined and reported in Table 4.30. The result suggested that

factor loading for each item is at good level which is between 0.89 until 0.96. The values

are greater than rules of thumb of 0.5 provided by Hair et al. (2010). Meanwhile average

variance extracted and composite reliability show the value of 0.843 and 0.955 respectively

which is greater than 0.5 and 0.7 set by Hair et al. (2010) to suggest adequate convergence.

Based on the result, convergent validity is at satisfactory level.

Table 4.30
Convergent Validity for First Order Model of Board Size

	Factor Loading	Squared Multiple Correlation	Error	Average Variance Extracted	Composite Reliability
Board Size (4 items)				0.843	0.955
BSIZE1	0.89	0.7921	0.2079		
BSIZE2	0.93	0.8649	0.1351		
BSIZE3	0.96	0.9216	0.0784		
BSIZE5	0.89	0.7921	0.2079		
Total	3.67	3.3707	0.6293		

4.5.2 First Order Model for Board Independence

Board independence model which contain 5 items resulted from EFA is specified into first order measurement model (see Figure 4.3). Figure 4.3 revealed that the model did not show good result where χ^2 = 41.660, *p* value = 0.000, GFI = 0.962, RMSEA = 0.131, TLI = 0.952, CFI = 0.976 and AGFI = 0.885.
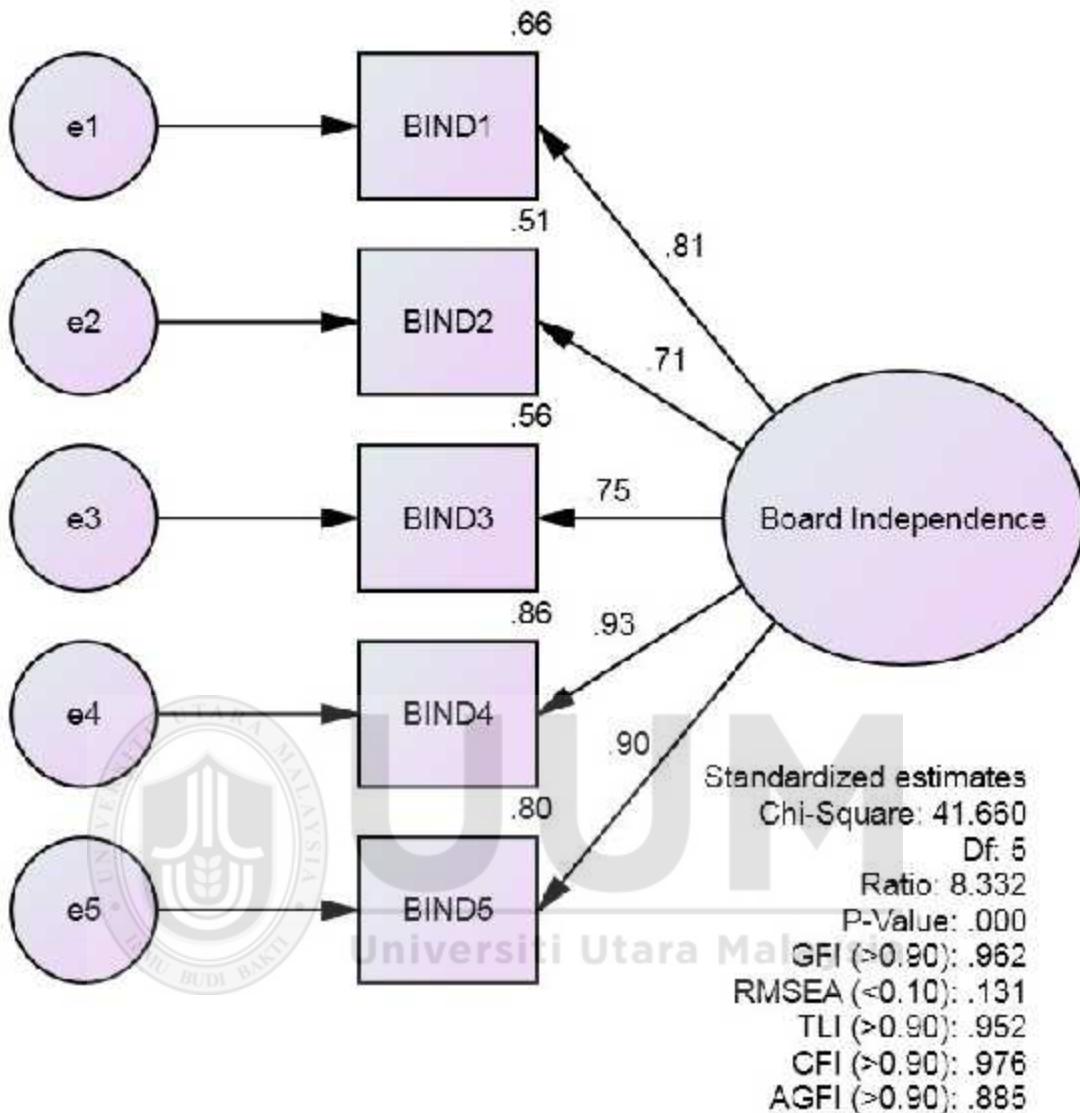
Figure 4.3
Specification of First Order Model of Board Independence

Since the result indicated that the model is not fit because RMSEA and AGFI still did not

achieve minimum requirement, therefore, model respecification is necessary to improve

the goodness of fit of the model. Model respecification is done by dropping 1 item

(BIND2). The decision to drop BIND2 is because it has the lowest factor loading among

the five items and has the largest value of modification index (Hair et al., 2010). After item

BIND2 has been dropped, the result of model respecification indicated that the model fit has been achieved (see Figure 4.4). The result showed that GFI = 0.999, RMSEA = 0.000, TLI = 1.002, CFI = 1.000 and AGFI = 0.993. Furthermore, factor loadings for all items are above 0.50.
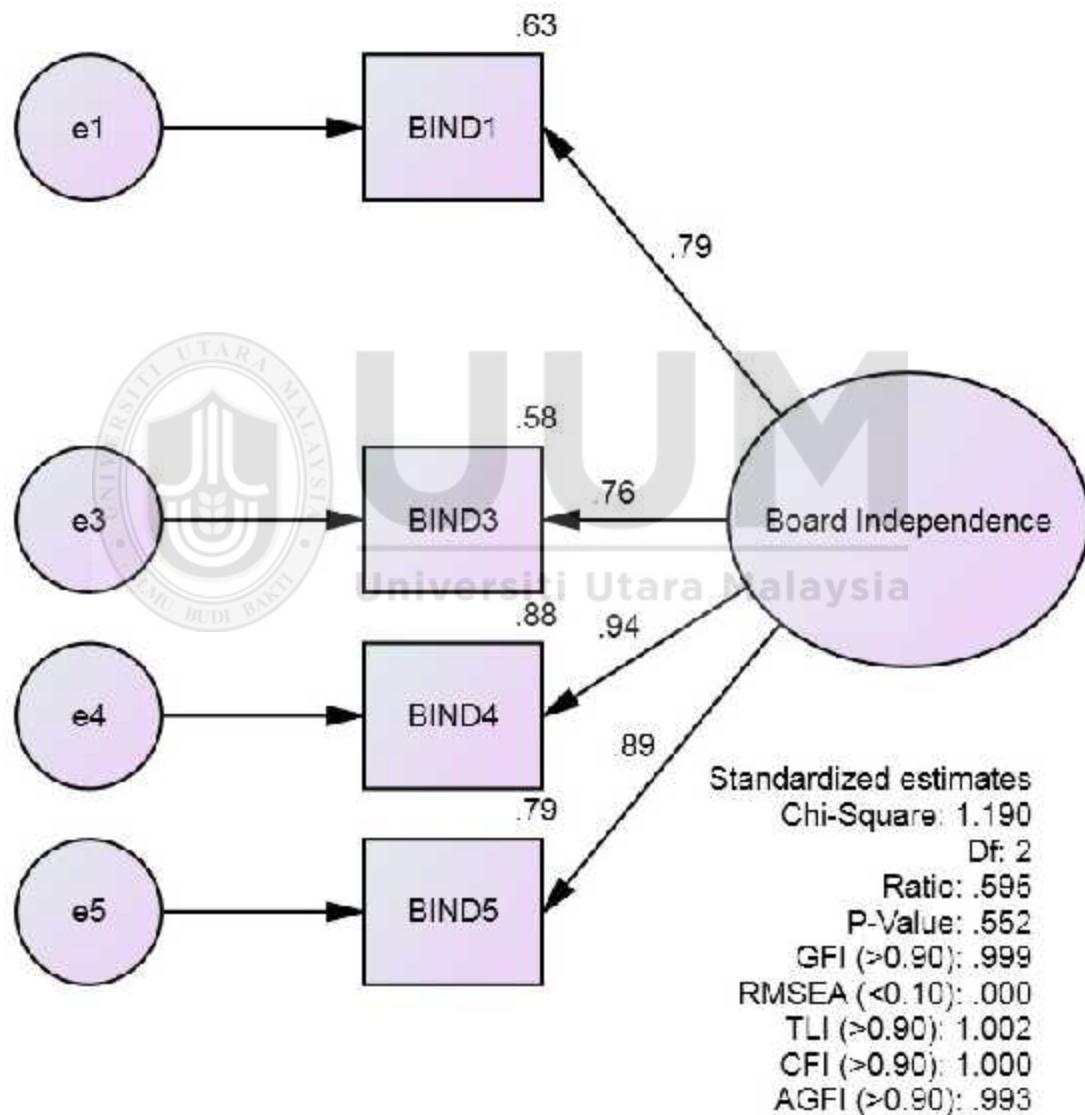

Figure 4.4
Respecification of First Order Model of Board Independence

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Next, convergent validity is examined and reported in Table 4.31. The result suggested that factor loading for each item is at good level which is between 0.76 until 0.94. The values are greater than rules of thumb of 0.5 provided by Hair et al. (2010). Meanwhile average variance extracted and composite reliability show the value of 0.719 and 0.911 respectively which is greater than the cut off value proposed by Hair et al. (2010). The result suggested that board independence variable has passed convergent validity.

Table 4.31
Convergent Validity for First Order Model of Board Independence

	Factor Loading	Squared Multiple Correlation	Error	Average Variance Extracted	Composite Reliability
Board Independence (4 items)				0.719	0.911
BIND1	0.79	0.6241	0.3759		
BIND3	0.76	0.5776	0.4224		
BIND4	0.94	0.8836	0.1164		
BIND5	0.89	0.7921	0.2079		
Total	3.38	2.8774	1.1226		

4.5.3   First Order Model for Board Expertise

Board expertise model which contain 5 items resulted from EFA is specified into first order measurement model. The result of preliminary CFA reveals that the model did not show good result where ^{2} = 134.040, p value = 0.000, GFI = 0.879, RMSEA = 0.245, TLI = 0.815, CFI = 0.907 and AGFI = 0.638 (see Figure 4.5).
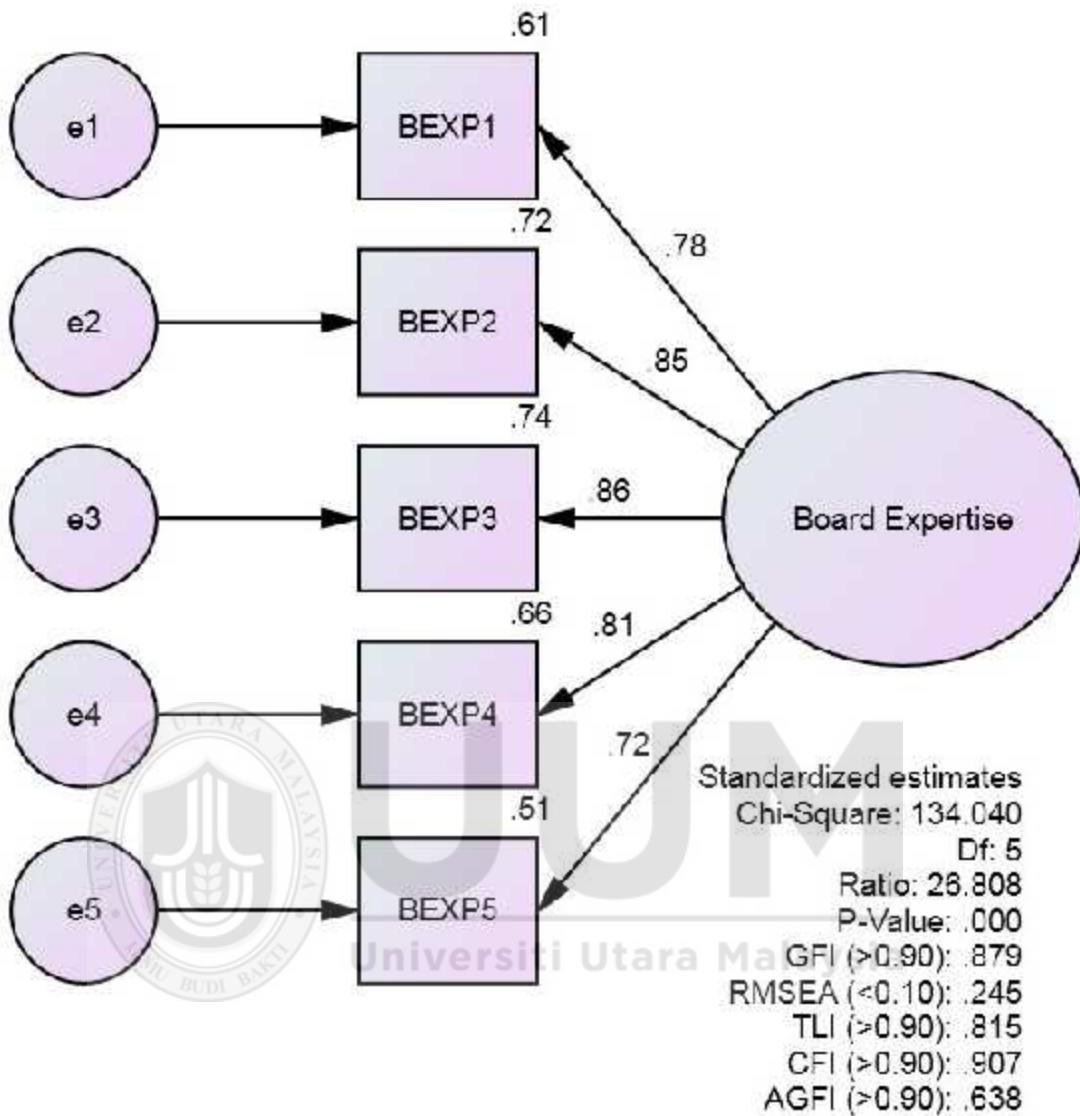
Figure 4.5
Specification of First Order Model of Board Expertise

Since the result indicated that the model is not fit because GFI, RMSEA, TLI and AGFI still did not achieve minimum requirement, therefore, model respecification is necessary to improve the goodness of fit of the model. Model respecification is done by dropping 1 item (BEXP2). The decision to drop BEXP2 is because it has the largest value of modification index (Hair et al., 2010). After item BEXP2 has been dropped, the result of

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model respecification indicated that the model fit has been achieved (see Figure 4.6). The

result showed that GFI = 0.990, RMSEA = 0.088, TLI = 0.977, CFI = 0.992 and AGFI =

0.948. Also, factor loadings for all items are above 0.50.
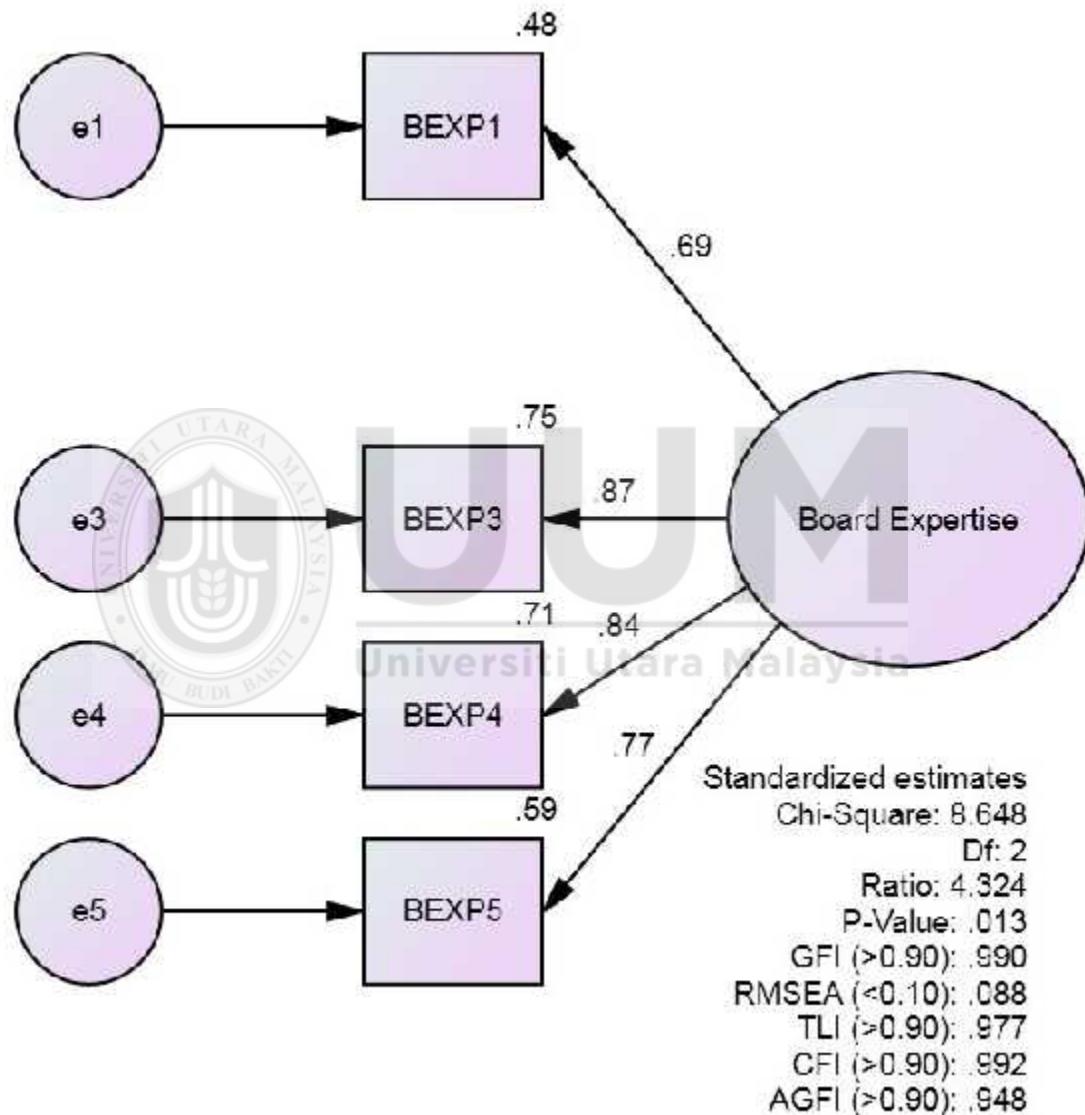
Figure 4.6
Respecification of First Order Model of Board Expertise

Next, convergent validity for board expertise variable is examined and reported in Table 4.32. The result suggested that factor loading for each item is at good level which is between 0.69 until 0.87. The values are greater than rules of thumb of 0.5 provided by Hair et al. (2010). Meanwhile average variance extracted and composite reliability show the value of 0.633 and 0.872 respectively which is greater than the cut off value proposed by Hair et al. (2010). The result suggested that board expertise variable has passed convergent validity.

Table 4.32
Convergent Validity for First Order Model of Board Expertise

	Factor Loading	Squared Multiple Correlation	Error	Average Variance Extracted	Composite Reliability
Board Expertise (4 items)				0.633	0.872
BEXP1	0.69	0.4761	0.5239		
BEXP3	0.87	0.7569	0.2431		
BEXP4	0.84	0.7056	0.2944		
BEXP5	0.77	0.5929	0.4071		
Total	3.17	2.5315	1.4685		

4.5.4 First Order Model for Audit Committee Independence

Audit committee independence model which contain 5 items resulted from EFA is specified into first order measurement model. The result of preliminary CFA reveals that the model did not show good result where $\chi^2 = 183.245$, p value = 0.000, GFI = 0.839, RMSEA = 0.288, TLI = 0.840, CFI = 0.920 and AGFI = 0.517 (see Figure 4.7).
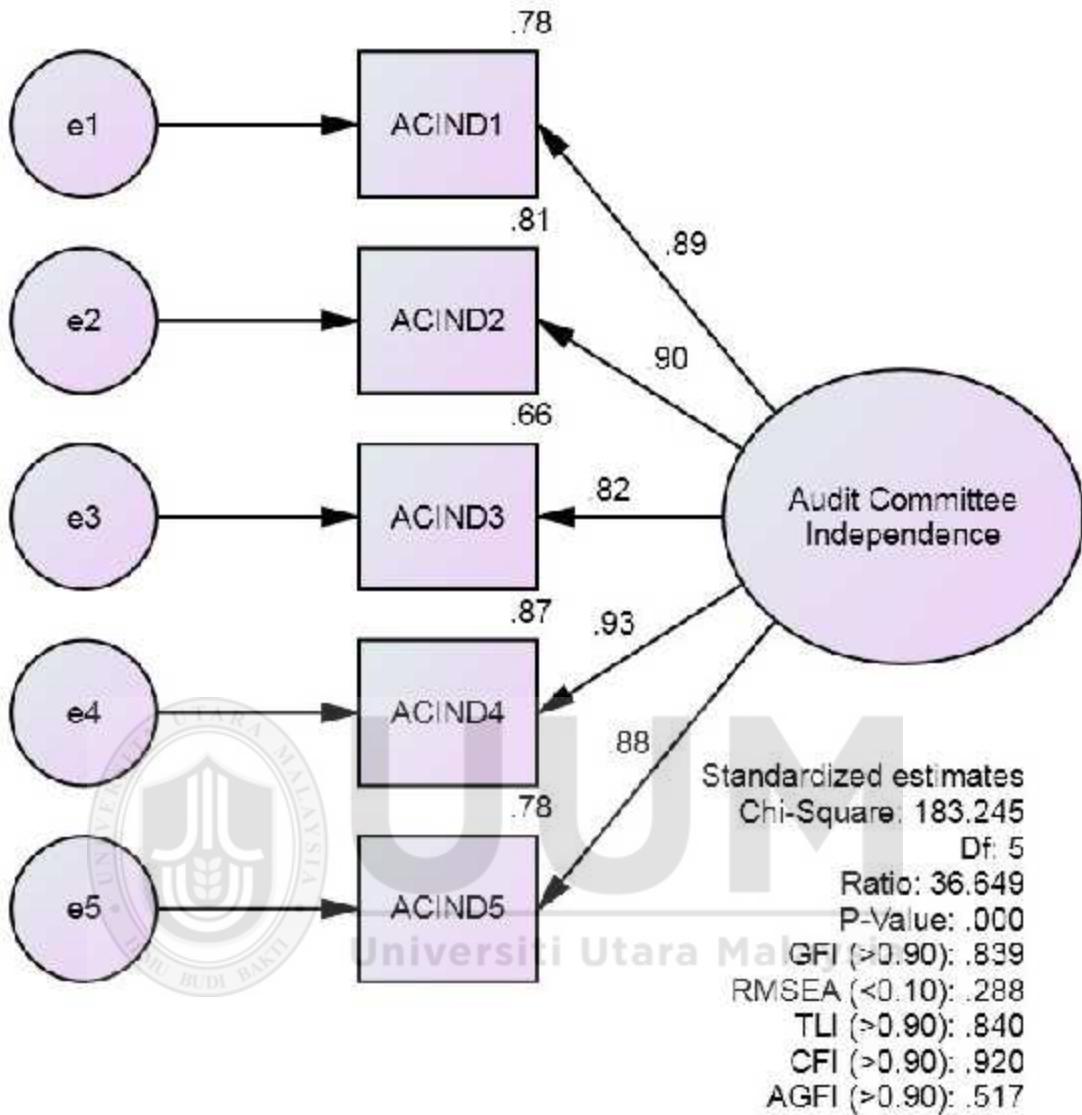
Figure 4.7
Specification of First Order Model of Audit Committee Independence

Since the result indicated that the model is not fit because GFI, RMSEA, TLI and AGFI still did not achieve minimum requirement, therefore, model respecification is necessary to improve the goodness of fit of the model. Model respecification is done by dropping 1 item (ACIND1). The decision to drop ACIND1 is because it has the largest value of modification index (Hair et al., 2010). After item ACIND1 has been dropped, the result of

model respecification indicated that the model fit has been achieved (see Figure 4.8). The result showed that GFI = 0.992, RMSEA = 0.076, TLI = 0.990, CFI = 0.997 and AGFI = 0.958. Besides, factor loadings for all items are above 0.50.
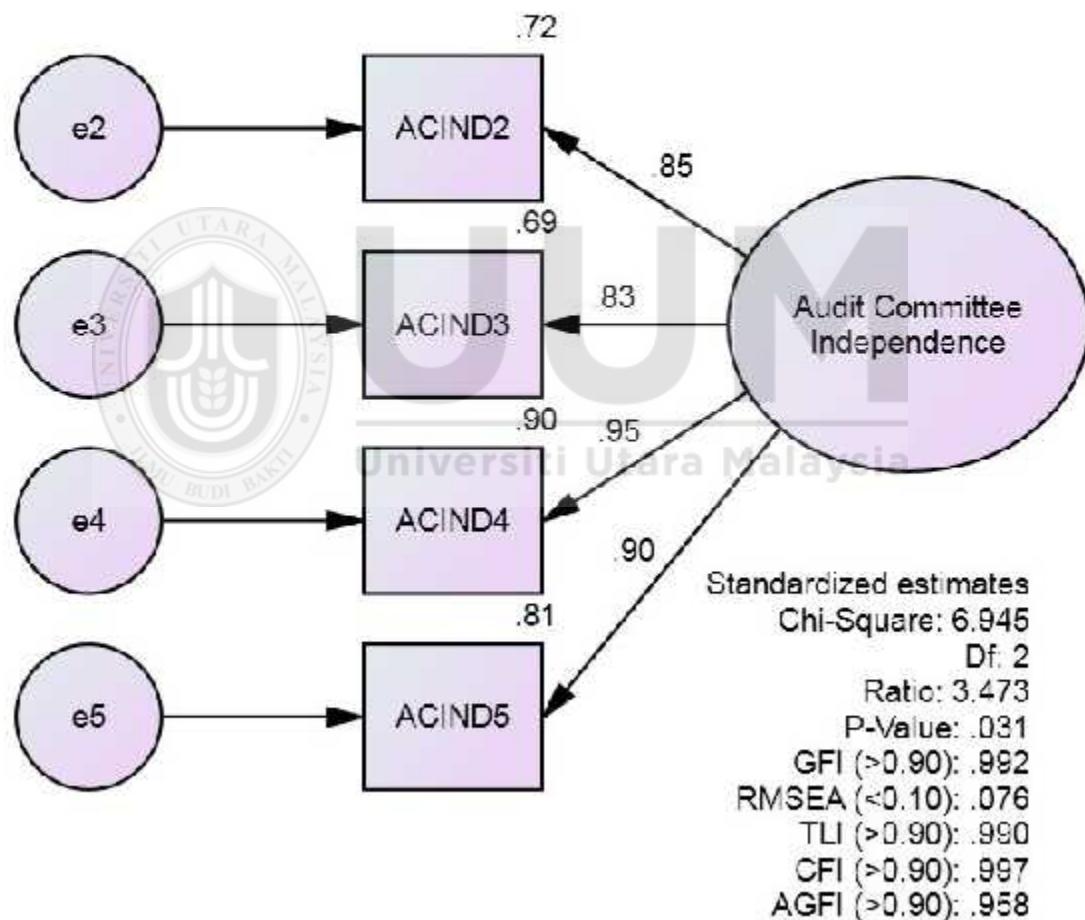

Figure 4.8
Respecification of First Order Model of Audit Committee Independence

Next, convergent validity for audit committee independence variable is examined and reported in Table 4.33. The result suggested that factor loading for each item is at good level which is between 0.83 until 0.95. The values are greater than rules of thumb of 0.5 provided by Hair et al. (2010). Meanwhile average variance extracted and composite reliability show the value of 0.781 and 0.934 respectively which is greater than the cut off value proposed by Hair et al. (2010). The result suggested that audit committee independence variable has passed convergent validity.

Table 4.33
Convergent Validity for First Order Model of Audit Committee Independence

	Factor Loading	Squared Multiple Correlation	Error	Average Variance Extracted	Composite Reliability
Audit Committee Independence (4 items)				0.781	0.934
ACIND2	0.85	0.7225	0.2775		
ACIND3	0.83	0.6889	0.3111		
ACIND4	0.95	0.9025	0.0975		
ACIND5	0.90	0.8100	0.1900		
Total	3.53	3.1239	0.8761		

4.5.5 First Order Model for Audit Committee Expertise

Audit committee expertise model which contain 5 items resulted from EFA is specified into first order measurement model. The result of preliminary CFA reveals that the model did not show good result where $x^2 = 51.645$, *p* value = 0.000, GFI = 0.955, RMSEA = 0.147, TLI = 0.945, CFI = 0.973 and AGFI = 0.864 (see Figure 4.9).
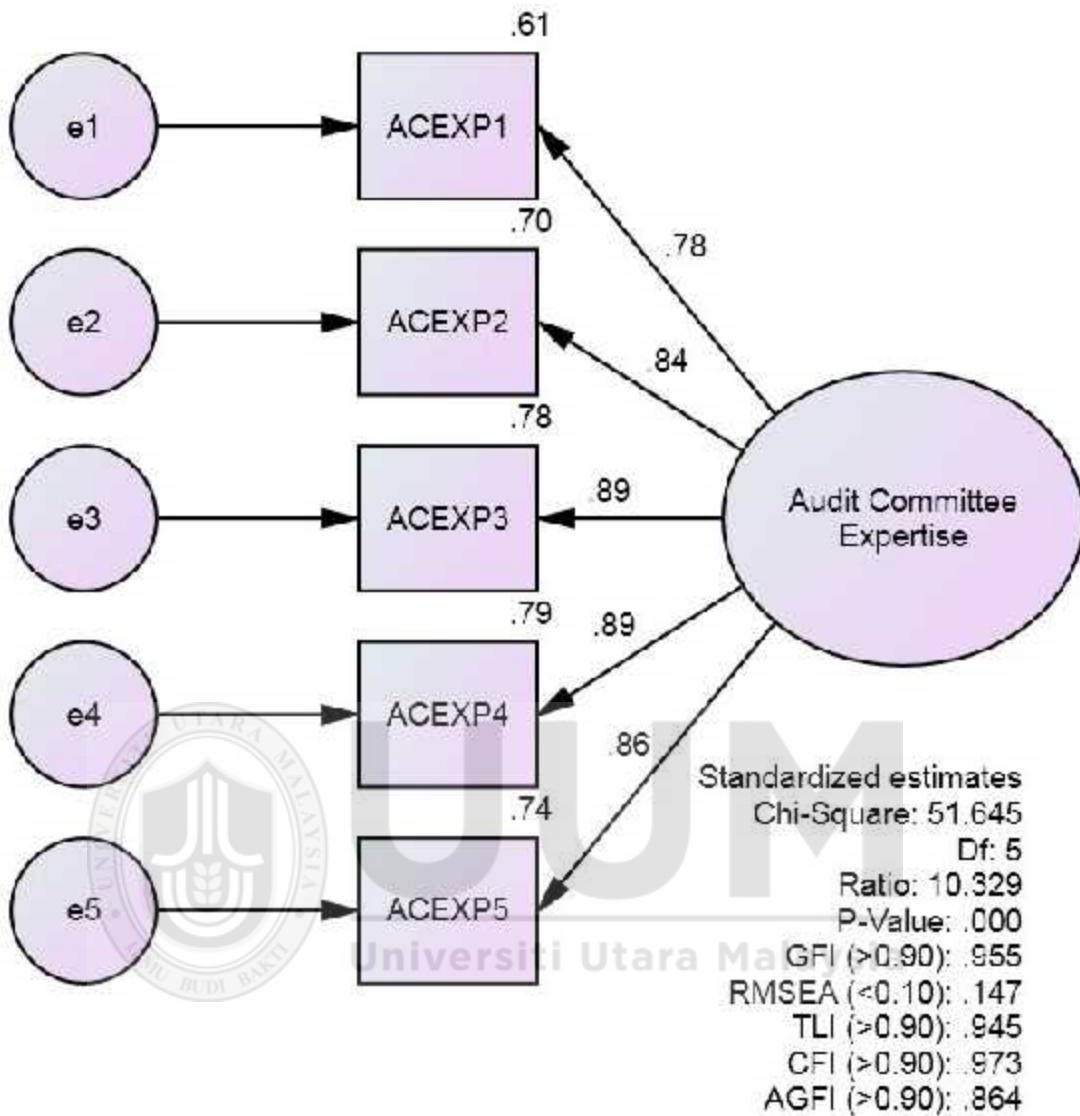
Figure 4.9
Specification of First Order Model of Audit Committee Expertise

Since the result indicated that the model is not fit because RMSEA and AGFI still did not achieve minimum requirement, therefore, model respecification is necessary to improve the goodness of fit of the model. Model respecification is done by dropping 1 item (ACEXP1). The decision to drop ACEXP1 is because it has the lowest factor loading among the five items and has the largest value of modification index (Hair et al., 2010).

After item ACEXP1 has been dropped, the result of model respecification indicated that

the model fit has been achieved (see Figure 4.10). The result showed that GFI = 0.995,

RMSEA = 0.054, TLI = 0.994, CFI = 0.998 and AGFI = 0.974. Also, factor loadings for

all items are above 0.50.
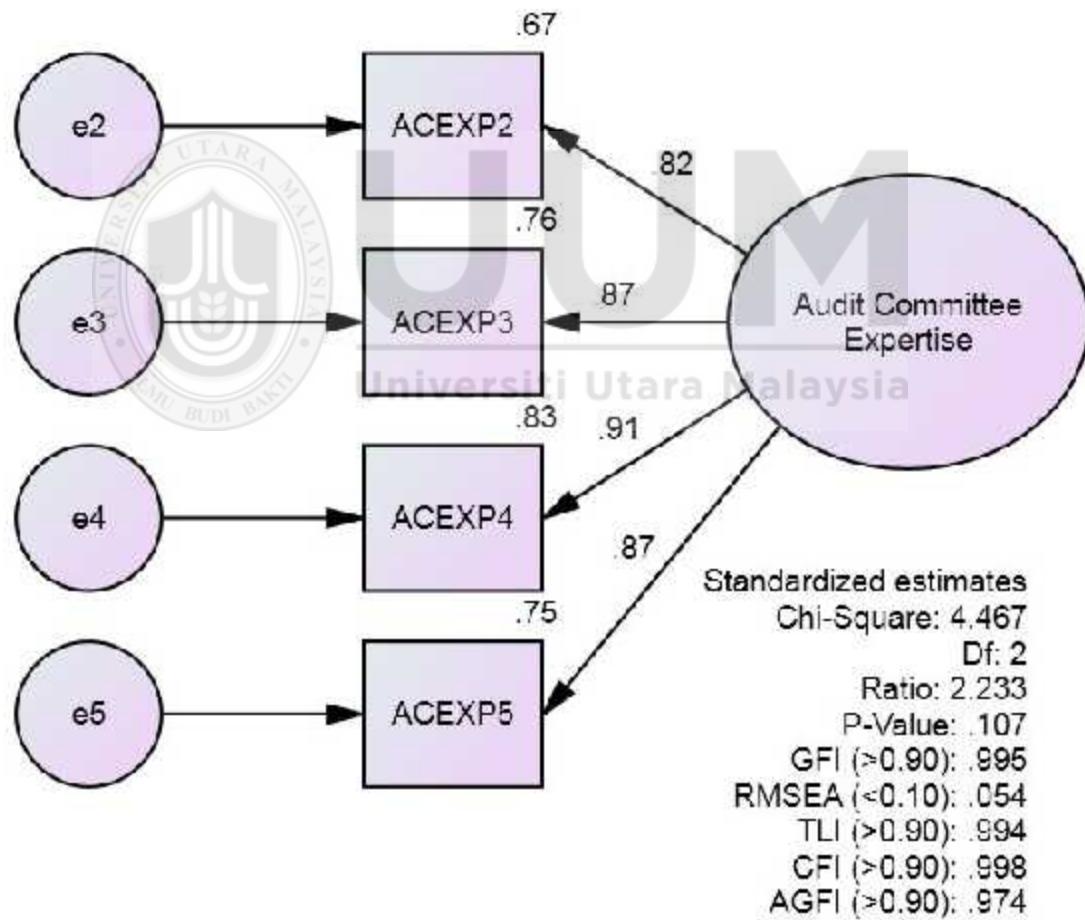
Figure 4.10
Respecification of First Order Model of Audit Committee Expertise

Next, convergent validity for audit committee expertise variable is examined and reported in Table 4.34. The result suggested that factor loading for each item is at good level which is between 0.82 until 0.91. The values are greater than rules of thumb of 0.5 provided by Hair et al. (2010). Meanwhile average variance extracted and composite reliability show the value of 0.754 and 0.924 respectively which is greater than the cut off value proposed by Hair et al. (2010). The result suggested that audit committee expertise variable has passed convergent validity.

Table 4.34
Convergent Validity for First Order Model of Audit Committee Expertise

	Factor Loading	Squared Multiple Correlation	Error	Average Variance Extracted	Composite Reliability
Audit Committee Expertise (4 items)				0.754	0.924
ACEXP2	0.82	0.6724	0.3276		
ACEXP3	0.87	0.7569	0.2431		
ACEXP4	0.91	0.8281	0.1719		
ACEXP5	0.87	0.7569	0.2431		
Total	3.47	3.0143	0.9857		

4.5.6 First Order Model for Audit Committee Diligence

Audit committee diligence model which contain 5 items resulted from EFA is specified into first order measurement model. The result of preliminary CFA reveals that the model showed good result where ^{2} = 25.399, *p* value = 0.000, GFI = 0.977, RMSEA = 0.097,

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TLI = 0.978, CFI = 0.989 and AGFI = 0.932 (see Figure 4.11). Since the result has shown that the model is already fit, therefore, model respecification is no longer necessary.
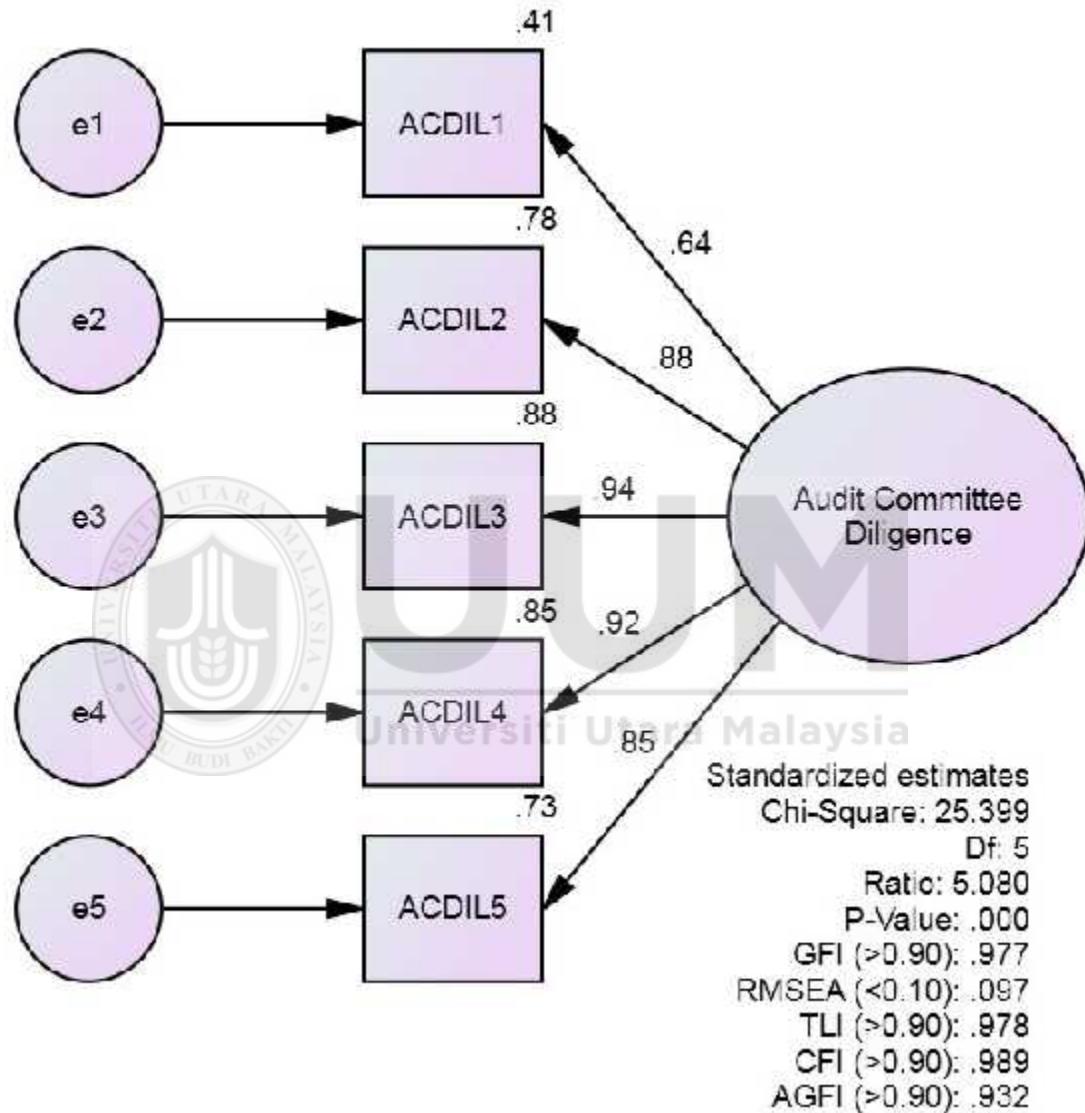
Figure 4.11
Specification of First Order Model of Audit Committee Diligence

Next, convergent validity is examined and reported in Table 4.35. The result suggested that factor loading for each item is at good level which is between 0.64 until 0.94. The values are greater than rules of thumb of 0.5 provided by Hair et al. (2010). Meanwhile average variance extracted and composite reliability show the value of 0.727 and 0.929 respectively which is greater than 0.5 and 0.7 set by Hair et al. (2010) to suggest adequate convergence. Based on the result, convergent validity is at satisfactory level.

Table 4.35
Convergent Validity for First Order Model of Audit Committee Diligence

	Factor Loading	Squared Multiple Correlation	Error	Average Variance Extracted	Composite Reliability
Audit Committee Diligence (5 items)				0.727	0.929
ACDIL1	0.64	0.4096	0.5904		
ACDIL2	0.88	0.7744	0.2256		
ACDIL3	0.94	0.8836	0.1164		
ACDIL4	0.92	0.8464	0.1536		
ACDIL5	0.85	0.7225	0.2775		
Total	4.23	3.6365	1.3635		

4.5.7 First Order Model for Leadership Quality

Leadership quality model which contain 3 items resulted from EFA is specified into first order measurement model. However, the result is not available since the system does not allow first order model to be run with 3 items (see Figure 4.12).

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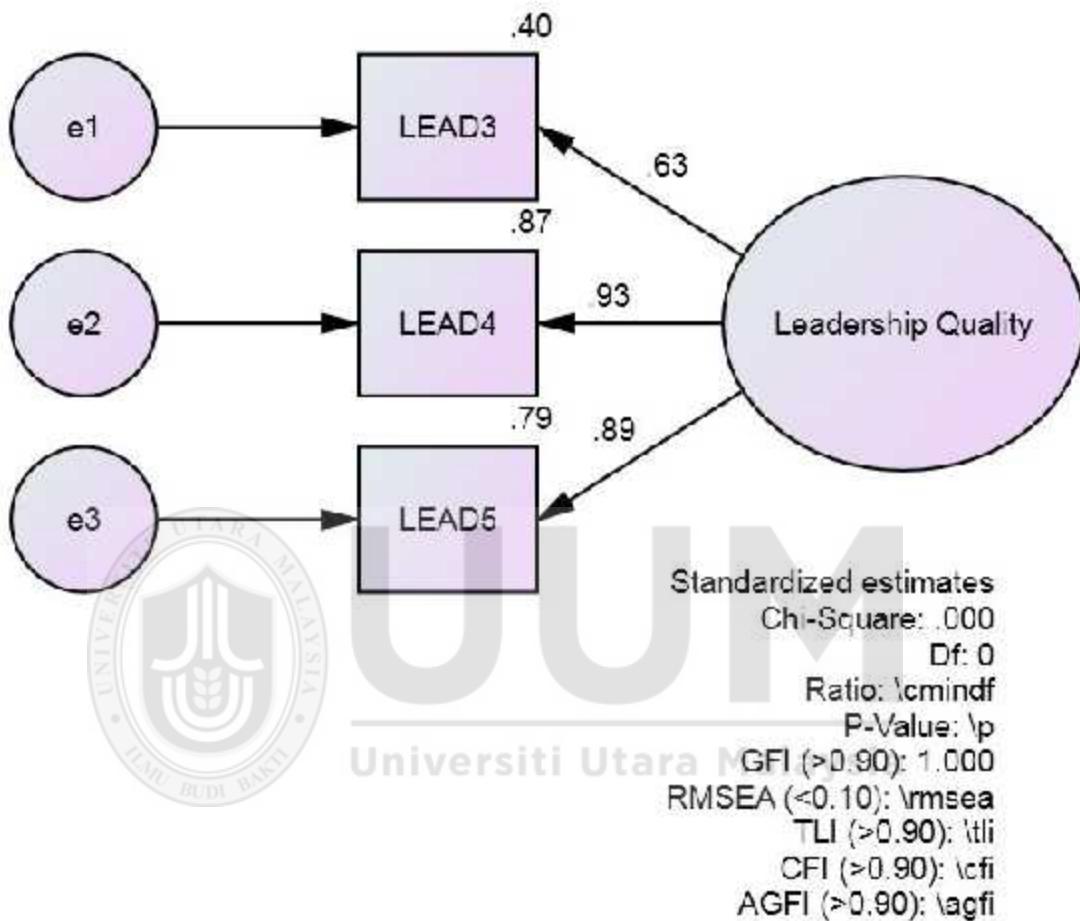
Figure 4.12
Specification of First Order Model of Leadership Quality

To solve this problem, leadership quality needs to be correlated with other variable to produce the result (Bollen, 1989). For that purpose, law variable is chosen since it is the only variable that has 4 items. The result of preliminary CFA after the correlation with law variable reveals that the model showed good result where x^2 = 31.281, *p* value = 0.003, GFI = 980, RMSEA = 0.057, TLI = 0.983, CFI = 0.990 and AGFI = 0.957 (see Figure

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4.13). Since the result has shown that the model is already fit, therefore, model respecification is no longer necessary.

Next, convergent validity is examined and reported in Table 4.36. The result suggested that factor loading for each item is at good level which is between 0.63 until 0.93. The values are greater than rules of thumb of 0.5 provided by Hair et al. (2010). Meanwhile average variance extracted and composite reliability show the value of 0.685 and 0.864 respectively which is greater than 0.5 and 0.7 set by Hair et al. (2010) to suggest adequate convergence. Based on the result, convergent validity is at satisfactory level.

Table 4.36
Convergent Validity for First Order Model of Leadership Quality

	Factor Loading	Squared Multiple Correlation	Error	Average Variance Extracted	Composite Reliability
Leadership Quality (3 items)				0.685	0.864
LEAD3	0.63	0.3969	0.6031		
LEAD4	0.93	0.8649	0.1351		
LEAD5	0.89	0.7921	0.2079		
Total	2.45	2.0539	0.9461		
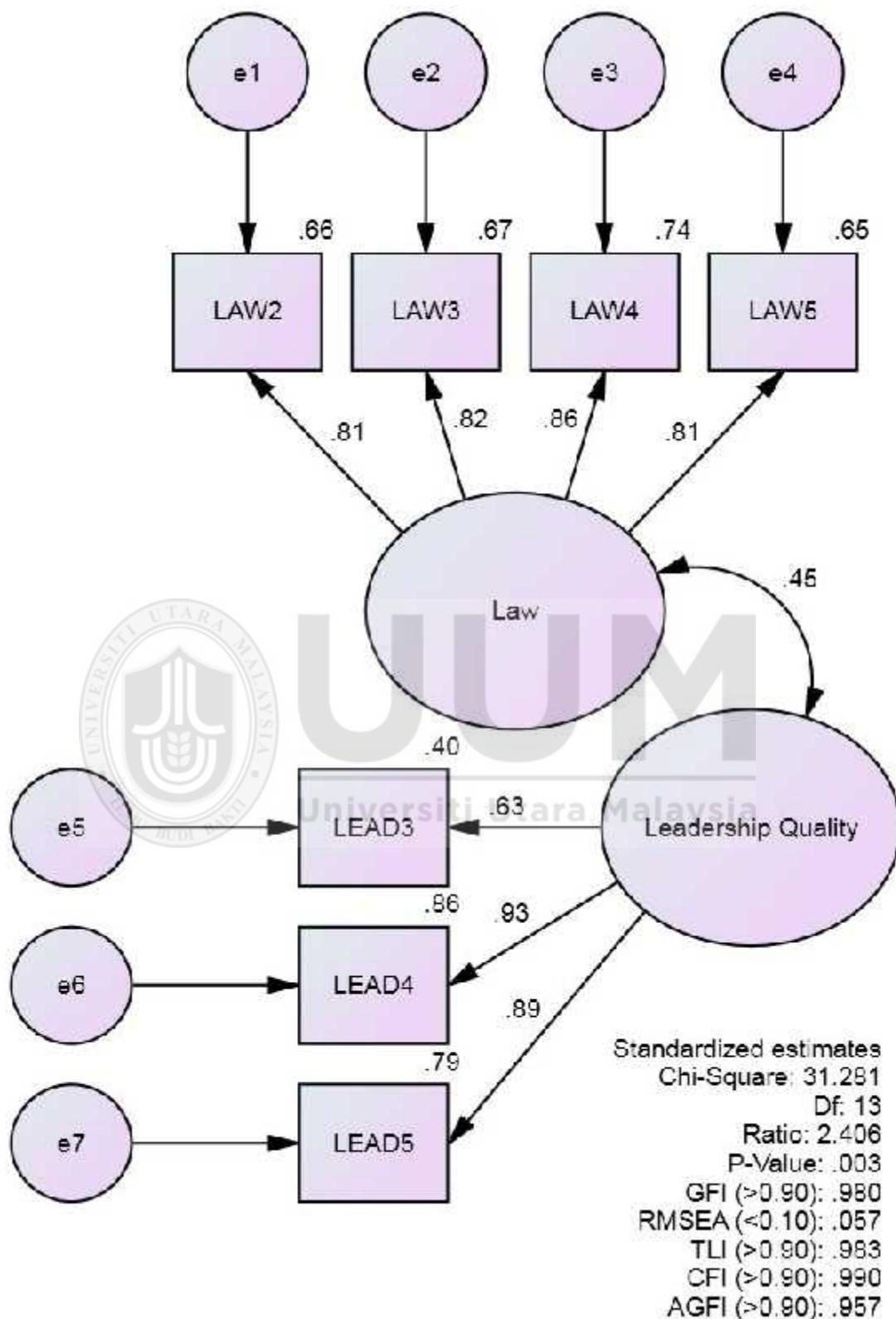
Figure 4.13
Specification of First Order Model of Leadership Quality (Final)

4.5.8 First Order Model for Participation

Participation model which contain 5 items resulted from EFA is specified into first order measurement model. The result of preliminary CFA reveals that the model showed good result where $\chi^2 = 22.064$, p value = 0.001, GFI = 0.981, RMSEA = 0.089, TLI = 0.956, CFI = 0.978 and AGFI = 0.944. (see Figure 4.14). Since the result has shown that the model is already fit, therefore, model respecification is no longer necessary.

Next, convergent validity is examined and reported in Table 4.37. The result suggested that factor loading for each item is at good level which is between 0.65 until 0.81. The values are greater than rules of thumb of 0.5 provided by Hair et al. (2010). Meanwhile average variance extracted and composite reliability show the value of 0.518 and 0.843 respectively which is greater than the cut off value proposed Hair et al. (2010). The result suggested that participation variable has passed convergent validity.

4.5.9 First Order Model for Accountability

Accountability model which contain 5 items resulted from EFA is specified into first order measurement model. The result of preliminary CFA reveals that the model did not show good result where $\chi^2 = 98.303$, p value = 0.000, GFI = 0.914, RMSEA = 0.208, TLI = 0.907, CFI = 0.954 and AGFI = 0.741 (see Figure 4.15).
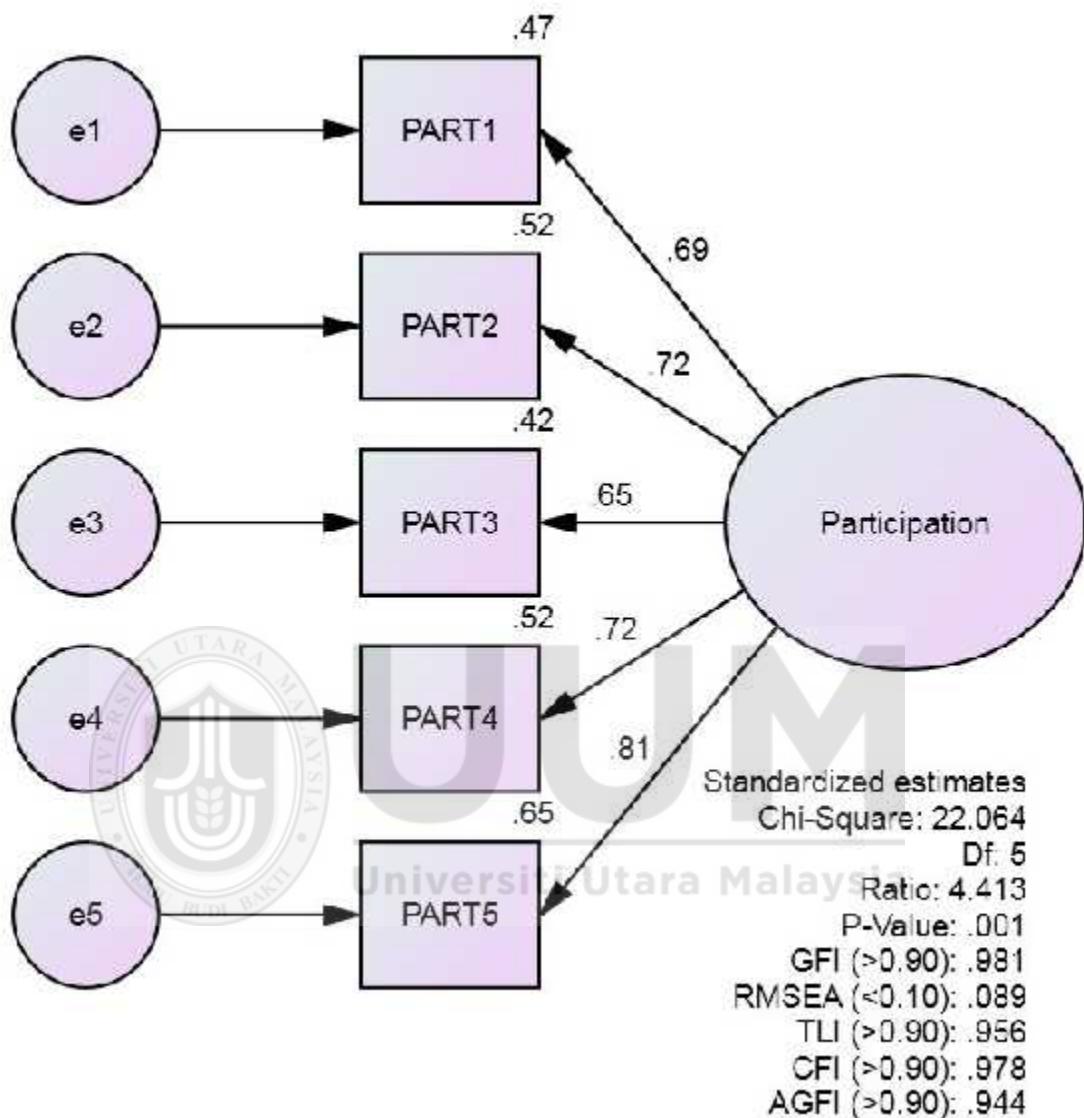
Figure 4.14
Specification of First Order Model of Participation

Table 4.37
Convergent Validity for First Order Model of Participation

	Factor Loading	**Squared Multiple Correlation**	**Error**	**Average Variance Extracted**	**Composite Reliability**
Participation (5 items)				0.518	0.843
PART1	0.69	0.4761	0.5239		
PART2	0.72	0.5184	0.4816		
PART3	0.65	0.4225	0.5775		
PART4	0.72	0.5184	0.4816		
PART5	0.81	0.6561	0.3439		
Total	3.59	2.5915	2.4085		

Since the result indicated that the model is not fit because RMSEA and AGFI still did not achieve minimum requirement, therefore, model respecification is necessary to improve the goodness of fit of the model. Model respecification is done by dropping 1 item (ACCT1). The decision to drop ACCT1 is because it has the lowest factor loading among the five items and has the largest value of modification index (Hair et al., 2010). After item ACCT1 has been dropped, the result of model respecification indicated that the model fit has been achieved (see Figure 4.16). The result showed that GFI = 0.995, RMSEA = 0.052, TLI = 0.995, CFI = 0.998 and AGFI = 0.975. In addition, factor loadings for all items are above 0.50.
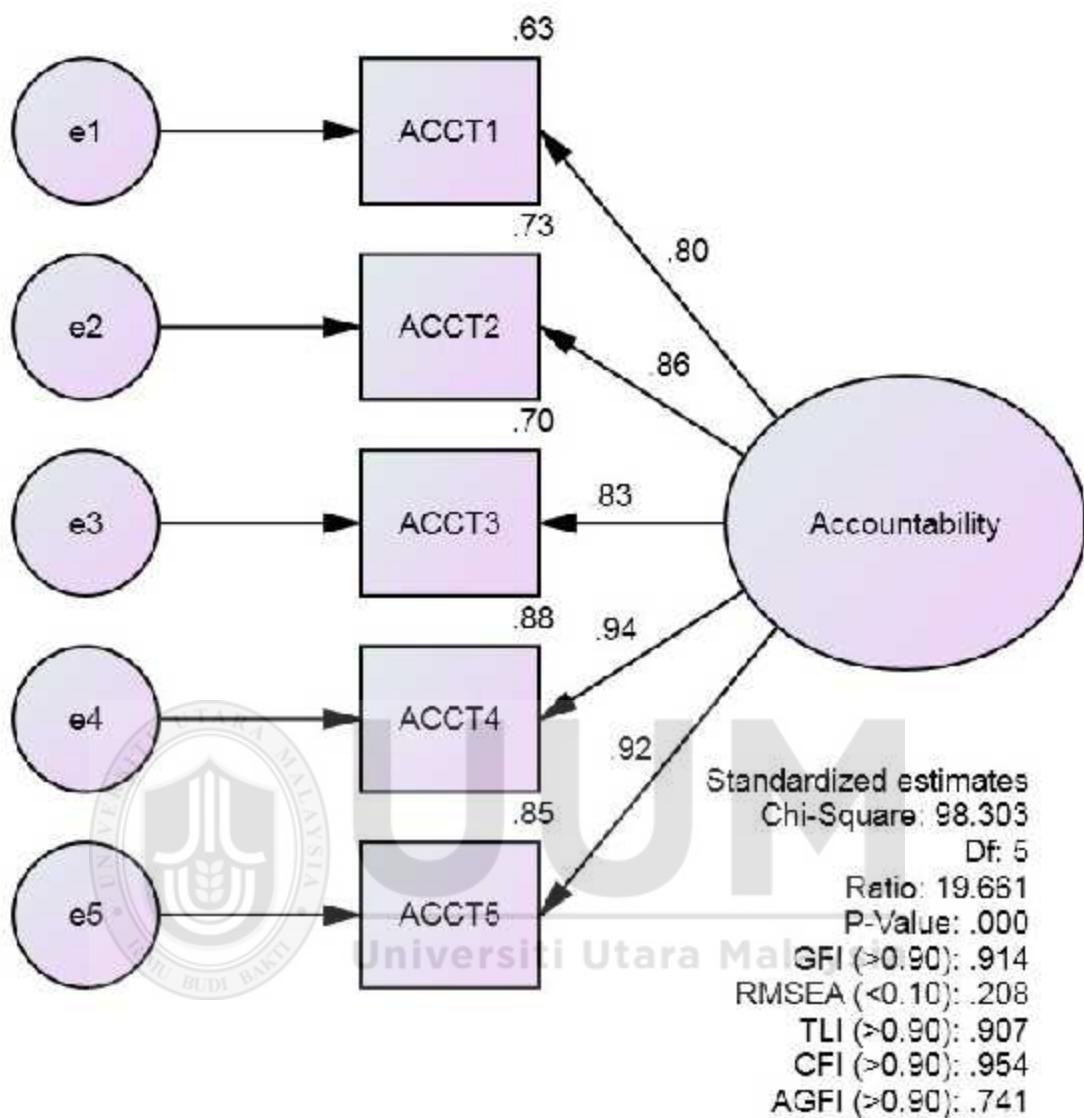
Figure 4.15
Specification of First Order Model of Accountability
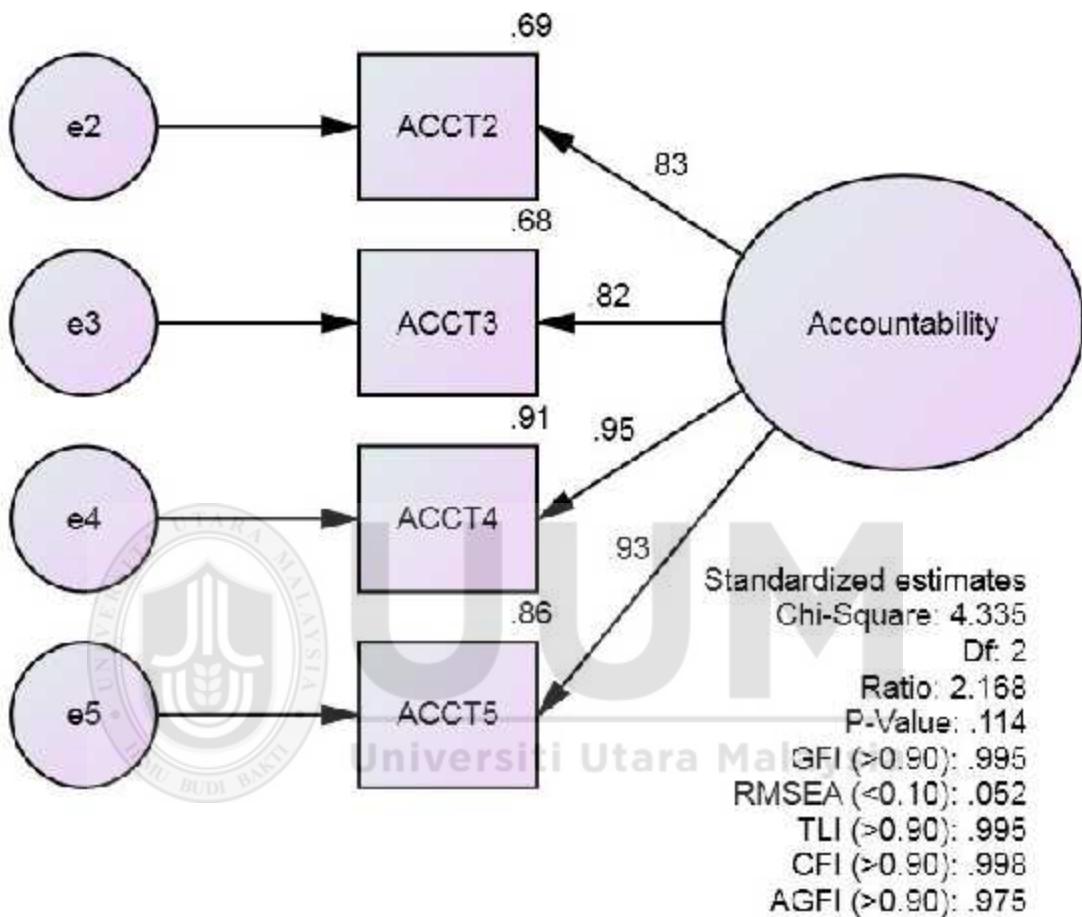
Figure 4.16
Respecification of First Order Model of Accountability

Next, convergent validity is examined and reported in Table 4.38. The result suggested that

factor loading for each item is at good level which is between 0.82 until 0.95. The values

are greater than rules of thumb of 0.5 provided by Hair et al. (2010). Meanwhile average

variance extracted and composite reliability show the value of 0.782 and 0.935 respectively

which is greater than the cut off value proposed by Hair et al. (2010). The result suggested that accountability variable has passed convergent validity.

Table 4.38
Convergent Validity for First Order Model of Accountability

	Factor Loading	Squared Multiple Correlation	Error	Average Variance Extracted	Composite Reliability
Accountability (4 items)				0.782	0.935
ACCT2	0.83	0.6889	0.3111		
ACCT3	0.82	0.6724	0.3276		
ACCT4	0.95	0.9025	0.0975		
ACCT5	0.93	0.8649	0.1351		
Total	3.53	3.1287	0.8713		

4.5.10 First Order Model for Transparency

Transparency model which contain 5 items resulted from EFA is specified into first order measurement model. The result of preliminary CFA reveals that the model showed good result where $\chi^2 = 15.941$, p value $= 0.007$, GFI $= 0.986$, RMSEA $= 0.071$, TLI $= 0.985$, CFI $= 0.993$ and AGFI $= 0.957$ (see Figure 4.17). Since the result has shown that the model is already fit, therefore, model respecification is no longer necessary.
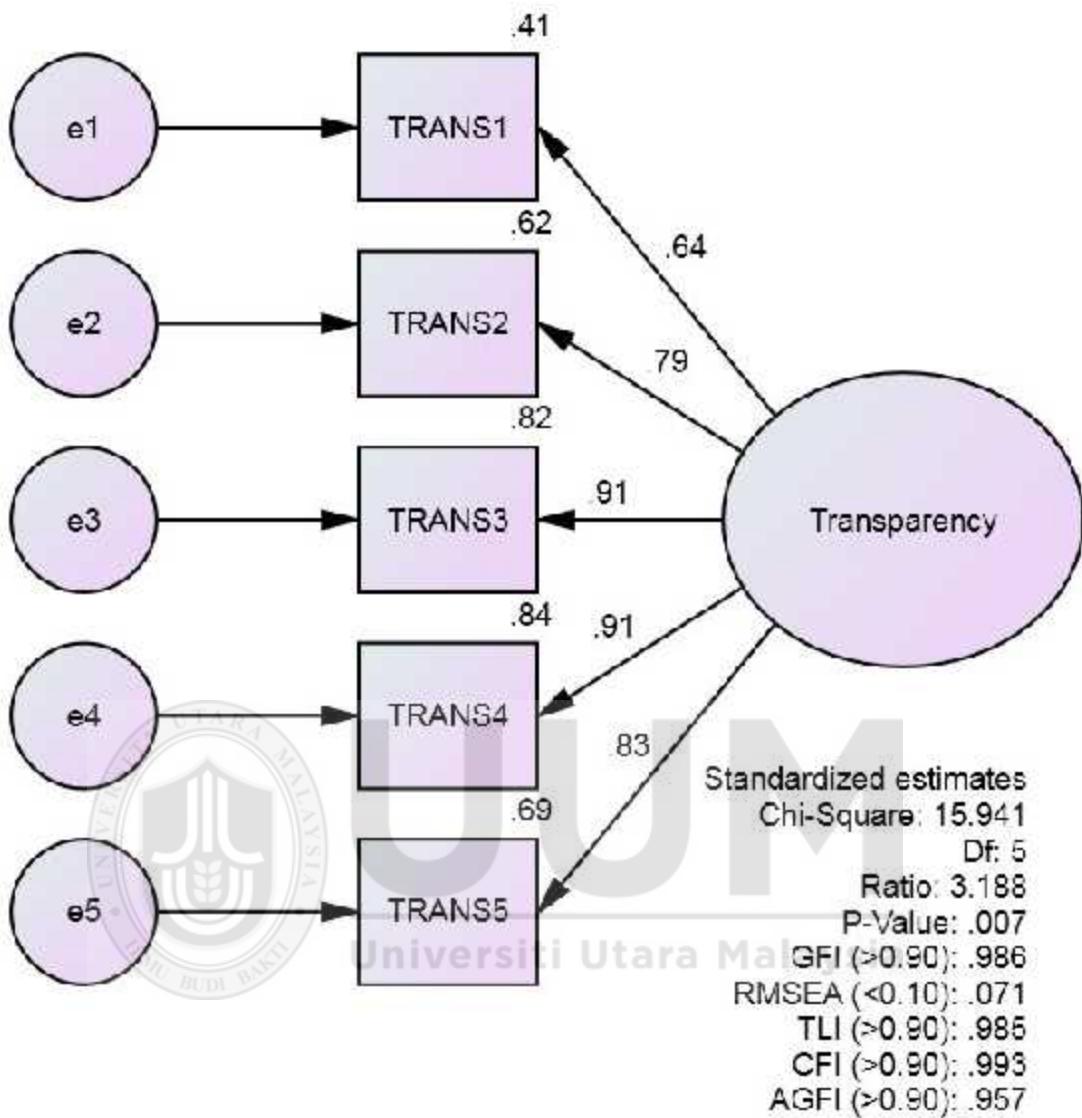
Figure 4.17
Specification of First Order Model of Transparency

Next, convergent validity is examined and reported in Table 4.39. The result suggested that

factor loading for each item is at good level which is between 0.64 until 0.91. The values

are greater than rules of thumb of 0.5 provided by Hair et al. (2010). Meanwhile average

variance extracted and composite reliability show the value of 0.676 and 0.911 respectively

which is greater than 0.5 and 0.7 set by Hair et al. (2010) to suggest adequate convergence.

Based on the result, convergent validity is at satisfactory level.

Table 4.39
Convergent Validity for First Order Model of Transparency

	Factor Loading	Squared Multiple Correlation	Error	Average Variance Extracted	Composite Reliability
Transparency (5 items)				0.676	0.911
TRANS1	0.64	0.4096	0.5904		
TRANS2	0.79	0.6241	0.3759		
TRANS3	0.91	0.8281	0.1719		
TRANS4	0.91	0.8281	0.1719		
TRANS5	0.83	0.6889	0.3111		
Total	4.08	3.3788	1.6212		

4.5.11 First Order Model for Service Quality

Service quality model which contain 5 items resulted from EFA is specified into first order measurement model. The result of preliminary CFA reveals that the model did not show good result where $\chi^2 = 71.155$, *p* value = 0.000, GFI = 0.942, RMSEA = 0.175, TLI = 0.917, CFI = 0.958 and AGFI = 0.827 (see Figure 4.18).

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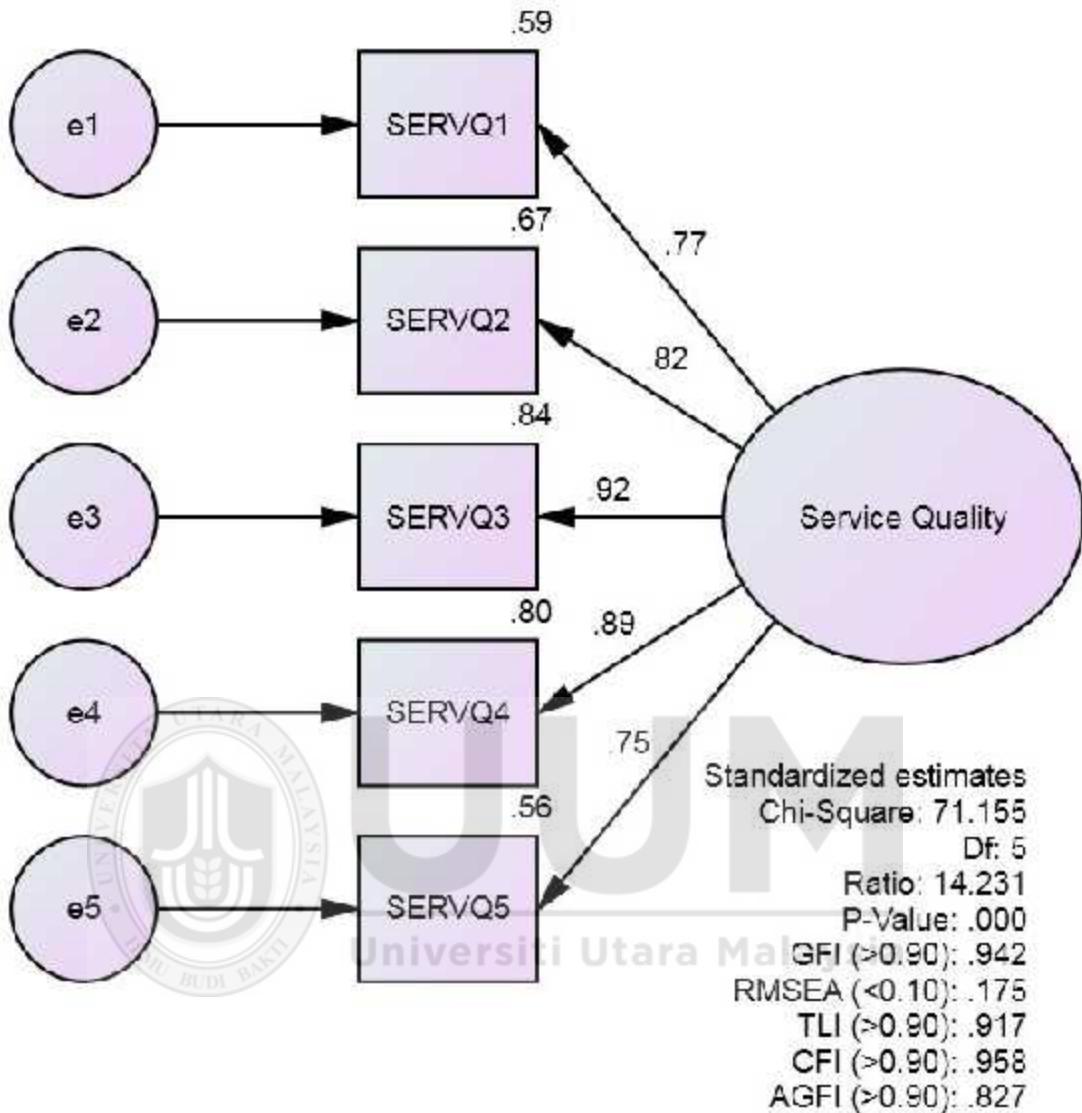
Figure 4.18
Specification of First Order Model of Service Quality

Since the result indicated that the model is not fit because RMSEA and AGFI still did not achieve minimum requirement, therefore, model respecification is necessary to improve the goodness of fit of the model. Model respecification is done by dropping 1 item (SERVQ5). The decision to drop SERVQ5 is because it has the lowest factor loading among the five items and has the largest value of modification index (Hair et al., 2010).

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After item SERVQ5 has been dropped, the result of model respecification indicated that the model fit has been achieved (see Figure 4.19). The result showed that GFI = 0.993, RMSEA = 0.068, TLI = 0.990, CFI = 0.997 and AGFI = 0.965. Besides, factor loadings for all items are above 0.50.
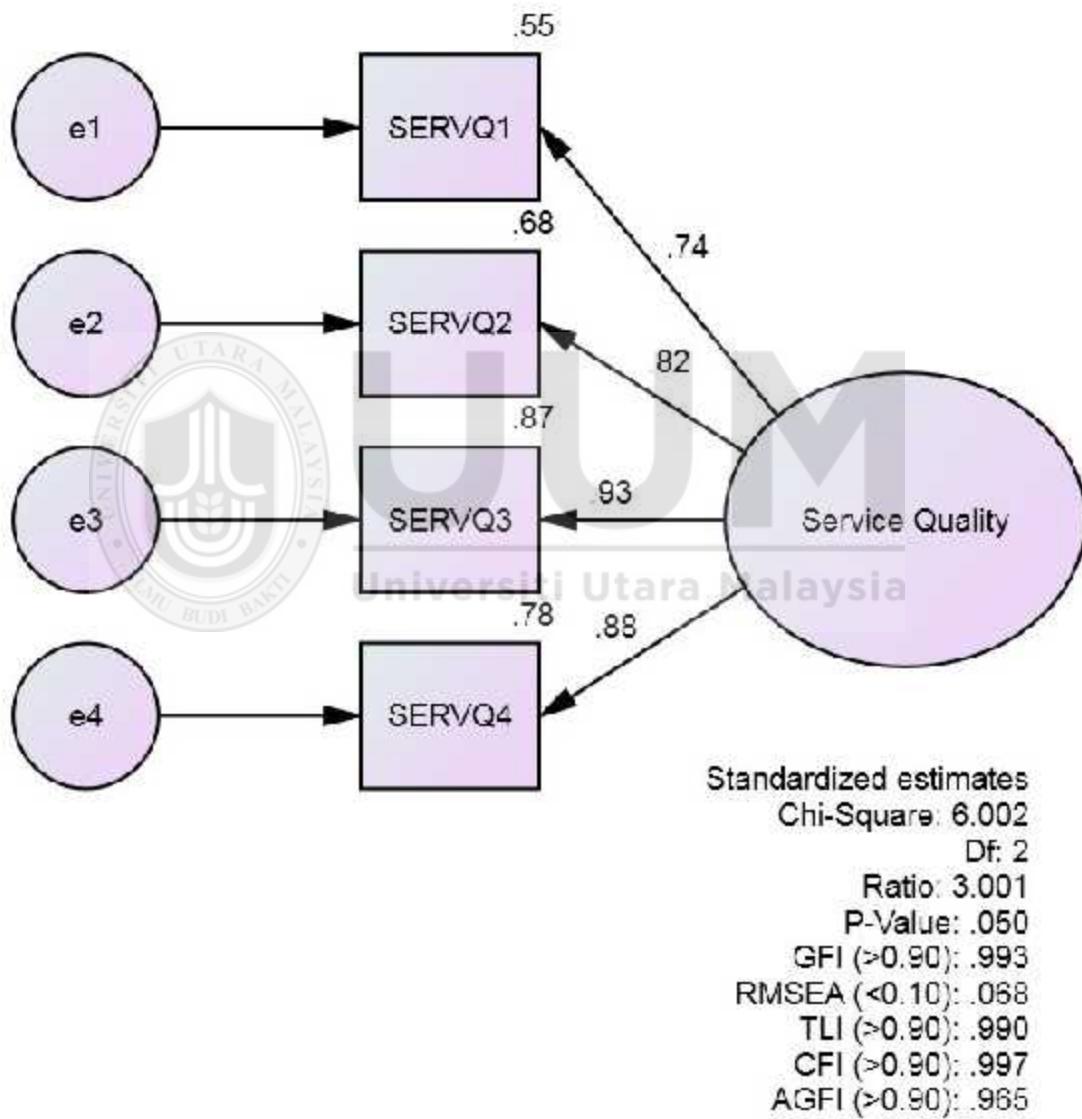

Figure 4.19
Respecification of First Order Model of Service Quality

Next, convergent validity is examined and reported in Table 4.40. The result suggested that factor loading for each item is at good level which is between 0.74 until 0.93. The values are greater than rules of thumb of 0.5 provided by Hair et al. (2010). Meanwhile average variance extracted and composite reliability show the value of 0.715 and 0.909 respectively which is greater than the cut off value proposed by Hair et al. (2010). The result suggested that service quality variable has passed convergent validity.

Table 4.40
Convergent Validity for First Order Model of Service Quality

	Factor Loading	Squared Multiple Correlation	Error	Average Variance Extracted	Composite Reliability
Service Quality (4 items)				0.715	0.909
SERVQ1	0.74	0.5476	0.4524		
SERVQ2	0.82	0.6724	0.3276		
SERVQ3	0.93	0.8649	0.1351		
SERVQ4	0.88	0.7744	0.2256		
Total	3.37	2.8593	1.1407		

4.5.12 First Order Model for Information Technology

IT model which contain 5 items resulted from EFA is specified into first order measurement model. The result of preliminary CFA reveals that the model did not show good result where $\chi^2 = 36.773$, *p* value = 0.000, GFI = 0.965, RMSEA = 0.122, TLI = 0.946, CFI = 0.973 and AGFI = 0.895 (see Figure 4.20).
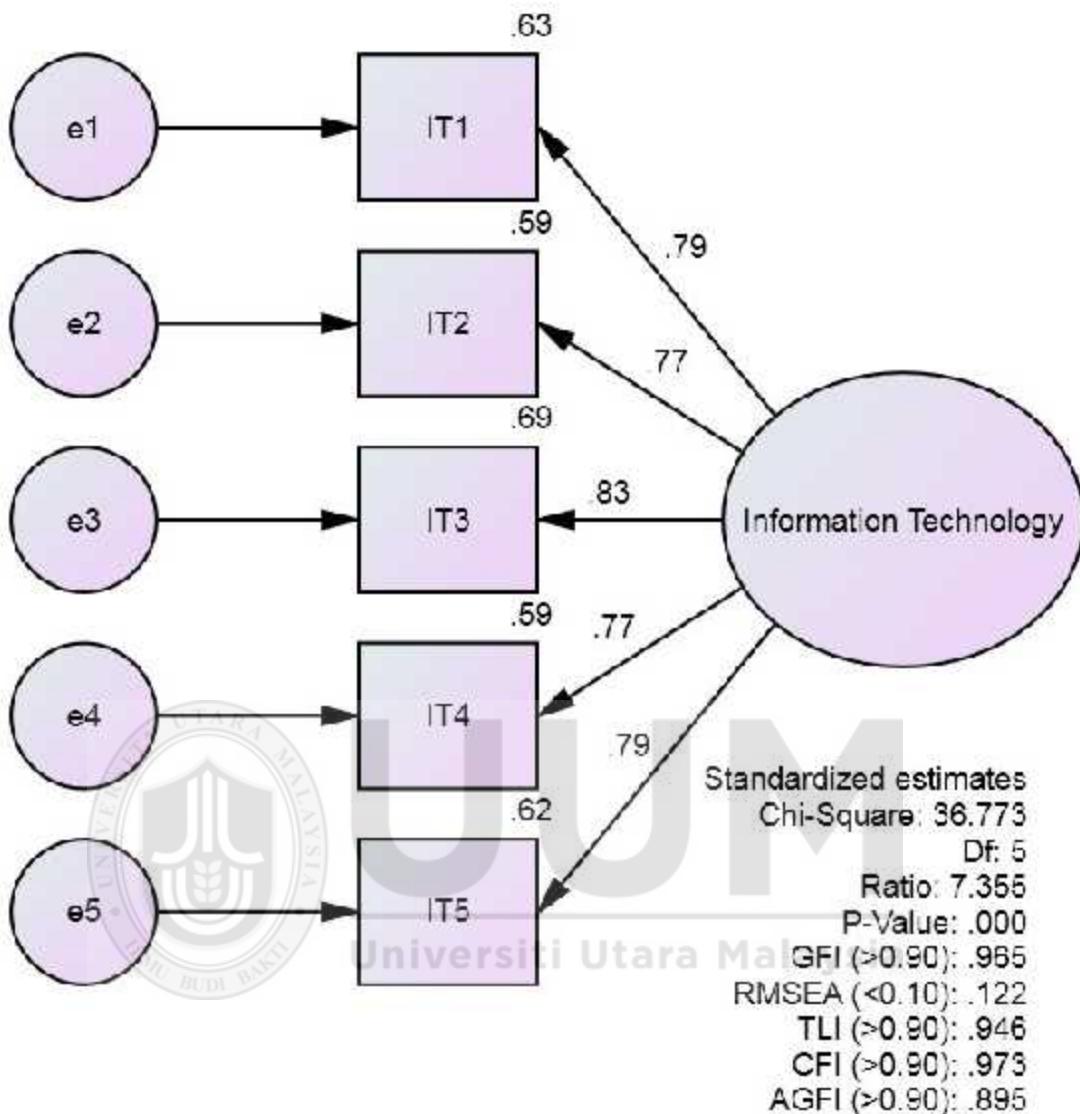
Figure 4.20
Specification of First Order Model of Information Technology

Since the result indicated that the model is not fit because RMSEA is more than 0.1 and AGFI is less than 0.9, therefore, model respecification is necessary to improve the goodness of fit of the model. Model respecification is done by dropping 1 item (IT5). The decision to drop IT5 is because it has the largest value of modification index (Hair et al., 2010). After item IT5 has been dropped, the result of model respecification indicated that

the model fit has been achieved (see Figure 4.21). The result showed that GFI = 0.994,

RMSEA = 0.061, TLI = 0.988, CFI = 0.996 and AGFI = 0.969. Moreover, factor loadings

for all items are above 0.50.
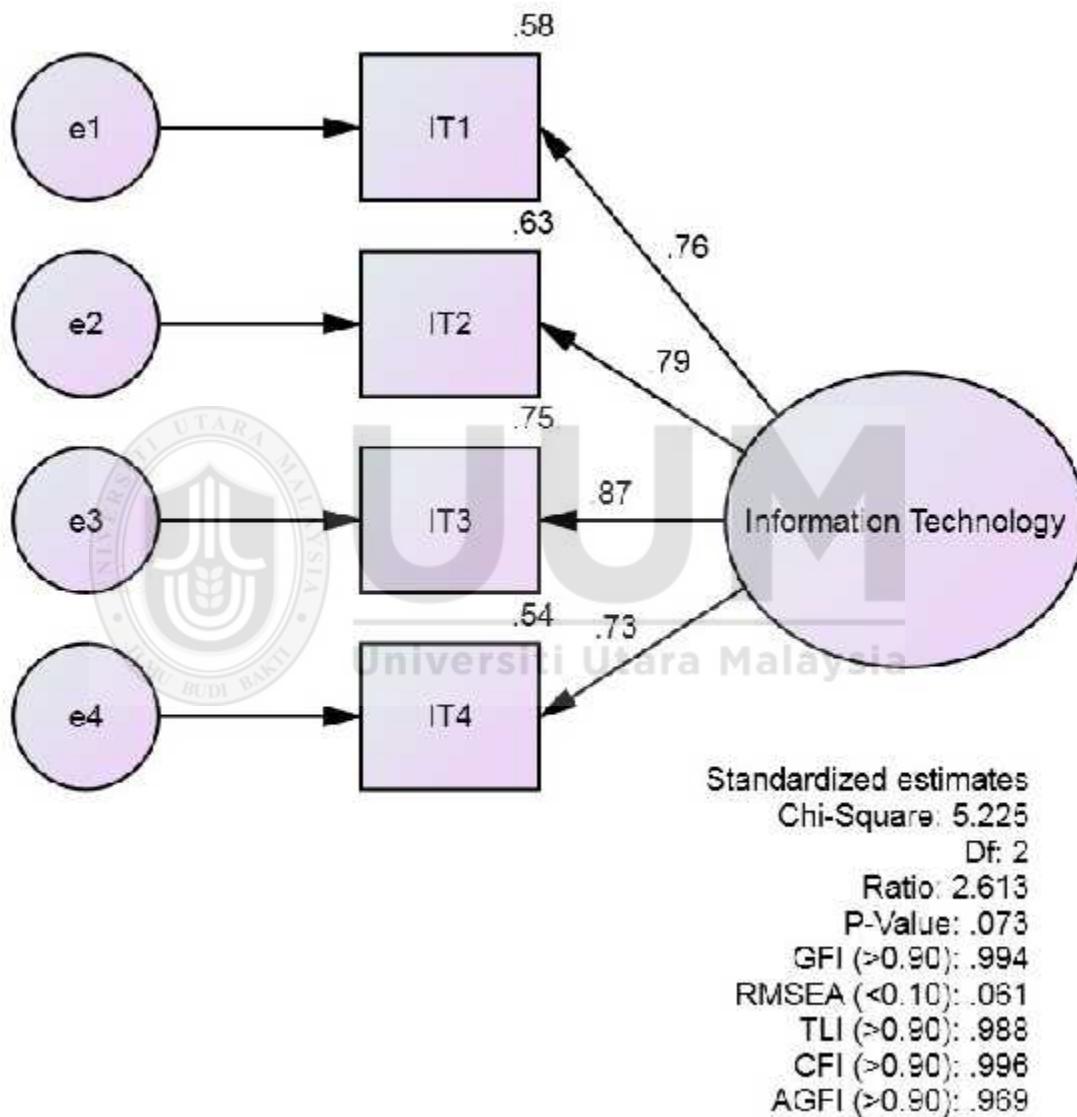
Figure 4.21
*Respecification of First Order Model of Information Technology*

Next, convergent validity is examined and reported in Table 4.41. The result suggested that factor loading for each item is at good level which is between 0.73 until 0.87. The values are greater than rules of thumb of 0.5 provided by Hair et al. (2010). Meanwhile average variance extracted and composite reliability show the value of 0.623 and 0.868 respectively which is greater than the cut off value proposed by Hair et al. (2010). The result suggested that information technology variable has passed convergent validity.

Table 4.41
Convergent Validity for First Order Model of Information Technology

	Factor Loading	Squared Multiple Correlation	Error	Average Variance Extracted	Composite Reliability
Information Technology (4 items)				0.623	0.868
IT1	0.76	0.5776	0.4224		
IT2	0.79	0.6241	0.3759		
IT3	0.87	0.7569	0.2431		
IT4	0.73	0.5329	0.4671		
Total	3.15	2.4915	1.5085		

4.5.13 First Order Model for Religiosity

Religiosity model which contain 5 items resulted from EFA is specified into first order measurement model. The result of preliminary CFA reveals that the model did not show good result where $\chi^2 = 81.186$, *p* value = 0.000, GFI = 0.926, RMSEA = 0.188, TLI = 0.910, CFI = 0.955 and AGFI = 0.779 (see Figure 4.22).

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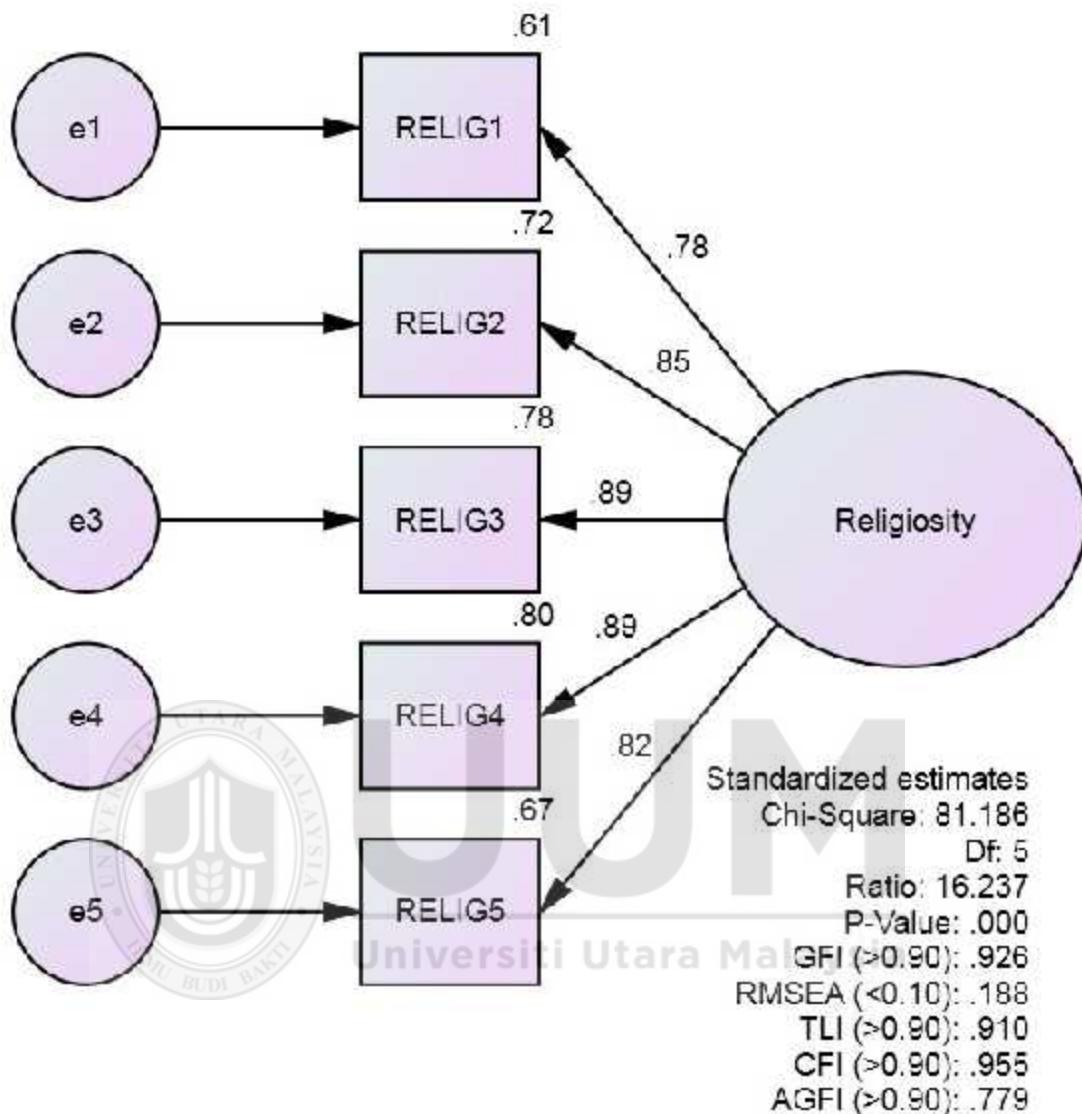
Figure 4.22
Specification of First Order Model of Religiosity

Since the result indicated that the model is not fit because RMSEA and AGFI still did not

achieve minimum requirement, therefore, model respecification is necessary to improve

the goodness of fit of the model. Model respecification is done by dropping 1 item

(RELIG2). The decision to drop RELIG2 is because it has the largest value of modification

index (Hair et al., 2010). After item RELIG2 has been dropped, the result of model

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respecification indicated that the model fit has been achieved (see Figure 4.23). The result

showed that GFI = 0.996, RMSEA = 0.046, TLI = 0.995, CFI = 0.998 and AGFI = 0.978.

Besides, factor loadings for all items are above 0.50.
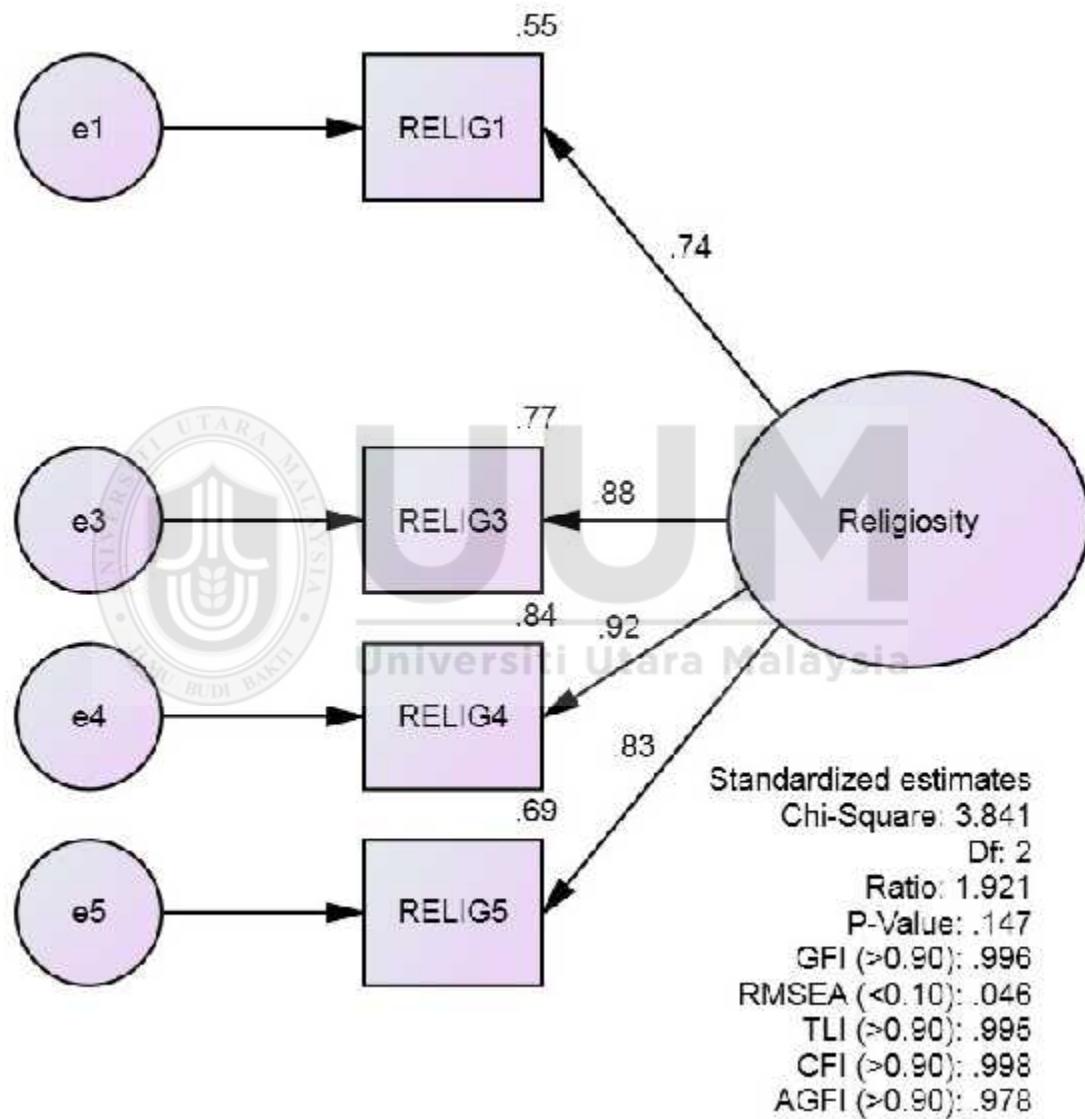
Figure 4.23
Respecification of First Order Model of Religiosity

Next, convergent validity is examined and reported in Table 4.42. The result suggested that factor loading for each item is at good level which is between 0.74 until 0.92. The values are greater than rules of thumb of 0.5 provided by Hair et al. (2010). Meanwhile average variance extracted and composite reliability show the value of 0.714 and 0.909 respectively which is greater than the cut off value proposed by Hair et al. (2010). The result suggested that religiosity variable has passed convergent validity.

Table 4.42
Convergent Validity for First Order Model of Religiosity

	Factor Loading	Squared Multiple Correlation	Error	Average Variance Extracted	Composite Reliability
Religiosity (4 items)				0.714	0.909
RELIG1	0.74	0.5476	0.4524		
RELIG3	0.88	0.7744	0.2256		
RELIG4	0.92	0.8464	0.1536		
RELIG5	0.83	0.6889	0.3111		
Total	3.37	2.8573	1.1427		

4.5.14 First Order Model for Law

Law model which contain 4 items resulted from EFA is specified into first order measurement model. The result of preliminary CFA reveals that the model showed good result where $^2 = 11.318$, p value = 0.003, GFI = 0.987, RMSEA = 0.104, TLI = 0.972, CFI = 0.991 and AGFI = 0.935 (see Figure 4.24). Since the model is already fit, therefore, model respecification is no longer necessary.
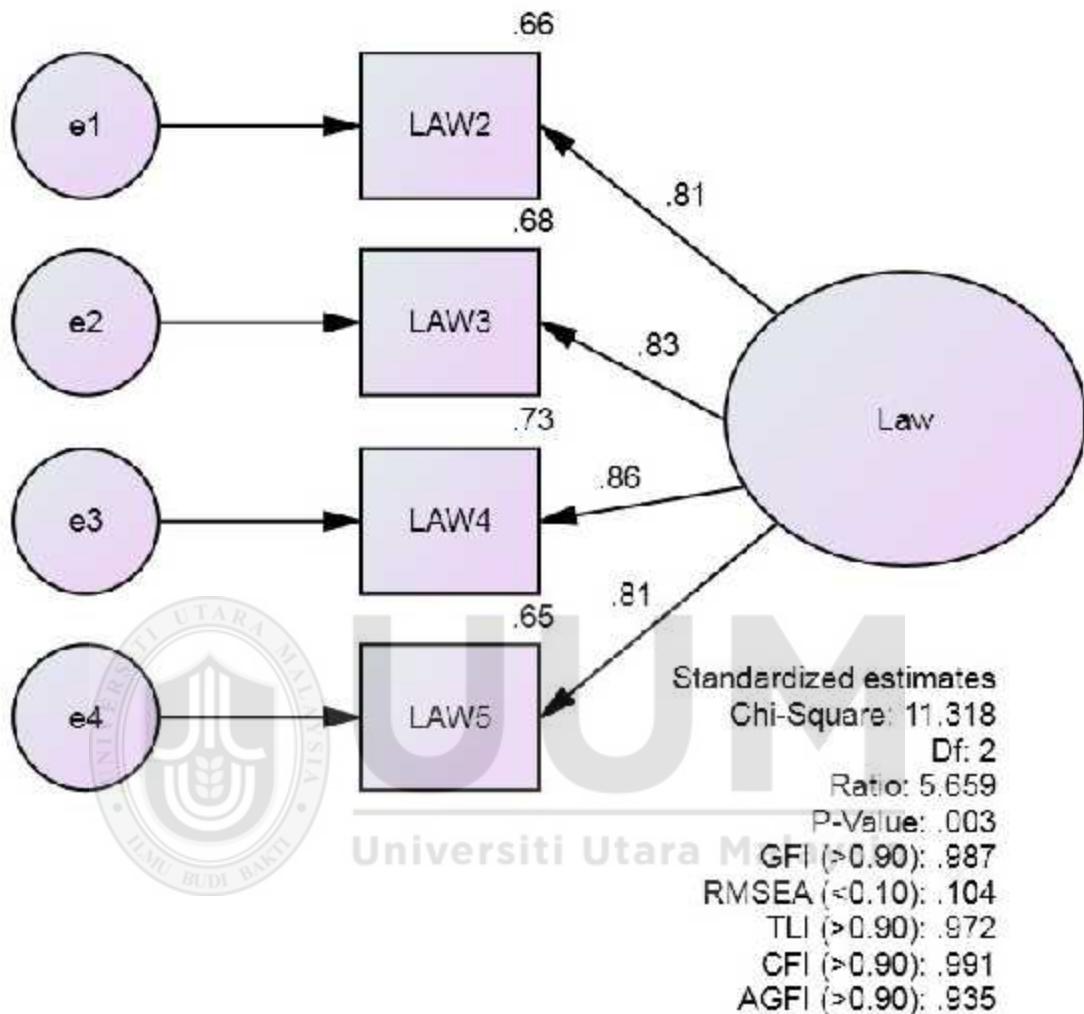
Figure 4.24
Specification of First Order Model of Law

Next, convergent validity is examined and reported in Table 4.43. The result suggested that

factor loading for each item is at good level which is between 0.81 until 0.86. The values

are greater than rules of thumb of 0.5 provided by Hair et al. (2010). Meanwhile average

variance extracted and composite reliability show the value of 0.685 and 0.897 respectively

which is greater than the cut off value proposed by Hair et al. (2010). The result suggested that law variable has passed convergent validity.

Table 4.43
Convergent Validity for First Order Model of Law

	Factor Loading	Squared Multiple Correlation	Error	Average Variance Extracted	Composite Reliability
Law (4 items)				0.685	0.897
LAW2	0.81	0.6561	0.3439		
LAW3	0.83	0.6889	0.3111		
LAW4	0.86	0.7396	0.2604		
LAW5	0.81	0.6561	0.3439		
Total	3.31	2.7407	1.2593		

4.5.15 First Order Model for Enforcement

Enforcement model which contain 5 items resulted from EFA is specified into first order measurement model. The result of preliminary CFA reveals that the model did not show good result where ^{2} = 71.195, *p* value = 0.000, GFI = 0.942, RMSEA = 0.175, TLI = 0.912, CFI = 0.956 and AGFI = 0.827 (see Figure 4.25).

Since the result indicated that the model is not fit because RMSEA and AGFI still did not achieve minimum requirement, therefore, model respecification is necessary to improve the goodness of fit of the model. Model respecification is done by dropping 1 item (ENFOR2). The decision to drop ENFOR2 is because it has the largest value of

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modification index (Hair et al., 2010). After item ENFOR2 has been dropped, the result of model respecification indicated that the model fit has been achieved (see Figure 4.26). The result showed that GFI = 1.000, RMSEA = 0.000, TLI = 1.005, CFI = 1.000 and AGFI = 0.999. Additionally, factor loadings for all items are above 0.50.

Next, convergent validity is examined and reported in Table 4.44. The result suggested that factor loading for each item is at good level which is between 0.63 until 0.93. The values are greater than rules of thumb of 0.5 provided by Hair et al. (2010). Meanwhile average variance extracted and composite reliability show the value of 0.675 and 0.890 respectively which is greater than the cut off value proposed by Hair et al. (2010). The result suggested that enforcement variable has passed convergent validity.

Table 4.44
Convergent Validity for First Order Model of Enforcement

	Factor Loading	Squared Multiple Correlation	Error	Average Variance Extracted	Composite Reliability
Enforcement (4 items)				0.675	0.890
ENFOR1	0.63	0.3969	0.6031		
ENFOR3	0.77	0.5929	0.4071		
ENFOR4	0.93	0.8649	0.1351		
ENFOR5	0.92	0.8464	0.1536		
Total	3.25	2.7011	1.2989		
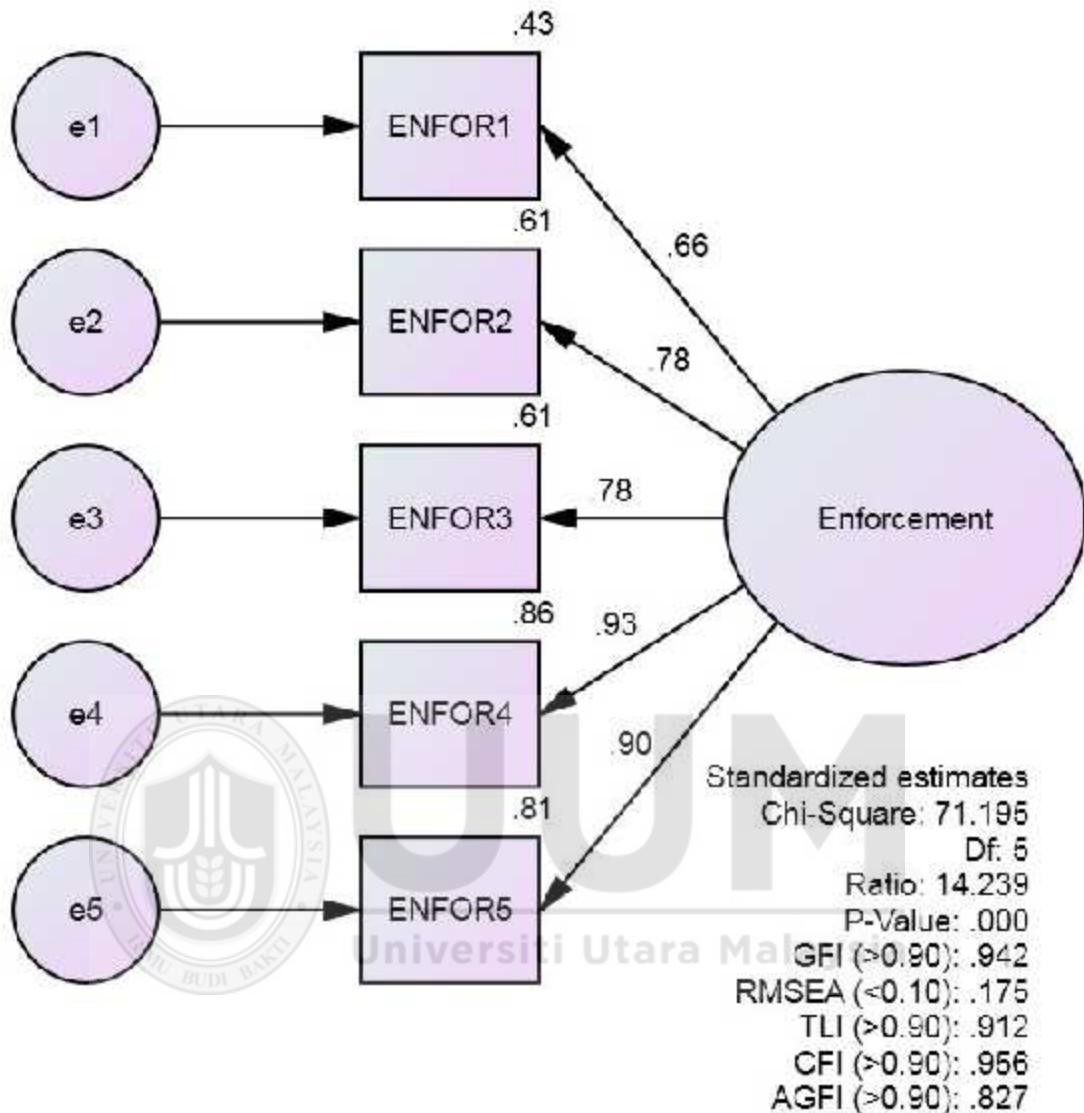
Figure 4.25
Specification of First Order Model of Enforcement
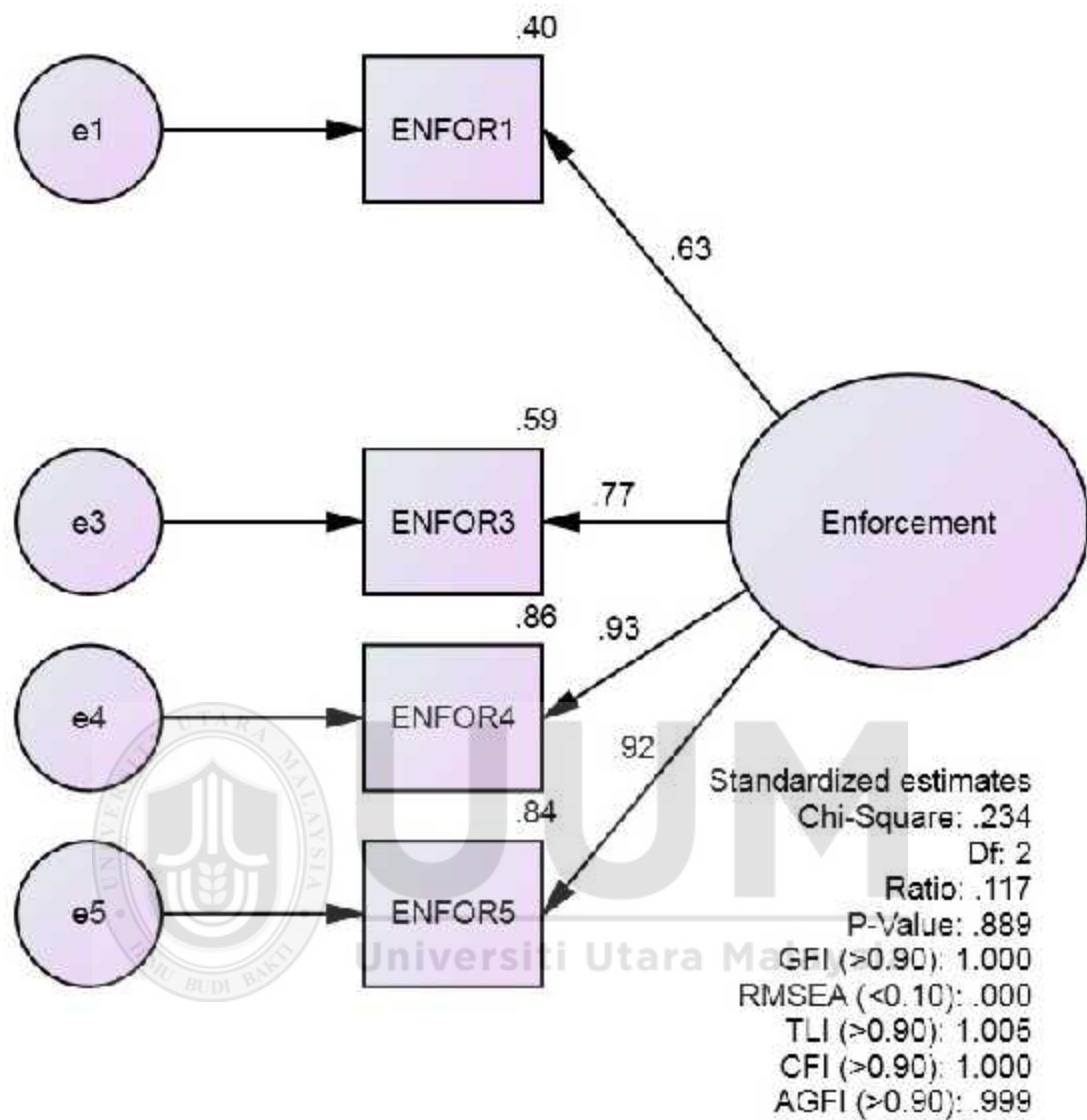
Figure 4.26
Respecification of First Order Model of Enforcement

4.5.16 Discriminant Validity

Discriminant validity needs also to be examined and reported as part of validation process. Discriminant validity is achieved when average variance extracted is greater than squared correlation estimate (Hair et al., 2010). Table 4.45 revealed the result for average variance extracted between the variables. The highest average variance extracted is 0.813 which is the value between board size and accountability. Whereas, the lowest average variance extracted is 0.571 which is the value between participation and information technology.

Meanwhile Table 4.46 revealed the result for correlation and squared correlation. Based on the Table 4.46, the highest correlation is 0.697 (squared correlation = 0.486) which is the correlation between board expertise and audit committee expertise. While, the lowest correlation is -0.072 (squared correlation = 0.005) which is the correlation between board size and religiosity.

The comparison between Table 4.45 and 4.46 revealed that the value of average variance extracted is greater than squared correlation. Therefore, the result suggested that all variables have passed discriminant validity.

Table 4.45
Average Variance Extracted for First Order Model of All Variables

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Bsize (1)	1														
Bind (2)	0.781	1													
Bexp (3)	0.738	0.676	1												
Acind (4)	0.812	0.750	0.707	1											
Acexp (5)	0.799	0.737	0.694	0.768	1										
Acdil (6)	0.785	0.723	0.680	0.754	0.741	1									
Lead (7)	0.764	0.702	0.659	0.733	0.720	0.706	1								
Part (8)	0.681	0.619	0.576	0.650	0.636	0.623	0.602	1							

Notes. Bsize = Board Size, Bind = Board Independence, Bexp = Board Expertise, Acind = Audit Committee Independence, Acexp = Audit Committee Expertise, Acdil = Audit Committee Diligence, Lead = Leadership, Part = Participation.

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Table 4.45 (Continued)

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Acct (9)	0.813	0.751	0.708	0.782	0.768	0.755	0.734	0.650	1						
Trans (10)	0.760	0.698	0.655	0.729	0.715	0.702	0.681	0.597	0.729	1					
Servq (11)	0.779	0.717	0.674	0.748	0.735	0.721	0.700	0.617	0.749	0.696	1				
IT (12)	0.733	0.671	0.628	0.702	0.689	0.675	0.654	0.571	0.703	0.650	0.669	1			
Relig (13)	0.779	0.717	0.674	0.748	0.734	0.721	0.700	0.616	0.748	0.695	0.715	0.669	1		
Law (14)	0.764	0.702	0.659	0.733	0.720	0.706	0.685	0.602	0.734	0.681	0.700	0.654	0.700	1	
Enfor (15)	0.759	0.697	0.654	0.728	0.715	0.701	0.680	0.597	0.729	0.676	0.695	0.649	0.695	0.680	1

Notes. Acct = Accountability, Trans = Transparency, Servq = Service Quality, IT = Information Technology,
Relig = Religiosity, Law = Law, Enfor = Enforcement.

Table 4.46
Pearson Correlation for All Independent Variables (N=431)

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Bsize (1)	1														
Bind (2)	0.122 (0.015)	1													
Bexp (3)	0.185 (0.034)	0.302 (0.091)	1												
Acind (4)	0.091 (0.008)	0.585 (0.342)	0.395 (0.156)	1											
Acexp (5)	0.142 (0.020)	0.253 (0.064)	0.697 (0.486)	0.461 (0.213)	1										
Acdil (6)	0.255 (0.065)	0.266 (0.071)	0.324 (0.105)	0.288 (0.083)	0.413 (0.171)	1									
Lead (7)	0.220 (0.048)	0.270 (0.073)	0.466 (0.217)	0.314 (0.099)	0.509 (0.259)	0.415 (0.172)	1								
Part (8)	0.261 (0.068)	0.199 (0.040)	0.461 (0.213)	0.358 (0.128)	0.549 (0.301)	0.438 (0.192)	0.462 (0.213)	1							

Notes. Squared correlation is reported in parenthesis. Bsize = Board Size, Bind = Board Independence, Bexp = Board Expertise, Acind = Audit Committee Independence, Acexp = Audit Committee Expertise, Acdil = Audit Committee Diligence, Lead = Leadership, Part = Participation.

Table 4.46 (Continued)

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Acct (9)	0.167 (0.028)	0.311 (0.097)	0.485 (0.235)	0.465 (0.216)	0.599 (0.359)	0.394 (0.155)	0.481 (0.231)	0.530 (0.281)	1						
Trans (10)	0.124 (0.015)	0.228 (0.052)	0.503 (0.253)	0.394 (0.155)	0.602 (0.362)	0.324 (0.105)	0.398 (0.158)	0.546 (0.298)	0.573 (0.328)	1					
Servq (11)	0.128 (0.016)	0.218 (0.048)	0.526 (0.277)	0.323 (0.104)	0.507 (0.257)	0.336 (0.113)	0.466 (0.217)	0.424 (0.180)	0.530 (0.281)	0.619 (0.383)	1				
IT (12)	0.112 (0.013)	0.205 (0.042)	0.471 (0.222)	0.386 (0.149)	0.533 (0.284)	0.351 (0.123)	0.457 (0.209)	0.478 (0.228)	0.541 (0.293)	0.530 (0.281)	0.593 (0.352)	1			
Relig (13)	-0.072 (0.005)	-0.212 (0.045)	-0.377 (0.142)	-0.374 (0.140)	-0.404 (0.163)	-0.300 (0.090)	-0.288 (0.083)	-0.397 (0.158)	-0.427 (0.182)	-0.394 (0.155)	-0.449 (0.202)	-0.398 (0.158)	1		
Law (14)	0.099 (0.010)	0.247 (0.061)	0.416 (0.173)	0.444 (0.197)	0.551 (0.304)	0.354 (0.125)	0.360 (0.130)	0.456 (0.208)	0.519 (0.269)	0.551 (0.304)	0.498 (0.248)	0.558 (0.311)	-0.512 (0.262)	1	
Enfor (15)	0.186 (0.035)	0.195 (0.038)	0.371 (0.138)	0.364 (0.132)	0.427 (0.182)	0.296 (0.088)	0.297 (0.088)	0.409 (0.167)	0.439 (0.193)	0.421 (0.177)	0.399 (0.159)	0.477 (0.228)	-0.405 (0.164)	0.526 (0.277)	1

Notes. Squared correlation is reported in parenthesis. Acct = Accountability, Trans = Transparency, Servq = Service Quality, IT = Information Technology, Relig = Religiosity, Law = Law, Enfor = Enforcement.

4.6   Second Order

Variables that achieve the goodness of fit, reliability and validity in the first order model are then specified into the second order model. The purpose of performing second order measurement is to see the model in overall context. Besides, measurement in second order model is more parsimonious (Hair et al., 2010).

The result of the second order measurement reveals that the model did not show good result for goodness of fit where χ^2 = 4135.808, p value = 0.000, GFI = 0.758, RMSEA = 0.055, TLI = 0.896, CFI = 0.900 and AGFI = 0.739 (see Figure 4.27). Therefore respecification of the model is necessary to improve the goodness of fit. All together there are 5 series of respecification undertaken before goodness of fit is achieved.

First respecification of the model is done by dropping 12 items (SQ1, EN1, BE1, TR2, AC3, RG1, IT2, TR5, LW4, LD4, LD3 & LD5). The first 10 items were dropped because they have highest value of modification indices and the remaining 2 items (LD3 & LD5) were dropped because the leadership variable is left with 2 items. According to Hair et al. (2010), the variables in the model should have at least 3 items so that it can overcome the problem of underidentified model. The results of first respecification of the second order measurement are as follows: χ^2 = 2331.582, p value = 0.000, GFI = 0.829, RMSEA = 0.048, TLI = 0.931, CFI = 0.935 and AGFI = 0.812 (see Figure 4.28). The results showed that goodness of fit is slightly increase but it still not achieved up to the recommended value suggested by Hair et al. (2010). Thus, this warrants for second respecification.
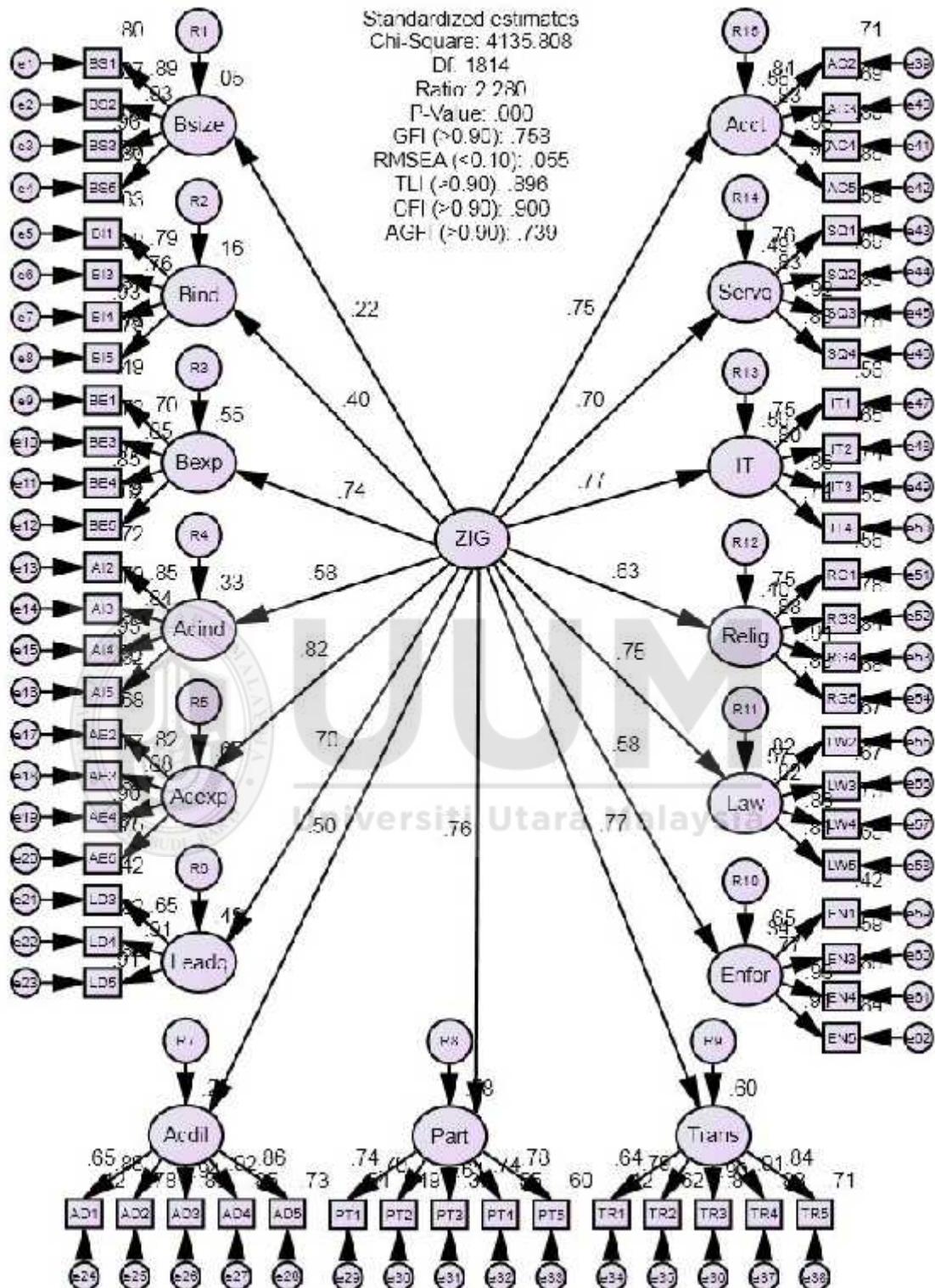
Figure 4.27
Specification of Second Order Model of Zakat Institution's Governance
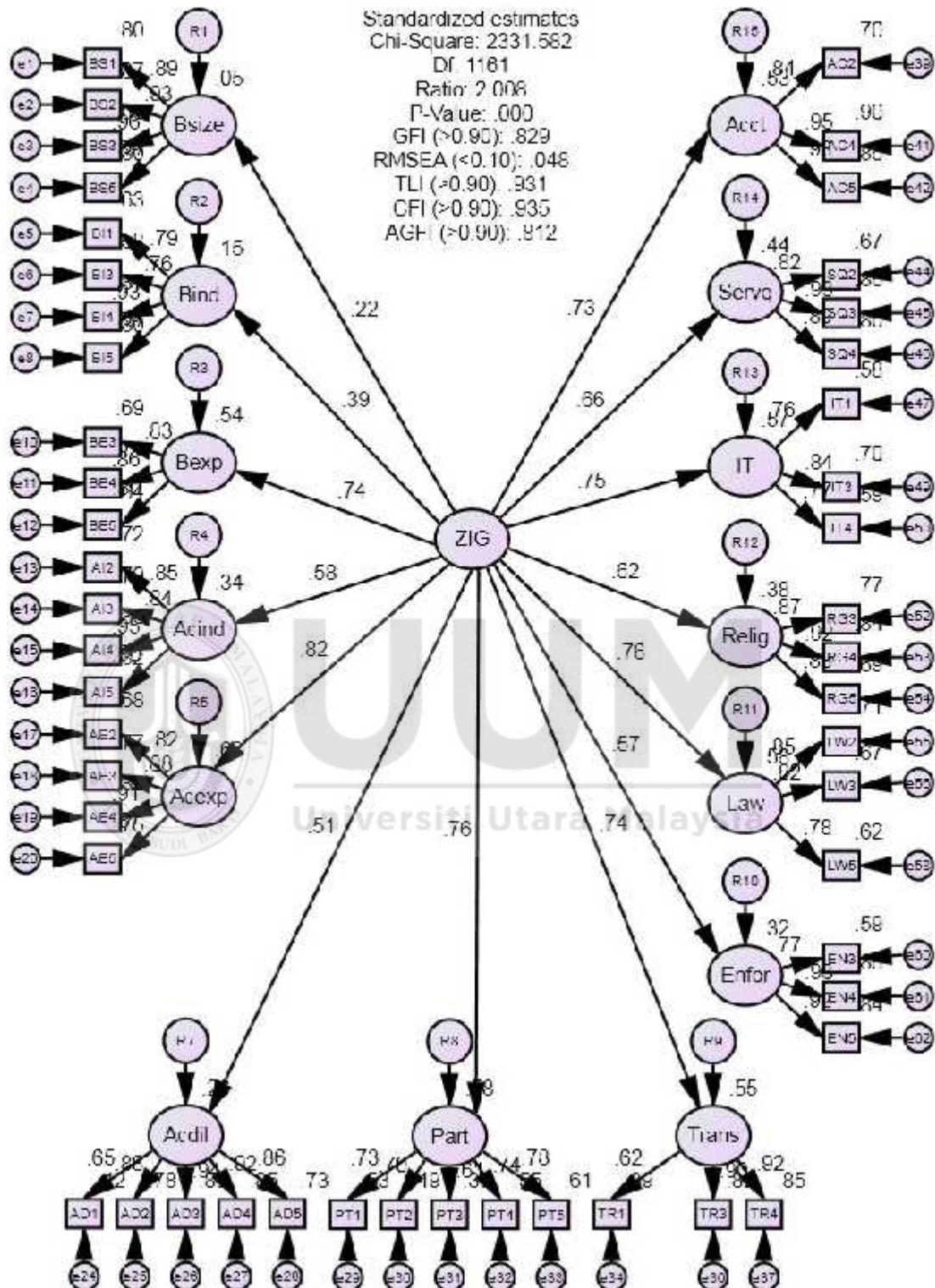
Figure 4.28
First Respecification of Second Order Model

In second respecification, further 12 items were dropped and those items were TR3, BI5, AE5, AE3, BE3, BE5, PT1, AE4, BE4, AE2, TR4 & TR1. The first 9 items were dropped because they have highest value of modification indices. Item AE2 was dropped because the audit committee expertise variable was left with 1 item and the remaining 2 items (TR4 & TR1) were dropped because the transparency variable was left with 2 items.

Second respecification produced the followings results: ^{2} = 1213.281, p value = 0.000, GFI = 0.876, RMSEA = 0.045, TLI = 0.954, CFI = 0.957 and AGFI = 0.860 (see Figure 4.29). Although the goodness of fit has improved but it is not yet at satisfactory level. Therefore, third respecification is required.

Third respecification of the model was performed by dropping 6 items (AI4, BI3, BS1, PT4, BI4 & BI1). The first 4 items were dropped because they have highest value of modification indices and the remaining 2 items (BI4 & BI1) were dropped because the board independence variable was left with 2 items (Hair et al., 2010).

The result of third respecification revealed that the model is still not achieving goodness of fit where ^{2} = 733.166, p value = 0.000, GFI = 0.905, RMSEA = 0.038, TLI = 0.971, CFI = 0.974 and AGFI = 0.890 (see Figure 4.30). The goodness of fit has not yet at satisfactory level because of AGFI value is still below than 0.9. Therefore, fourth respecification is required.
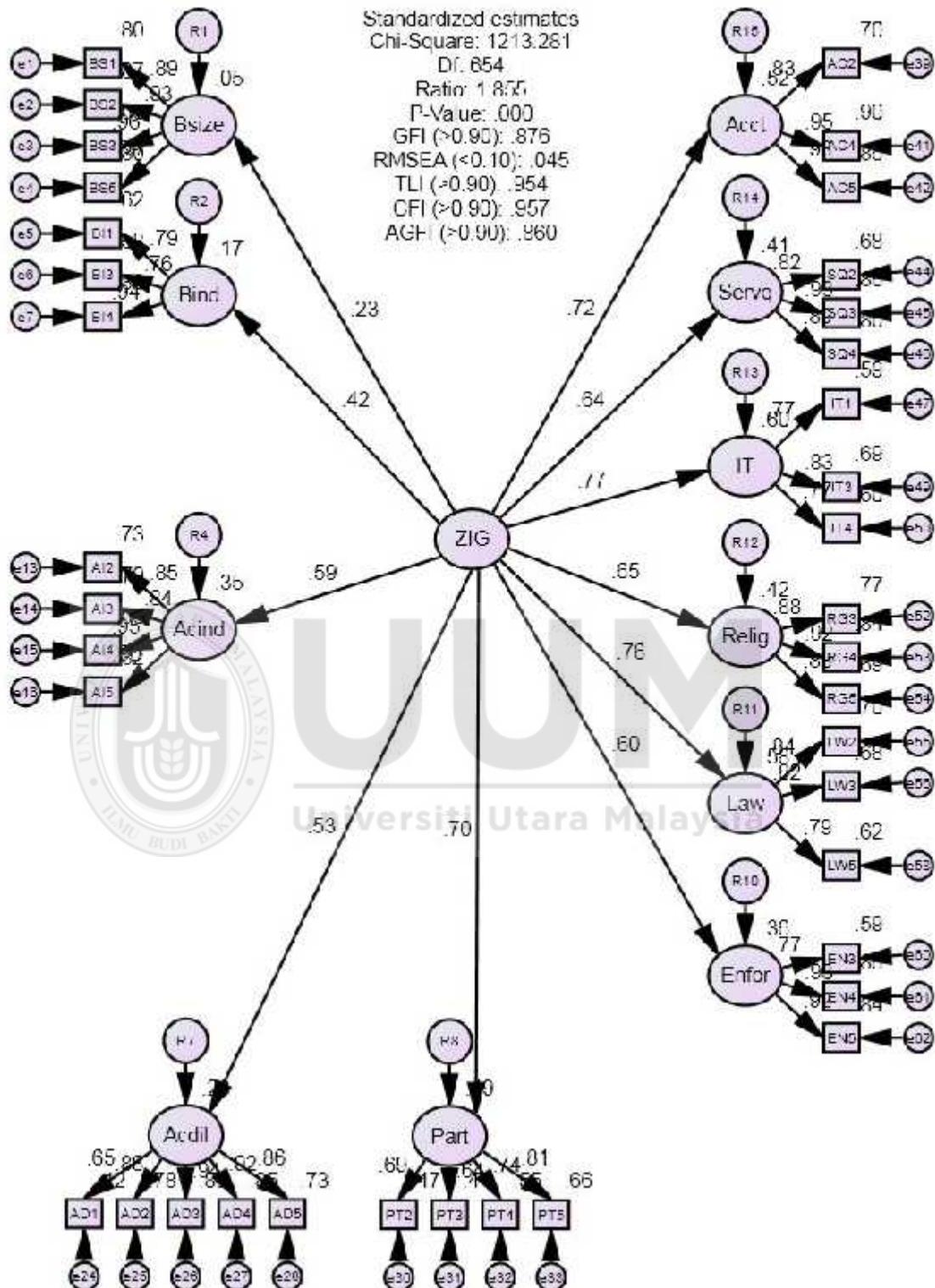
Figure 4.29
Second Respecification of Second Order Model
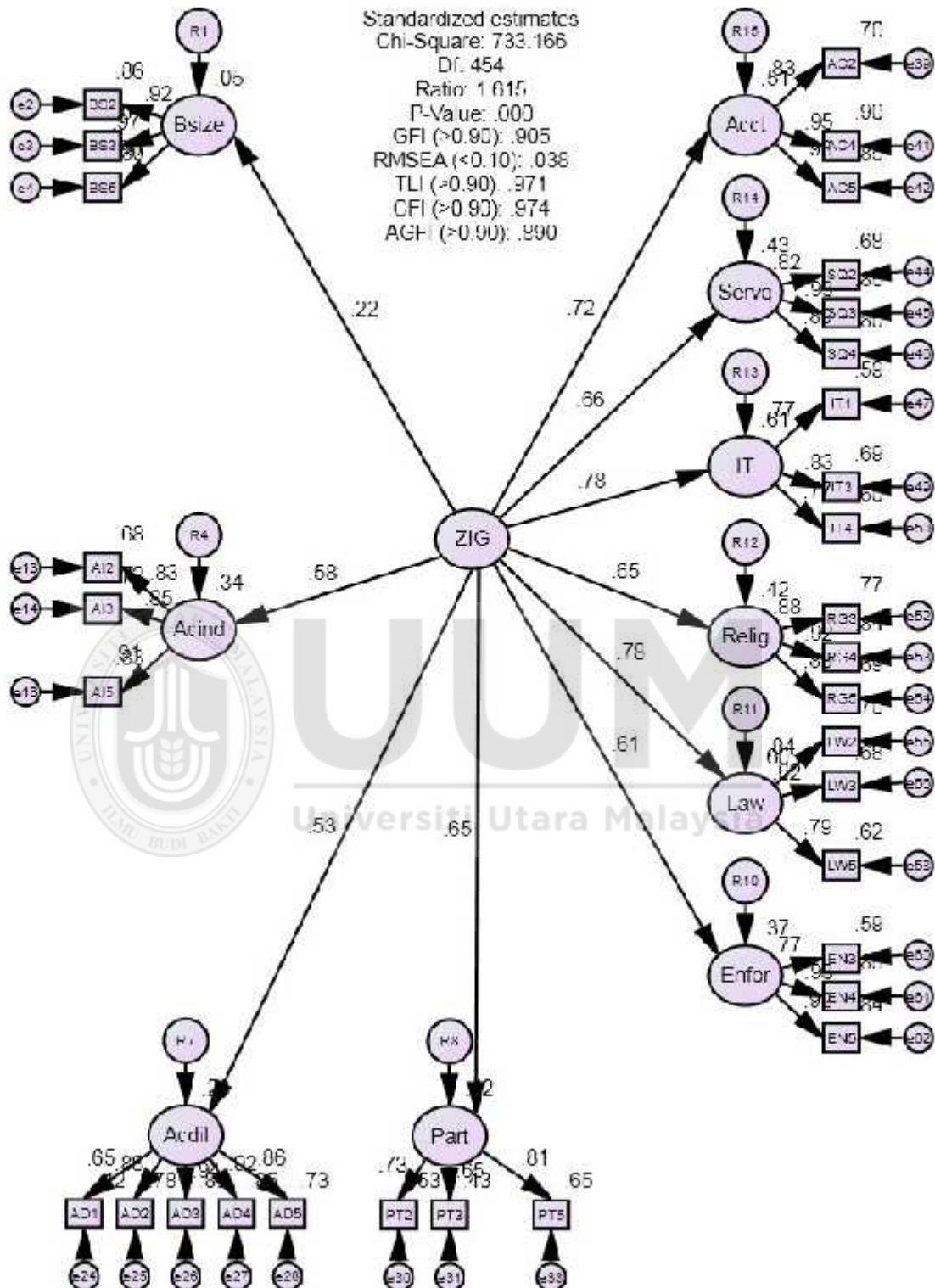
Figure 4.30
Third Respecification of Second Order Model

Fourth respecification witnessed the dropping of 3 items (BS2, BS3 & BS5). These items were dropped because board size variable has factor loading of 0.22 which is very low from the minimum cut off value of 0.5. Items with low factor loadings signaled that it would cause problems to the measurement model and therefore they are the main candidate to be deleted (Hair et al., 2010). Fourth respecification of second order measurement reveals the following results: ^{2} = 610.869, p value = 0.000, GFI = 0.913, RMSEA = 0.039, TLI = 0.971, CFI = 0.974 and AGFI = 0.897 (see Figure 4.31). Although the majority of the index has shown great improvement in term of goodness of fit, but AGFI still not achieve its minimum level. Since the goodness of fit is still not fully achieved, fifth respecification need to be implemented.

Fifth respecification of the model was performed by dropping 1 item (AD1). This item was dropped because it has the highest value of modification indices under audit committee diligence variable. The result of fifth respecification revealed that the model has achieved goodness of fit where ^{2} = 554.768, p value = 0.000, GFI = 0.918, RMSEA = 0.038, TLI = 0.973, CFI = 0.976 and AGFI = 0.902 (see Figure 4.32).

Figure 4.32 also reveals that only 9 variables survived until the last respecification and the remaining 6 variables have to be dropped in order to achieve goodness of fit. From the 9 variables, 8 of them are just-identified (3 items) and only 1 variable that is audit committee diligence with 4 items (overidentified). It was also found that IT and law variables recorded the highest factor loading of 0.78 whereas the lowest factor loading is 0.51.
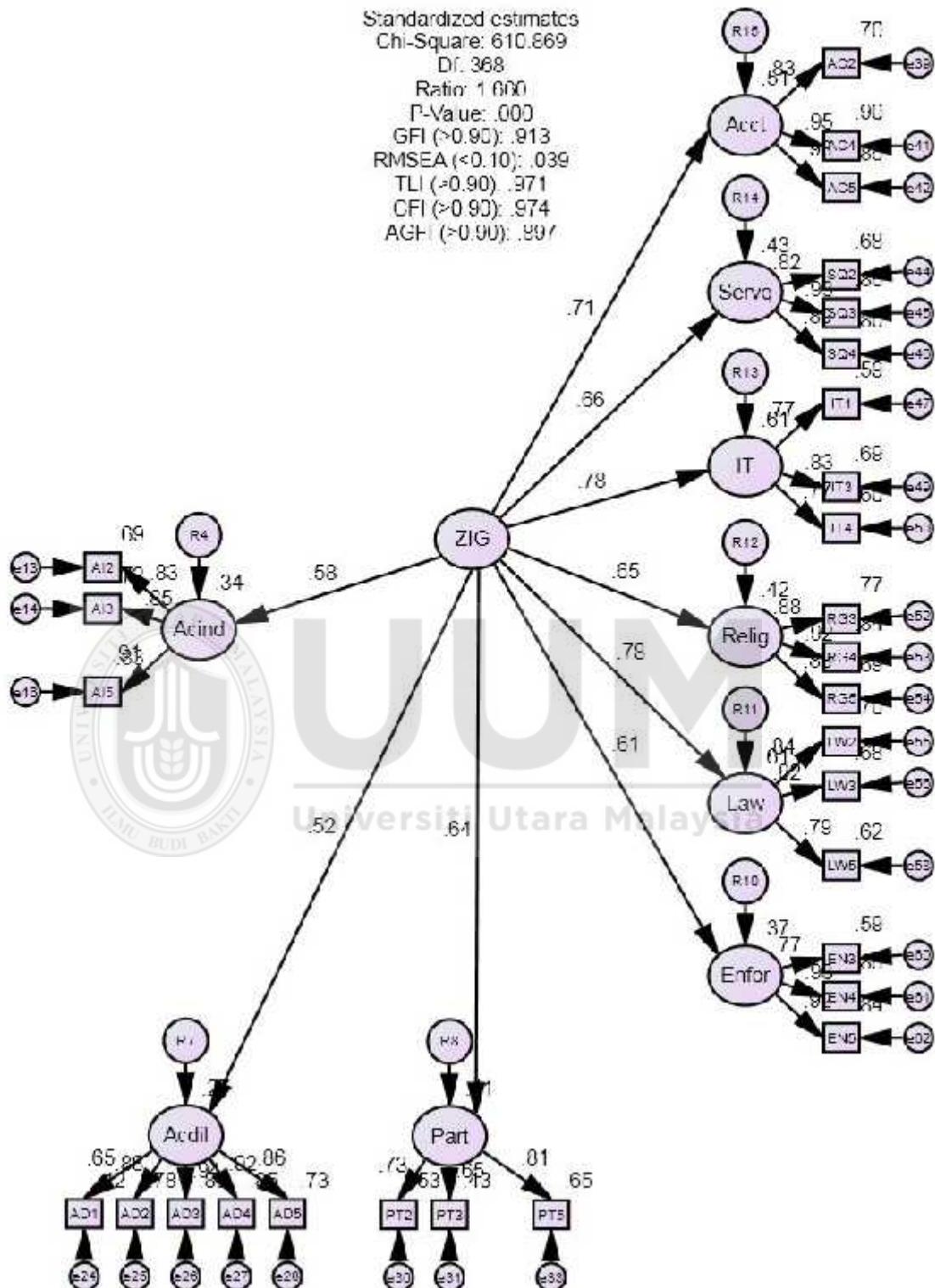
Figure 4.31
Fourth Respecification of Second Order Model
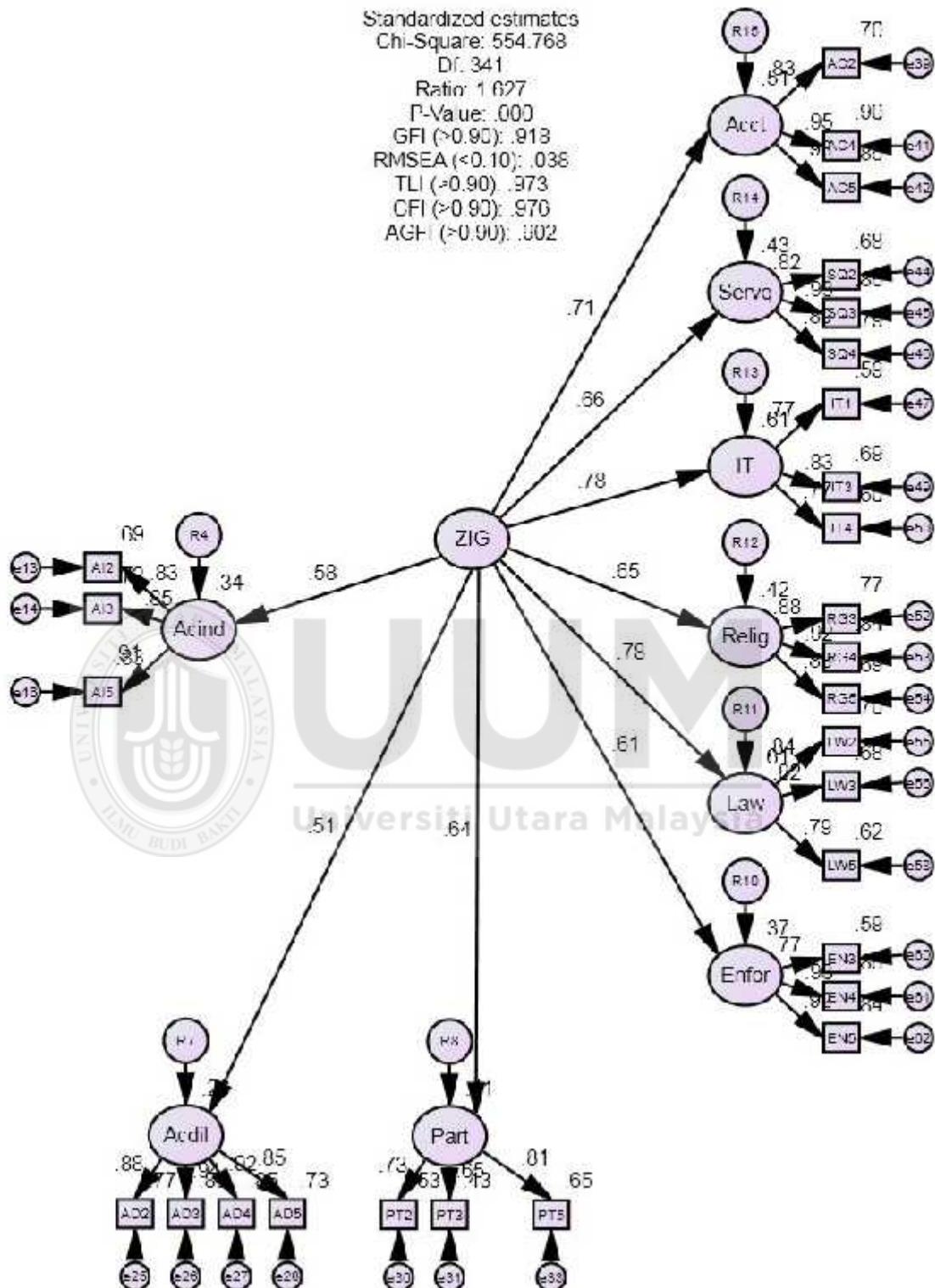
Figure 4.32
Fifth Respecification of Second Order Model

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4.6.1 Validity

After achieved the goodness of fit, next step is to check for validity. First, convergent validity is examined and reported in Table 4.47. The result suggested that factor loading for each item is at good level which is between 0.65 until 0.95. The values are greater than rules of thumb of 0.5 provided by Hair et al. (2010). Meanwhile average variance extracted is between 0.537 until 0.819 whereas composite reliability shows the value between 0.775 until 0.943. Both values are greater than the cut off value proposed by Hair et al. (2010) which is 0.5 for average variance extracted and 0.7 for composite reliability. Therefore, convergent validity for second order measurement model has been achieved.

Discriminant validity for second order measurement model also being achieved when average variance extracted is greater than squared correlation. For example, average variance extracted for audit committee independence with audit committee diligence is 0.777 (Table 4.48). This value is greater than squared correlation for both variables which is 0.083 (Table 4.49). Furthermore, correlations for all factors (9 factors) are significant at the 0.01 level.

4.7 Second Objective

Second objective of the study is to examine the magnitude of the variables in zakat institution's governance. The accomplishment of second objective will assist zakat institutions in giving their priority and efforts to the most important factor. The findings achieve the second objective where the magnitude of the variables are identified and arranged in the following order: information technology (0.783), law (0.780),

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accountability (0.713), service quality (0.658), religiosity (0.649), participation (0.642), enforcement (0.607), audit committee independence (0.581) and audit committee diligence (0.514).

Table 4.47
Convergent Validity for Second Order Model

	Factor Loading	Squared Multiple Correlation	Error	Average Variance Extracted	Composite Reliability
Audit Committee Independence (3 items)				0.747	0.898
ACIND2	0.83	0.6889	0.3111		
ACIND3	0.85	0.7225	0.2775		
ACIND5	0.91	0.8281	0.1719		
Total	2.59	2.2395	0.7605		
Audit Committee Diligence (4 items)				0.807	0.943
ACDIL2	0.88	0.7744	0.2256		
ACDIL3	0.94	0.8836	0.1164		
ACDIL4	0.92	0.8464	0.1536		
ACDIL5	0.85	0.7225	0.2775		
Total	3.59	3.2269	0.7731		

Table 4.47 (Continued)

	Factor Loading	Squared Multiple Correlation	Error	Average Variance Extracted	Composite Reliability
Participation (3 items)				0.537	0.775
PART2	0.73	0.5329	0.4671		
PART3	0.65	0.4225	0.5775		
PART5	0.81	0.6561	0.3439		
Total	2.19	1.6115	1.3885		
Accountability (3 items)				0.819	0.931
ACCT2	0.83	0.6889	0.3111		
ACCT4	0.95	0.9025	0.0975		
ACCT5	0.93	0.8649	0.1351		
Total	2.71	2.4563	0.5437		
Service Quality (3 items)				0.776	0.912
SERVQ2	0.82	0.6724	0.3276		
SERVQ3	0.93	0.8649	0.1351		
SERVQ4	0.89	0.7921	0.2079		
Total	2.64	2.3294	0.6706		
Information Technology (3 items)				0.625	0.833
IT1	0.77	0.5929	0.4071		
IT3	0.83	0.6889	0.3111		
IT4	0.77	0.5929	0.4071		
Total	2.37	1.8747	1.1253		

Table 4.47 (Continued)

	Factor Loading	Squared Multiple Correlation	Error	Average Variance Extracted	Composite Reliability
Religiosity (3 items)				0.770	0.909
RELIG3	0.88	0.7744	0.2256		
RELIG4	0.92	0.8464	0.1536		
RELIG5	0.83	0.6889	0.3111		
Total	2.63	2.3097	0.6903		
Law (3 items)				0.667	0.857
LAW2	0.84	0.7056	0.2944		
LAW3	0.82	0.6724	0.3276		
LAW5	0.79	0.6241	0.3759		
Total	2.45	2.0021	0.9979		
Enforcement (3 items)				0.768	0.908
ENFOR3	0.77	0.5929	0.4071		
ENFOR4	0.93	0.8649	0.1351		
ENFOR5	0.92	0.8464	0.1536		
Total	2.62	2.3042	0.6958		

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Table 4.48
Average Variance Extracted for Second Order Model

	1	2	3	4	5	6	7	8	9
Acind (1)	1								
Acdil (2)	0.777	1							
Part (3)	0.642	0.672	1						
Acct (4)	0.783	0.813	0.678	1					
Servq (5)	0.762	0.792	0.657	0.798	1				
IT (6)	0.686	0.716	0.581	0.722	0.701	1			
Relig (7)	0.759	0.789	0.654	0.795	0.773	0.698	1		
Law (8)	0.707	0.737	0.602	0.743	0.722	0.646	0.719	1	
Enfor (9)	0.758	0.788	0.653	0.794	0.772	0.697	0.769	0.718	1

Notes. Acind = Audit Committee Independence, Acdil = Audit Committee Diligence,
Part = Participation, Acct = Accountability, Servq = Service Quality,
IT = Information Technology, Relig = Religiosity, Law = Law, Enfor = Enforcement.

Table 4.49
Pearson Correlation for Second Order Model

	1	2	3	4	5	6	7	8	9
Acind (1)	1								
Acdil (2)	0.288 (0.083)	1							
Part (3)	0.358 (0.128)	0.438 (0.192)	1						
Acct (4)	0.465 (0.216)	0.394 (0.155)	0.530 (0.281)	1					
Servq (5)	0.323 (0.104)	0.336 (0.113)	0.424 (0.180)	0.530 (0.281)	1				
IT (6)	0.386 (0.149)	0.351 (0.123)	0.478 (0.228)	0.541 (0.293)	0.593 (0.352)	1			
Relig (7)	-0.374 (0.140)	-0.300 (0.090)	-0.397 (0.158)	-0.427 (0.182)	-0.449 (0.202)	-0.398 (0.158)	1		
Law (8)	0.444 (0.197)	0.354 (0.125)	0.456 (0.208)	0.519 (0.269)	0.498 (0.248)	0.558 (0.311)	-0.512 (0.262)	1	
Enfor (9)	0.364 (0.132)	0.296 (0.088)	0.409 (0.167)	0.439 (0.193)	0.399 (0.159)	0.477 (0.228)	-0.405 (0.164)	0.526 (0.277)	1

Notes. Squared correlation is reported in parenthesis and all correlations are significant at the 0.01 level. Acind = Audit Committee Independence,
Acdil = Audit Committee Diligence, Part = Participation, Acct = Accountability,
Servq = Service Quality, IT = Information Technology, Relig = Religiosity,
Law = Law, Enfor = Enforcement.

4.8 Discussion

The results suggested that nine variables constitute zakat institution's governance. Table 4.50 list the variables according to their magnitude. Detail discussion relating to each variable is provided below:

Table 4.50
The Magnitude of the Variables

	Result
Information Technology	0.783
Law	0.780
Accountability	0.713
Service Quality	0.658
Religiosity of Zakat Employees	0.649
Participation	0.642
Enforcement	0.607
Audit Committee Independence	0.581
Audit Committee Diligence	0.514

Note. Analysis = Regression Estimate. GFI = 0.918, RMSEA = 0.038, TLI = 0.973, CFI = 0.976, AGFI = 0.902

4.8.1 Information Technology

Hypothesis 12 stated that IT is one of the dimensions of zakat institution's governance. The result supported the above hypothesis. Thus, in the eye of zakat payers, IT is very important in the governance of zakat institutions.

Past studies recognize the important of IT in governance (Brown & Grant, 2005; Noor Azizi, 2008; Trites, 2004). IT is very significant because it could assist zakat institutions to achieve good governance (IT Governance Institute, 2003; Ko & Fink, 2010; Lin et al., 2010). This finding also confirms the study by Weill and Ross (2004a) that found companies are making more profit if they have good IT. Besides, companies nowadays depend on IT to continuously improve the business process (IT Governance Institute, 2003). IT also helps disseminate the information to the stakeholders. Therefore, the credibility of information provided in the internet is very important and must be ensured (Mohd Sobhi, 2011).

IT can promote good governance in zakat institutions. There are some part of the process in zakat institutions that can be improved via IT. For instance, the way zakat institutions search for zakat recipients can be intensified through the use of website, Facebook or other social media channels. This provide alternative to the current method of identifying zakat recipients which may no longer be relevant with the passing of time.

Current method although manage to help in identifying zakat recipients but it prone to weaknesses. For example, identification of potential zakat recipients via village development committees has found to contribute to injustice where family relationship or relatives is used as criteria to be eligible to receive zakat.

Through IT, zakat payers who have information about potential zakat recipients can channeled it to zakat institutions. This can overcome situation where a person who is eligible to receive zakat but feel shy to apply or do not know how to apply. Therefore

support is needed from outsider or public to help these people. This can be done if zakat institutions provide interactive function in their website to allow suggestion of potential zakat recipients.

Strong support is also needed from top management of zakat institutions to ensure IT initiative is successful. This people must be provided with good explanation to see the benefit that can be derived from IT. Without their commitment for IT, the effort to emplace IT in the governance of zakat institutions would full with obstacle. Some zakat institutions for example LZS and PPZ-MAIWP already ahead in utilizing IT in their governance. These institutions also used IT to provide useful information to zakat stakeholders and therefore can enhance public confidence towards their institutions. Hence, all zakat institutions especially those with conventional structure should imitate their counterpart in taking advantage of IT.

IT is also important because potential zakat payers are in the IT era. These groups are active IT users as compared to other groups. They frequently use IT platforms such as internet, Facebook and social media to communicate and search for information. At present, these platform have viral many negative information about zakat institutions. Prompt respond is required from zakat institutions in order to preserve public confidence in them. Therefore, investment should be made in improving the infrastructure and skills in IT.

Nowadays, zakat institutions are relying on technology to strengthen its governance. Findings from the interview with three zakat institutions supported this statement. For

example, media social workshop was organized from 3rd – 5th May 2017 involving all zakat institutions in Malaysia to discuss the potential use of this technology (Mohd Sani[13], personal communication, May 2, 2017). The use of social media has an aims to combat any negative allegations against zakat institutions. Zakat institutions will no longer keep quiet but instead they will response to all allegations. This is important to avoid negative perception from zakat stakeholders and to uphold the dignity of zakat institutions. The new generations of IT literate are expected to place heavy reliance on social media as their key reference. Besides that a few new initiatives are introduced to ease zakat stakeholders. For example JZNK makes new initiative by introducing complaint via Whatsapp application (Mohd Sani, personal communication, May 2, 2017). This initiative was introduced as an effort to fasten the feedback process. Meanwhile LZS rely heavily on technology to support their initiative such as online zakat payment, eZakat online, and online salary deduction (Wan Ritini[14], personal communication, June 19, 2017). For PKZ Pahang, the technology is used to support the dissemination of information to support their Ezakat system (Mohd Khairon[15], personal communication, June 20, 2017).

Nowadays IT literacy among Muslim people in Malaysia is on the increasing trend. They use IT to search for information and to perform their daily transactions. For example instead of queuing at the bank to perform the transaction such as deposits, withdrawal and transfer, now they turn to online banking which is much more faster and convenience.

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[13] Interview with Mohd Sani Harun (zakat executive of JZNK) was conducted on 2 May 2017.
[14] Interview with Wan Ritini Wan Ismail (zakat executive of LZS) was conducted on 19 June 2017.
[15] Interview with Mohd Khairon Umar (zakat officer of PKZ Pahang) was conducted on 20 June 2017.

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In the context of zakat institutions, zakat stakeholders use the website of zakat institutions to get information that relate to their interest. Tendency for zakat stakeholders to use the website of zakat institutions is getting higher due to changing life styles. However, conventional way of getting the information is still relevance since not all zakat stakeholders are exposed to IT. For those who are IT literate, website of zakat institutions is normally used as their source of information. As such, it is important for zakat institutions to share valuable information in their websites.

IT is crucial because zakat institutions can address allegations that being thrown in social media such as Facebook and Whatsapp. These allegations must be addressed immediately as it will tarnish the image of zakat institutions if it is allowed to spread. It has become the norm in today's society that those who remain quiet is guilty unless they come forward to defend themselves (Mohd Sani, personal communication, May 2, 2017). Therefore, zakat institutions need to leverage existing technology to give them an edge and avoid negative perception from zakat stakeholders.

Besides that IT is crucial because it is a tool for zakat institutions to make changes. The use of IT brings changes to the structure and culture of zakat institutions. For example part of the structure of zakat institutions change from centralization to decentralization where top management delegate the authority to lower level management so that faster decision can be made. In the context of culture, IT brings productive working culture to zakat institutions. For example, with the use of IT less time is taken to process zakat application.

Furthermore, IT also brings efficiency to the work process in zakat institutions whereby some works are best performed using IT as compared to human being. For example the zakat calculator system that is available in the website of LZS assist the visitors to calculate zakat much faster and convenience. The traditional way to calculate zakat is by consulting zakat employees. This is quite troublesome and uncomfortable because there are people who do not feel comfortable to reveal his or her income to zakat employees. So for this group of people they are happy to calculate the zakat by themselves with the help from zakat calculator system.

Other institutions also recognize the important of IT in assisting them to fulfill their responsibility towards the society. Institutions that represent Islam for example Jabatan Kemajuan Islam Malaysia (JAKIM) and Institut Kefahaman Islam Malaysia (IKIM) rely heavily on their IT infrastructure. They use their website to spread the information to all people especially Muslim community. They are aware of and fully recognize the advantages that IT can provide to their organization. For example the dissemination of information through website is fast and incur low cost. Through the observation that being made, it was noted that the websites have assist in spreading the information to many people. For example the number of visitors for JAKIM's website is 11, 110, 725[16]. This show that the tendency for people to search information in the website is very high.

Besides, information provided in the website is normally in written form. So readers can read and digest the information slowly at their own pace. This is much more convenience

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[16] The website was visited on 18 June 2017.

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and would ease understanding compared to face to face communication where sometime the employees talk or explain too fast and this create difficulty to the people to understand.

In my opinion, main benefits that can be derived from IT should open the eye and mind of top management of zakat institutions. They should not be skeptical or resistance to make changes relating to investment in IT. Once IT infrastructure has been upgraded, working efficiency in the zakat institutions would also be improved. This will enable zakat institutions to achieve their goals faster. There is one sayings that say "the more you give, the more you get back" should motivate zakat institutions to use IT as their strategic weapon. Future is moving towards heavy reliance on IT and less interaction with human, so zakat institutions must equip themselves to prepare for this situation. Old fashion way of thinking is no longer appropriate since it will hinder zakat institutions from progress.

4.8.2 Law

Hypothesis 14 stated that law is one of the dimensions of zakat institution's governance. The result of this study supported the above hypothesis. In this study, law is the perception of zakat payers towards the importance of having law in the governance of zakat institutions.

Past studies recognize the important of law in governance (Mohd Ali, 1989). Law is very significant because it could assist zakat institutions to achieve good governance (Kamil, 2002; Morita & Zaelke, 2005; Ram Al Jaffri, 2010b). This finding also confirms the study by Malkawi and Haloush (2008) that found tax evasion occur because of insufficient law.

Besides, it also being noted that effective law is the prerequisite of good governance (Morita & Zaelke, 2005).

Law must be adequate to contribute to the good governance practices (OECD, 2004; The World Bank, 1991). Zakat institutions must scrutinize the content of its law whether the coverage is enough to support its process. This is necessary because zakat law may become insufficient and outdated with the passing of time. Besides, when there is a new source for zakat, a new law is also required. Hence, zakat law must always be revised and updated. If revision of law is required, zakat institutions must make sure that they have enough human resource to support the process. Organization process become more effective with adequate human resource in the institutions (Mohd Ali, 1989). Enough human resource is important because we do not want the employees to be burden with many jobs which would increase their work pressure. Besides, segregation of work help employees to focus on their job and increase their expertise. Some zakat institutions are found to be very proactive where they establish their own law unit to review matters that relate to zakat law.

Zakat law must be effective so that desirable behavior of zakat payers could be stimulated. This will increase zakat collection as more people will pay zakat. In order to be effective, zakat law must be clear to avoid misunderstanding or misinterpretation from zakat stakeholders. Therefore, experts at zakat institutions should gather and inspect zakat law frequently to ensure that the law is free from any ambiguity. With effective law, process in zakat institutions can be improved and thus contribute to good governance.

Findings from the interview reveal that law of zakat institutions is undergoing transformation process. The revision of existing law is necessary so that the law is up to date. For that purposes, more staff are needed. The recruitment of law executive for example indicate that zakat institutions put an effort to improve its existing law. In the eyes of zakat stakeholders, such practice provide positive perception towards zakat institutions (Mohd Sani, personal communication, May 2, 2017; Wan Ritini, personal communication, June 19, 2017; Mohd Khairon, personal communication, June 20, 2017).

As an institution that holds trust to guarantee social justice, I am of the view that the zakat law requires instant transformation in order to make it relevance. It has been observed that zakat institutions are seen not putting enough effort to make zakat law become supreme. For example, notification about zakat law is not made extensively to the public by zakat institutions. Thus, it is not surprising that majority of Muslims people know nothing about the content of zakat law. Transformation also needed to strengthen zakat law. This can be done by collaborating with many Islamic organization to get expertise in order to make zakat law adequate and updated to address the present situation.

4.8.3 Accountability

Hypothesis 9 stated that accountability is one of the dimensions of zakat institution's governance. The result of this study supported the above hypothesis. In this study, accountability is the perception of zakat payers towards the importance of having accountability in the governance of zakat institutions. Thus, from the perspective of zakat payers, accountability is very important for zakat institution's governance. In term of

priority, accountability was at the third place. This indicates that after IT and law, zakat institutions need to pay serious attention to this factor in their governance.

Past studies recognize the important of accountability in governance (Cadbury Committee, 1992; Licht, 2002; UNESCAP, 2007). Accountability is very significant because it could assist zakat institutions to achieve good governance. This finding also verifies the study by Aguilera (2005) that found accountability can resolve problem faced by the organizations.

In corporate culture, accountability is widely used to ensure the organization run excellently (UNESCAP, 2007). This is because accountability tend to make employees accountable for their decision (Licht, 2002).

In the context of zakat institution, accountability can be improved to higher level by recognizing its importance in the governance of zakat institutions. Unfortunately, at the moment, accountability only widely practiced in zakat institutions that use full and partial privatized structure. Zakat institutions that adopt conventional structure need to do a catch up by instilling the right accountability concept into their organization. Accountability may assist zakat institutions to secure its good reputation, gaining public confidence and ensuring its success (Sani Adamu & Ram Al Jaffri, 2016b). Although accountability is given widely attention in the corporate sector, its application in the nonprofit making organization is still relevance (UNESCAP, 2007).

The application of accountability concept in zakat institutions will inspire zakat employees to be more responsible towards their jobs. When this is practiced, the nature of trust of zakat employees will be at a higher level and thus be able to close the door for any action that is not healthy or sinful (Mohamad Zaini, 2011).

Accountability is important since it will make zakat institutions more trusted and transparent. Based on the interview, accountability of zakat institutions can be observed through the release of annual report. JZNK and LZS for example put an effort to publish their annual report in their websites to potray their accountability towards zakat stakeholders. However, there will always be a delay in the release of annual report since the report will be validated first via audit process. (Mohd Sani, personal communication, May 2, 2017; Wan Ritini, personal communication, June 19, 2017).

My view of accountability in zakat institutions is how to empower accountability to Allah first. This is because irregularities and misappropriation occur due to lack of accountability to Allah. If accountability to Allah is weak, it will also affect accountability to zakat institutions as well. Normally, people will take advantage from loose control system and poor monitoring that is available in zakat institutions. Therefore, tight control must be put in zakat institutions to avoid the occurrence of this negative behaviour. The best control system that should be instilled into zakat employees is the great accountability to Allah. If this concept is fully appreciated by zakat employees, it will also create high accountability towards zakat institutions. This in line with verse 59 of Surah An-Nisa that request all Muslims to obey Allah, the Prophet and good leaders. Based on this verse, accountability to zakat institutions come after accountability to Allah and the Prophet.

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Therefore, strong accountability to Allah will solve the problem that relate to accountability towards zakat institutions.

4.8.4 Service Quality

Hypothesis 11 stated that service quality is one of the dimensions of zakat institution's governance. The result of this study supported the above hypothesis. In this study, service quality is the perception of zakat payers towards the importance of having service quality in the governance of zakat institutions. The result indicates that the magnitude for service quality was ranked fourth after IT, law and accountability. This gives an indication that service quality is equally important in zakat institution's governance and therefore must not be ignored.

Past studies recognize the important of service quality in governance (The World Bank, 1991). Service quality is very significant because it could assist zakat institutions to achieve good governance. This finding also confirms the study by Parasuraman et al. (1985) that found delivery of service quality assist organization to success. In corporate culture, service quality is practiced because it is being treated as competitive advantage and vital for organizational survival (Carmen, 1990).

Service quality also can promote good governance in zakat institutions. For instance, zakat institutions need to review and revise the procedures for zakat applicants to apply zakat fund. The revision is necessary since some of the process is taking a long time before zakat applicants can get zakat fund. Lengthy process in getting zakat fund will demotivate zakat

applicants. As a result, negative perception will be built within them. Besides, the way zakat applicants are treated by zakat employees during the application process also need to be reviewed. This is because whether the treatment received is good or bad, it will become the talking point to zakat applicants and easily to be spread to others. Good treatment tend to create positive perception that contribute to improving the reputation of zakat institutions. Whereas bad treatment tend to create negative perception that can impair the goodwill of zakat institutions. As such, claims that zakat employees are not friendly, not professional and emotional need to be examined so that service quality could be improved and enhanced in zakat institutions.

Service quality in zakat institutions should be upgraded at least to the same level in the corporate sector. Providing service quality will always benefit the organization either in the short run or long run. For zakat payers, service quality is one of the key factors that can motivate them to pay zakat (Ram Al Jaffri, Muhammad Syahir, & Mohd. Amir, 2016). Whereas, in the eyes of zakat applicants, time taken to manage their zakat applicants will influence them to regard whether the service is quality or not. Fast or reasonable time taken to manage their zakat applicants would be considered as service quality and vice versa. All people in zakat institutions must work together to improve the service quality. Perhaps monitoring should be strengthen to make sure employees adhere to regulations relating to service quality.

Input from the interview suggested that service quality is also important in zakat institution's governance. This relate very much with the use of technology so that service quality of zakat institutions could be enhanced. For example JZNK, LZS and PKZ Pahang

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use their website to ease their zakat stakeholders to get the information, check their application status, download zakat form and get the contact number (Mohd Sani, personal communication, May 2, 2017; Wan Ritini, personal communication, June 19, 2017; Mohd Khairon, personal communication, June 20, 2017). Furthermore the use of Facebook, Whatsapp application and toll free provide a variety of alternatives and convenience to zakat stakeholders to choose their own preference on how they want to interact with zakat institutions.

From my view, service quality is important to all organizations. Therefore, the status of zakat institutions as nonprofit organizations should not be used as an excuse for them not delivering service quality. Customers of all types of organizations want the organization to deliver the best service to them. The satisfaction of this group of people will be at optimum level when they receive service quality. Therefore the focus on service quality should be the ongoing practise for zakat institutions. Effective strategy and plan must be designed and implemented on how zakat institutions can improve the service. Zakat institutions must not just happy with existing service they provide to the zakat stakeholders. They also should not assume that zakat stakeholders are happy or satisfy with the services provided by looking at the increasing amount of zakat collections. If they work sincerely and delivering best service, by god willing, zakat collection will increase at a higher percentage because zakat stakeholders feeling attracted and confident in zakat institutions. This will make their hearts inclined to pay zakat to zakat institutions.

4.8.5 Religiosity of Zakat Employees

Hypothesis 13 stated that religiosity is one of the dimensions of zakat institution's governance. The result of this study supported the above hypothesis. In this study, religiosity is the perception of zakat payers towards the importance of having religiosity in the governance of zakat institutions. Based on the ranking, religiosity was ranked fifth, therefore, religiosity become priority after IT, law, accountability and service quality to be given attention by zakat institutions.

Past studies recognize the important of religiosity in governance (Abdul Ghafar & Achmad, 2010; Almoharby, 2011; Mohd Zaidi & Mohd Sani, 2011). Religiosity is very significant because it could assist zakat institutions to achieve good governance (Mohd Zaidi & Mohd Sani, 2011). This finding also confirms the study by Hairunnizam et al. (2011) that found income level of the needy is significantly influenced by religiosity factor. Besides, Ram Al Jaffri (2010b) found religiosity influence the relationship between behavioral intention and subjective norm.

Religiosity can promote good governance in zakat institutions and therefore should be prioritized. Employees with good religiosity are expected to perform job better than those employees of moderate religiosity. Employees with good religiosity is important because they perform their job honestly and avoid themselves from trap caused by wealth. The wealth trap is not physically can been seen. But this trap able to pull human being into disaster (Hamizul, 2011). For example in the context of zakat institutions, there are isolated case where amil took zakat fund for himself and did not surrender it to zakat institutions.

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There are some part of the process in zakat institutions that can be improved via religiosity. For instance, the claim that zakat employees make when they perform outside work. Their claim will be exactly the same with the actual expenses they pay because good religiosity will make them fear of Allah (Mohd Zaidi & Mohd Sani, 2011). If zakat employees happen to deal with the suppliers, good religiosity will prevent them from closing the deal for themselves. In other word, religiosity will encourage Muslim employees to work professionally and at the same time hinder themselves from unethical business practices (Maheran & Nur Ain, 2014; Mohammad & Nor `Azzah, 2015). So, they will act in the best interest of the institutions and will avoid any conflict of interest. It should be noted that performance of zakat institutions will be affected if zakat employees lack of professionalism (Abd Halim & Nur Zehan, 2014).

Currently, employees at zakat institutions are seen as workers where they perform routine work given to them. These employees should be upgraded into the next level where they should become employees with good Islamic value. They not only perform their routine job but educate public through their good moral behavior.

Based on the interview, religiosity is important especially in zakat institution's governance since zakat institutions represent Islamic institutions. There are effort done by zakat institutions to assess the religiosity of potential zakat employees. For example, the candidates are asked to recite Al-Quran during the interview (Mohd Sani, personal communication, May 2, 2017). Although this practise is not formal since it is not written in the policy, the action is seen as appropriate since the public put high expectation on zakat institutions to preserve Islamic affair. So the religiosity level of zakat employees are

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expected to be higher than normal people (Wan Ritini, personal communication, June 19, 2017; Mohd Khairon, personal communication, June 20, 2017). Besides that, religious talk and class are emphasized for the existing zakat employees to enhance their religiosity (Mohd Sani, personal communication, May 2, 2017).

In my opinion, efforts to enhance religiosity of zakat employees must be implemented quickly. This is due to the fact that life and economic pressure experienced by today's society is at a very high level. This pressure will challenge zakat employees to perform their duties ethically. Although zakat institutions represent Islamic institutions but one cannot assume that zakat employees have high Islamic knowledge. Religiosity of zakat employees must always be upgraded. Therefore, zakat institutions must activate all sort of channels that can assist zakat employees to improve their religiosity. For example, zakat institutions can provide more religious class on a daily basis rather than once a week that have been practised before.

4.8.6   Participation

Hypothesis 8 stated that participation is one of the dimensions of zakat institution's governance. The result of this study supported the above hypothesis. In this study, participation is the perception of zakat payers towards the importance of having participation in the governance of zakat institutions. The result indicates that participation was ranked below IT, law, accountability, service quality and religiosity of zakat employees. Therefore, after considering the above variables, zakat institutions should pay attention and priority to participation.

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Past studies recognize the important of participation in governance (Schubert, 2008; Stuart, 2002). Participation is very significant because it could assist zakat institutions to achieve good governance (Aidit, 1989). This finding also verifies the study by Magowan (2010) that found participation can improve employees motivation and loyalty.

In corporate culture, participation of employees is encouraged to recognize the importance of employees in the organization (Hsieh, 2006; Lievens et al., 2007). This is because participation tend to increase employees satisfaction and retention (Churintr, 2010; Magowan, 2010; Rust et al., 1996).

Unfortunately, at the moment, participation is not widely practiced in zakat institutions. Many zakat institutions that adopt conventional structure still use top down approach in their organization. Under this approach, decision is made at top level without taking into consideration input from employees at bottom level.

Hopefully, zakat institutions can imitate the practice in corporate sector that give more recognition to employees participation. This concept can be used to allow their employees to throw ideas. This can motivate employees and make them feel that the decision making is a collegial decision. Thus making them happy to implement it since they agree with the decision and thus it become their responsibility to ensure its success. In addition, participation could be enhanced via reward. Those employees who give significant contribution should be rewarded to increase their motivation.

Findings from the interview with three zakat institutions found that participation of employees in decision making is encouraged. Experience at JZNK shows that participation is promoted to encourage team work spirit and sense of belonging (Mohd Sani, personal communication, May 2, 2017). In the case of LZS, selective participation is practised since decision making is made at various level. Decision making that relate to operational activity tend to have high participation from the employees compared to decision making that relate to strategic future of the organization (Wan Ritini, personal communication, June 19, 2017). For PKZ Pahang, participation from the employees tend to increase compared to the past 3 years and has 3 level (Mohd Khairon, personal communication, June 20, 2017). Overall, employees at zakat institutions are given more freedom to express their views to strengthen the governance.

In my opinion, zakat institutions should give more space to their employees to involve in decision making process. Sometime, employees with vast experience could give valuable ideas to the organization as compared to managers at top level. If we refer to the history of our Prophet Muhamad PBUH, we will notice that there are incidents where our Prophet PBUH listened to the ideas given by his companions. For example during Khandaq War, Salman al Farisi gave the idea to dig ditch as a strategy to slow down the enemy. Obviously, that idea really work and contributed to the success of Muslims soldiers in that war. This suggest that sometime great idea come from lower level people. So in the case of zakat institutions, if participation is not practised, zakat institutions lose the opportunity to get great ideas that can help them to cope with the challenges that exist in their organizations.

4.8.7 Enforcement

Hypothesis 15 stated that enforcement is one of the dimensions of zakat institution's governance. The result of this study supported the above hypothesis. In this study, enforcement is the perception of zakat payers towards the importance of having enforcement in the governance of zakat institutions. Based on the ranking, enforcement was ranked seventh. Therefore, priority that should be given by zakat institutions to this factor must be after IT, law, accountability, service quality, religiosity of zakat employees and participation.

Past studies recognize the important of enforcement in governance (Dambachultem & Sodno, 2006; Morita & Zaelke, 2005; OECD, 2005). Enforcement is very significant because it could assist zakat institutions to achieve good governance (Aidit, 1989; OECD, 2005). This finding also confirms the study by Bhasin (2005) that found better enforcement support compliance to corporate governance rules. Besides, it also being noted that individuals will be driven to carry out their responsibility via enforcement (Kamil, 2002).

Zakat institutions need to ensure that the law is enforced because enforcement also can promote good governance in zakat institutions. Not point to have good and effective law if it is not enforced. There are findings that revealed that zakat institutions were not enforcing zakat law (Aidit, 1989). Probably this occur because enforcement require extra human resource and zakat institutions don't have enough human resource and expertise to enforce it. Besides, currently all zakat institutions show good increment in zakat collection. Therefore there is no urgency to bother about enforcement. In addition,

enforcement requires punishment to be given to those who refuse to pay zakat. However, in our Malay culture, the feeling of sympathy is high and it usually end up not taking any action to the offenders.

Therefore to encourage enforcement, strong support from top management of zakat institutions is needed. If enforcement is not carried out, a perception that nothing will happen if zakat is not paid will arise and start giving negative effect in the long term.

The input from the interview suggested that enforcement too is vital in the governance of zakat institutions. However they admitted that enforcement is a bit challenge to them since it require strong support from their limited human resources and top management. In addition, effective enforcement also require effective law. To make enforcement effective, a change of mindset is needed at the top management level since they are vested with authority to make decision. However, the initiative to apply enforcement is slow because top management still believe on the principle that it is better to educate rather than to punish (Mohd Sani, personal communication, May 2, 2017; Wan Ritini, personal communication, June 19, 2017; Mohd Khairon, personal communication, June 20, 2017).

From my perspective, since enforcement is important, zakat institutions should not give face to zakat payers who do not perform their obligations. In Islam, we are encourage to ask our children to perform prayers. If they turn to 10 years old and still do not pray, we can punish them. This shows that Islam allows punishment as a way to educate people. So zakat institutions should use enforcement in the same manner. Zakat institutions must show their seriousness in enforcing zakat law so that zakat payers will pay zakat when

they see the effect from the enforcement imposed on them. Zakat payers will no longer take things for granted as they aware the punishment that they will receive if they disobey the zakat law. Lack of employees to perform the enforcement should not be used as an excuse. If zakat institutions really want to enforce zakat law, they should have proper planning on how to execute it. With the expertise surrounding zakat institutions, enforcement suppose not to be the big problem to them.

4.8.8   Audit Committee Independence

Hypothesis 4 stated that audit committee independence is one of the dimensions of zakat institution's governance. The result of this study supported the above hypothesis. In this study, audit committee independence is the perception of zakat payers towards the importance of having audit committee independence in the governance of zakat institutions. As anticipated, audit committee independence was found to be one of the dimension in the governance of zakat institutions. Based on the ranking, execution priority for audit committee independence is number eight. Even so, it still very important to zakat institution's governance.

Past studies recognize the important of audit committee independence in governance (Abbott et al., 2004). The impact of good audit committee independence is very significant because it could assist zakat institutions to achieve good governance (LZS, 2010b; PPZ-MAIWP, 2010a). This finding verifies the study by Abbott, Parker and Peters (2004) that found by improving independence of audit committee, role of audit committee in the financial reporting process could be elevated. In many cases the governance of an

institutions is jeopardized because audit committee independence is low. Carcello and Neal (2000) supported the statement where their studies found that when audit committee independence is low, the issuance of going concern report is also low.

The findings shown that audit committee independence play an important role in governance of zakat institutions. The existence of this variable assist zakat institutions in effectively monitoring the management and governance activities. Since zakat institutions need support from audit committee to strengthen their governance, member of audit committee must have greater independence to perform their role effectively. As such, member of audit committee should be extended to outsider such as academician to portray more independence and confidence in the governance of zakat institutions. Furthermore, in developing good governance for zakat institutions, it requires zakat institutions to have good audit committee independence that can monitor and provide unbiased opinion to zakat institutions. Therefore, it is essential for zakat institutions to give emphasis on the selection of audit committee member so that their independence can be optimized.

In addition, it was observed that fully privatized and partial privatized zakat institutions gain a lot of benefits from audit committee independence especially to prepare them for external audit (Norazlina & Abdul Rahim, 2013). Therefore audit committee independence should be given primacy by all zakat institutions especially conventional zakat institutions. This is because conventional zakat institutions was found to give less emphasis on this variable (Norazlina & Abdul Rahim, 2013).

Audit committee independence assist zakat institutions in term of obtaining opinion that is free from conflict of interest. With that, decision making will benefited the zakat institutions as a whole and thus helping zakat institutions to attain their goal of providing social economic justice to Muslim society.

Therefore it is suggested that zakat institutions thoroughly review the candidates before they are appointed as audit committee member to preserve their independence. Whereas for zakat institutions that already appoint audit committee member that is not independence, action should be taken by changing them with other independence member after their tenure. Or if drastic changes are required, they must be replaced straight away to uphold the image and reputation of zakat institutions.

Zakat institutions can learn the lesson from the corporate environment by giving emphasis to audit committee independence. However, not all zakat institutions have audit committee in their organization (Norazlina & Abdul Rahim, 2011b). The absence of audit committee in some zakat institutions may jeopardized the effort to obtain excellency in governance. This will give direct impact to audit committee independence because without audit committee, the benefit from audit committee independence cannot be realized. From this findings, zakat institutions without audit committee should make their move to establish their own audit committee so that they can elevate their performance to be at par with other zakat institutions that have audit committee. Zakat institutions also need to utilize the audit committee independence so that its governance can be put at the highest level.

The interview with zakat institutions provide input that audit committee independence is vital in the governance of zakat institutions. For LZS, audit committee independence is useful to reduce bias in the meeting that could affect the decision making. Furthermore, audit committee independence assist to restore corporate image since public tend to trust zakat institution more when that variable exist (Wan Ritini, personal communication, June 19, 2017). Whereas for JZNK and PKZ Pahang, audit committee independence enable them to improve monitoring functions in the management activity and make the governance of zakat institutions more effective (Mohd Sani, personal communication, May 2, 2017; Mohd Khairon, personal communication, June 20, 2017).

In my opinion, the appointment of audit committee members must be done carefully by zakat institutions. This is to avoid zakat institutions appoint a member of audit committee that have low independence. This situation can exist when a person appointed as audit committee member have special relationship with top management. Normally, this incident occur when the appointment of audit committee member is done in short notice. So probably the screening and filtering committee do not have enough time to scrutinize the candidate. Therefore, zakat institutions must provide ample time so that screening and filtering process can be effectively done.

4.8.9 Audit Committee Diligence

Hypothesis 6 stated that audit committee diligence is one of the dimensions of zakat institution's governance. The result of this study supported the above hypothesis. In this study, audit committee diligence is the perception of zakat payers towards the importance

of having audit committee diligence in the governance of zakat institutions. It was found that audit committee diligence also play an important role in governance of zakat institutions. This variable able to support zakat institutions by evaluating the decision made and provide feedback for improvement. Based on the ranking, execution priority for audit committee diligence is at number nine.

Past studies recognize the important of audit committee diligence in governance (Abbott et al., 2003; Menon & Williams, 1994; Norman et al., 2007; Song & Windram, 2004). Audit committee diligence is very significant because it could assist organizations to achieve good governance (Cadbury Committee, 1992; Rezaee et al., 2003). This finding also verifies the study by Menon and Williams (1994) that found audit committee diligence can improve monitoring efficiency.

Norazlina (2013) observed that audit committee diligence was given more emphasize by fully privatized and partial privatized zakat institutions compared to conventional zakat institutions. This is quite easy to understand because fully privatized and partial privatized zakat institutions imitate the concept from the corporate sector and apply them in their organization. Since corporate sector always go for continuous improvement, their standard is maintained at high level. Whereas for conventional zakat institutions, the awareness for good governance is still low because many of them did not benchmark the best practice from corporate sector (Norazlina & Abdul Rahim, 2013).

Zakat institutions need to frequently conduct the audit committee meeting to monitor its governance efficiency. Frequent meeting allows the audit committee to effectively

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monitor the activity in the institutions and thus improving the role of audit committee (Abbott et al., 2003; Norman et al., 2007). In addition, frequent meeting will send signal to top management that their action is being monitored. This could preventing them from committing fraud since they know that someone is monitoring them (Rezaee et al., 2003).

It is suggested that zakat institutions give greater emphasis to audit committee diligence. It can be done by establishing the audit committee for those institutions without audit committee. Then audit committee meeting can be arranged after the establishment of audit committee. For zakat institutions that already have audit committee but not very active, they should activate the audit committee meeting to at least 3 times per year. The frequency of audit committee meeting which is 3 times per year is what currently being practiced by the corporate sector.

In contrast, low number of meeting will tend to make audit committee member lost track about what is going on in the zakat institutions. Low number of meeting will lead to loose monitoring and this will create opportunity for a person to commit fraud (Menon & Williams, 1994).

Some zakat institutions are still lacking in term of monitoring activity due to the absent of audit committee (Norazlina & Abdul Rahim, 2011b). Since it is already proven that audit committee diligence will add positive value to the zakat institutions, the effort to establish audit committee should be intensified. Only with the present of audit committee then the meeting can frequently arranged. Therefore it is urged that top management of zakat institutions look into this matter seriously to enhanced their governance efficiency.

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Based on the interview, it was found that audit committee meeting is seen as important factor in the governance of zakat institutions. Zakat institutions are conducting audit committee meeting more than what has been rule to them by Accountant General's Department. The practise is done to ensure that they fulfill the key performance indicator (KPI) that being set and to promote confidence among zakat stakeholders (Mohd Sani, personal communication, May 2, 2017; Wan Ritini, personal communication, June 19, 2017; Mohd Khairon, personal communication, June 20, 2017).

From my point of view, it would be enough for zakat institutions to meet the minimum requirement set by Accountant General's Department which is to have audit committee meeting at least 3 times per year. The current practise by zakat institutions to convene an audit committee meeting more than what is prescribed may be considered a bonus. Although increasing the number of audit committee meeting will also involve the increment in cost, but if the benefit from having that meeting outweighs the cost then it should be carried out. Zakat institutions should give first priority to the interests of the community rather than to think about the increment in cost such as meeting allowances, food and other related cost if they have more audit committee meeting.

Overall, system in zakat institutions experience huge improvement over the past 5 years due to intense pressure from zakat stakeholders. Zakat institutions put good efforts for continuous improvement in order to place their governance system at supremacy level. Zakat institutions are keen to make their institutions at least at par with other Islamic institutions and always refer to their counterpart in the corporate sector as benchmark. However, zakat stakeholders cannot expect drastic changes as this things cannot be solved

overnight. Continuous improvement is promised to the zakat stakeholders but not at fast pace since zakat institutions have to prioritize their focus due to limited zakat fund (Mohd Sani, personal communication, May 2, 2017; Wan Ritini, personal communication, June 19, 2017; Mohd Khairon, personal communication, June 20, 2017).

4.8.10 Board Size, Board Independence, Board Expertise, Audit Committee Expertise, Leadership, Transparency and Zakat Institution's Governance

Overall, the results of the study show that board size, board independence, board expertise, audit committee expertise, leadership and transparency are perceived by the zakat payers as not important in zakat institution's governance. The possible explanation for this could be due to differences in nature of this study when compared to the previous studies. Most of the previous studies were tested in the corporate sector organizations whereas the current study for the first attempt try to apply those concepts in nonprofit organizations that is zakat institutions.

Specifically, corporate sector organizations and zakat institutions varies in several ways. First, corporate sectors and zakat institutions have different goals. The ultimate goal of corporate sector is to maximize profit while for nonprofit organization like zakat institutions, the goal is to provide social justice and better services to the public. Thus, more pressure is faced by corporate sector to always remain competitive as compared to zakat institutions in achieving their goals. In other words, the status of zakat institutions as nonprofit organization actually gives them less pressure to show excellence performance.

Second, corporate sector also differ from zakat institutions from the aspect of motivation. Corporate sector is often motivated via monetary incentives such as performance-based bonuses while in zakat institutions, this practice is less obvious because they are motivated by the need to provide better service to the public. Lastly, the environment of zakat is unique and different from corporate sector. This is because zakat institutions operate in loosely regulated environment but for corporate sector organizations, the environment is tightly regulated. That is why although these factors are very strong and played significant role in corporate sector but they are viewed as not important in zakat institution's governance.

In addition, there are also justifications that relates specifically to some of the variables in this study. For example, audit committee expertise is perceived as not essential in zakat institution's governance. At the moment, maybe there is possibility for zakat payers which perception that zakat institutions have audit committee with good expertise and experience. Such perception tend to give credit to zakat institutions because this allows the audit committee expertise to be viewed as steady and reliable. Furthermore, zakat institutions also are able to monitor effectively via the existing audit committee expertise. Therefore, audit committee expertise is perceived as not important in zakat institution's governance since zakat payers believed that the current audit committee expertise is already good so there is no need to improvise audit committee expertise.

However there is new development in the context of religious institutions where shariah audit start to emerge. Since shariah audit can be considered as a new emerging field in Malaysia, therefore this field need to be explored by religious institutions like zakat

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institutions. Furthermore, knowledge for shariah audit is still limited and thus limiting the references in this field. This shows that there is lack of expertise in shariah audit in the context of religious institutions. Therefore it is the high time for education institutions like public universities to contribute their idea and knowledge to strengthen shariah audit. Criteria for financial expert is normally not available to shariah audit because the shariah audit concern more with expertise in religious field to express opinion relating to religious law. Therefore zakat payers perceived that audit committee expertise is not important as long as zakat payment is in line with religious requirement. This suggest that in zakat institutions, religious expertise is more important than audit committee expertise.

In the context of leadership, currently, leadership of zakat institutions are seen to have strong background of religious knowledge and is not under dispute by any party. This shows that the leadership of zakat institutions are recognized in their struggle to ensure social justice. So, zakat institutions is viewed as successful in using the power of leadership to influence the organization. This implies that organizational goals can be achieved through the leadership of the existing zakat institutions. At the same time, the current leadership is seen as capable of bringing together the leaders and workers. Furthermore, the current leadership is also seen to have a good quality of management and it is evidenced by the increment of zakat collection every year. In addition, leadership in zakat institutions is perceived as the state autonomy where the religious power is vested under Sultan or King. Whereas for states without monarchs like Penang, Malacca, Sabah and Sarawak, the ultimate leader is the head of state or '*Yang di-Pertua Negeri*'. Zakat payers perceived that leadership factor is not becoming important issue in the context of zakat institution's governance at this moment. Current leadership in governance of zakat

institutions is perceived at satisfactory level and zakat payers are indifferent about it as long as they can calmly fulfill their responsibility towards the religion. Zakat payers also perceived that leadership in zakat institutions is less crucial than the corporate sector since leadership in corporate sector play bigger role in achieving their goals of profit maximization. That perhaps the possible reasons why leadership is perceived as not important in zakat institution's governance.

Meanwhile, in the context of transparency, it relates very much with the sharing of information about the performance of the organizations with its stakeholders. In the corporate sector, this normally done via the published of annual report since the law has made it compulsory for every listed company to do so. However, for the nonprofit organization such as zakat institutions, the published of annual report is not mandatory. Hence, some zakat institutions might take it seriously in sharing the information while other zakat institutions do not bother about it. It was found that so far only two zakat institutions are proactive in taking the initiative to prepare and publish the annual report in their websites. A credit should go to LZS and MAIWP who take the initiative in playing this voluntary role. Meanwhile, majority of zakat institutions still do not take the initiative to produce the annual report as a channel to communicate the information to their zakat stakeholders. This practise has made transparency being seen as not important in the eyes of zakat stakeholders because transparency is not widely practiced by zakat institutions. Therefore, zakat stakeholders perceive that zakat institutions promote less transparency compared to its counterpart in the corporate sector. This perception arise due to the difficulty faced by zakat stakeholders in getting the information from zakat institutions in the organized manner that is in the form of report.

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4.9   Conclusion

This chapter reveals the results from the analysis conducted and the discussion related to it. Descriptive statistics reveals that the majority of respondents for this study were female who make up 60.8%. The data that is used in this study has undergone a very tight filtering process where response bias, missing data and outliers tests have been performed to get rid of problem data. Filtering process that is undertaken is the common practice recommended to this kind of research. In addition, tests for multivariate assumptions are also performed via normality, linearity, homoscedasticity and multicollinearity tests. This gives some sort of guarantee that the data used for the analysis is quality data. 9 variables manage to stand until final respecification to offer the model that could be used by zakat institutions to address its governance issues. These variables are the results of in-depth EFA and CFA at the first and second order. In this study, the standard indices that have been used to evaluate goodness of fit model are GFI, RMSEA, TLI, CFI and AGFI. The application of these indices produce valuable data that is important to offer meaningful discussion and are ranked based on its magnitude of strength. The discussion in this chapter is more or less touch about the model of zakat institution's governance that have been developed and the implication it could provide to theory, measurement and policy.

CHAPTER 5

CONCLUSION AND RECOMMENDATION

5.1   Introduction

This chapter is divided into seven sections. Section 5.1 presents the introduction for this chapter. Next, section 5.2 gives the summary of the study which cover background, objectives, methodology and findings. Section 5.3 presents the implication to theory whereas implication to measurement and policy are presented in section 5.4 and 5.5 respectively. Then, section 5.6 presents conclusion of the study and section 5.7 wrap up the chapter by presenting the recommendation for future research.

5.2   Summary of the Study

Zakat plays a very significant role in Muslim society where it has the objective to uphold economic and social justice. However, this role cannot be played effectively since the public has low confident towards zakat institutions. Reports and studies indicated that zakat payers are the dominant group that have low confident towards zakat institution's governance.

Agency theory and stakeholder theory are used as underlying theory to understand the issue in this study. Literatures widely discuss the association between these theories with governance especially in the corporate sector. While its association in the zakat institutions still remain mysterious. Therefore, these theories are expected to provide a good fundamental in addressing governance of zakat institutions.

Zakat institutions at this point have different governance and this makes it difficult to know which one is the best. This study is significant to see good governance that should be practiced by zakat institutions in every states. It is believed that zakat institutions with good governance will increase public confidence. Thus, it is expected that by improving governance of zakat institutions, indirectly, it will assist in addressing the low public confident towards zakat institutions.

Two objectives are put forward for this study. The first objective is to identify the constitution of zakat institution's governance. Next, the second objective is to examine the magnitude of the variables in zakat institution's governance.

To achieve the objectives of the study, the data was collected via questionnaires from zakat payers in three states i.e. Selangor, Pahang and Kedah. The population of zakat payers for Selangor, Pahang and Kedah in the year 2010 is 2,644,185; 949,883 and 857,738 respectively. The sample is chosen using simple random sampling method from the list of zakat payers in 2010. 1,000 questionnaires were sent to the respondents and only 341 questionnaires can be used for statistical analysis purposes.

Data analysis for this study involve four phases. The first phase is data filtering process and three types of data filtering that have been carried out are response bias, missing data and outliers. After the filtering process is carried out, only 431 data is fit for subsequent process. Next, at second phase, the data is tested to see whether it fulfill multivariate assumptions. Four tests are performed, namely normality, linearity, homoscedasticity and multicollinearity. For normality, only religiosity variable is not normal. This variable is

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then transformed using logarithmic transformation to make it normal. Next, linearity test is performed and the result suggests that linearity assumption has been fulfilled. Homoscedasticity assumption also being fulfilled after the result shows that the p value is not significant. Lastly, multicollinearity test is carried out and the result shows that the data does not have multicollinearity problem.

After passing the second phase, the data is then analyzed at the third phase which is at exploratory factor analysis. The purpose is to see whether the prerequisite for factor analysis is fulfilled or not. The prerequisite such as alpha value, item correlation, KMO and BTOS must be satisfied to justify the use of factor analysis. The result shows that factor analysis can be used since the alpha value is more than 0.7, KMO value for all the variables is more than 0.5 and BTOS is significant.

Next, at fourth phase, the variables have been tested at confirmatory factor analysis using SEM. The analysis is to evaluate the position of reliability, validity and goodness of fit at first and second order level. The result of this analysis can be used as a basis to answer objectives of the study.

The result of the study from 60.8% female respondents and 39.2% male respondents reveal that research objectives have been achieved. For the first objective, the research findings are able to identify nine variables that constitute zakat institution's governance. Those variables are audit committee independence, audit committee diligence, participation, accountability, service quality, information technology, religiosity of zakat employees, law and enforcement.

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For second objective, which is to examine the magnitude of the variables in zakat institution's governance, confirmatory factor analysis reveals information technology has the highest magnitude in zakat institution's governance. Then, it is followed by law which recorded the value of 0.780 in term of factor loading. Accountability secured the third place with 0.713. Service quality is ranked fourth place with 0.658 whereas religiosity of zakat employees recorded the value of 0.649 to earn the fifth places. The remaining variables which is participation, enforcement, audit committee independence and audit committee diligence recorded the value of 0.642, 0.607, 0.581 and 0.514 respectively. All variables have three items except audit committee diligence with four items.

5.3   Implication to Theory

The development of agency theory and stakeholder theory were discussed in details in chapter 2. Although the origin of these theories came from the corporate sector, its relevance to other sector including zakat institution is still valid (Fama & Jensen, 1983).

Many existing theories that relates to governance originated from western countries. Application of these theories to other context requires new research to test its connectivity to the existing theories (Tsui, 2006). This is necessary because theories from western are based on traditions that are specific to western culture. Same things applies for this study. Although the agency theory and stakeholders theory are used greatly in governance studies, but the context is limited to western context and so far not been applied in nonprofit organization like zakat institutions.

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This study gives several implications to agency theory and stakeholder theory. In general the result shows the suitability of these theories to understand zakat institution's governance. In zakat field where its environment is unique that is where the law is not seriously enforced, studies based on these theories are hardly found. These theories are frequently used in corporate environment but so far are never been used in Islamic institutions like zakat institutions.

Variables like board size, board independence, board expertise, audit committee independence, audit committee expertise and audit committee diligence were introduced to address agency problem and thus offer protection to shareholders. From these variables, audit committee independence and audit committee diligence are two variables of agency theory that are significant in addressing the research objective. On the other hand, stakeholder theory complements the agency theory by offering protection also to the stakeholders. In this study, information technology, law, accountability, service quality, religiosity, participation and enforcement are seven variables of stakeholder theory that are significant in addressing the research objective. The results strengthen the usage of these theories in nonprofit institutions like zakat institutions.

5.4   Implication to Measurement

Research instrument plays a vital role in constructing a strong conceptual framework. Every instrument need to have a good position of reliability and validity. This is to ensure that the empirical findings are accurate and free from error. This study is also no exception. Every factor in this study undergoes several level of analysis so that a reliable and valid

model can be constructed. Measurement analysis of research instrument is strong and passing the required position as suggested in the literature. Therefore, measurement scale in this study can be applied to other variety field of research.

The result of the study approve that confirmatory factor analysis has advantage compared to exploratory factor analysis. Basics dimension resulting via exploratory factor analysis was found not so robust in terms of unidimensional, reliability and validity. This can be seen when the position of these dimensions changed when it go through confirmatory factor analysis. For example, all 15 dimensions passed exploratory factor analysis, but only 9 dimensions surpassed confirmatory factor analysis. The results support Byrne (2010) and Hair et al. (2010) that exploratory factor analysis is only suitable to be applied for the purpose of filtering and reducing the data in determining the number of dimension, whereas confirmatory factor analysis give confidence that dimensions that is formed have strong level of reliability and validity.

The findings also show that the formation of second order model has advantage in constructing good measurement model. This is because every dimension will be tightly filtered and will be considered successful only if the goodness of fit is achieved. Therefore, second order measurement model makes a model to have characteristics such as prudence, easy and useful.

The advantage of SEM analysis over traditional multivariate statistical analysis such as multiple regression analysis was also showed in this study. The measurement model

analysis suggested a strong governance model to zakat institutions in order to enhance stakeholders' confidence. The proposed model is obtained via thorough SEM analysis.

5.5   Implication to Policy

Public confident towards zakat institutions in Malaysia is still low. The main reason that contributes to the problem is the inefficiency in the governance of zakat institutions. This phenomenon requires empirical evidence to understand the factors that influence it in more depth. If reasons relating to the governance are well understood, zakat institutions could formulate strategy to improve public confident in the future. Besides, no zakat literatures specifically are carried out to explain the phenomenon about the governance of zakat institutions. Therefore, this study provides explanation to the above phenomenon by applying agency and stakeholder theories and past studies relating to zakat governance.

It should be noted that zakat management differ between the states. This is because each state has their own autonomy to decide their management structure. This differences has created a diverse perspective among zakat payers on the governance of zakat institutions. It should also be noted that the perspective of zakat payers need to be addressed since dissatisfaction towards zakat institutions are mostly come from them. Therefore, it is the perspective of zakat payers that matter about which management structure that should be practiced. This study answered in general what should be embedded in zakat institution's governance.

5.5.1 Information Technology

Zakat institutions must take advantage of current technology to achieve its mission since IT is very significant to improve governance. So zakat institutions must not afraid to invest in IT. This can be done by improving IT infrastructure so that zakat institutions can run their operation smoothly and efficiently. For example, a better system can be used for zakat application. The traditional way of filling the form to apply zakat fund is time consuming, paper wasting, prone to mistake and quite troublesome to some applicants especially old people. In this IT era, zakat institutions need a system where the applicant just need to hand over his or her identity card then the system can capture all the necessary information. This method will give the utmost pleasure to the applicant compared to the traditional way.

IT also can assist the dissemination of information to zakat stakeholders. Nowadays, the number of zakat stakeholders who have good computer literacy has increased, therefore the demand for the use of IT in the dissemination of information is very high. Zakat institutions should maximize the use of IT in disseminating the information. It is very important that zakat stakeholders receive sufficient information so that misunderstanding and worries can be avoided. With the use of technology, the dissemination of information can be done via website. The use of website can help zakat institutions to disseminate information in much more convenience way, fast and inexpensive. So websites of zakat institutions must be upgraded to become more attractive, meaningful, always up to date and user friendly. The usage of IT in this matter can assist zakat stakeholders to access the information from zakat institutions wherever they are and it also can potray that zakat institutions are transparent.

Besides, investment should be made also on IT staff so that zakat institutions have skilled IT staff to handle matters relating to IT. There is no point of having great IT infrastructure if the staff of zakat institutions are not capable to manage it. Some zakat institutions delegate IT matters to staff who are not proficient in IT. Although their action can be seen as strategy to save cost but the impact from it is very harmful because this staff cannot solve problem related to IT when it occur.

5.5.2   Law

Zakat institutions should give serious attention and take necessary actions to strengthen existing law. Zakat law must undergo transformation process so that it could reach respected level. Zakat law also must be strict enough to encourage compliance behavior of zakat payers. For example, Muslims in Malaysia who eligible to pay zakat but did not do so will be subject to legal action which is being fined or imprisoned. Zakat law should use concepts such as income tax payments to the Inland Revenue Board (IRB) to stipulate that anyone who does not pay to IRB will be taken action. However before zakat law can be legalized, discussion about this matter must be seriously made and views from various parties in drafting the new zakat law must be obtained.

This can be done by mobilizing Islamic law experts to review and amend the existing zakat law so that it is more practical with the current environment. The updated law should be clear, comprehensive and provide appropriate penalty to offenders. Effective law will increase compliance behavior of zakat payers to pay zakat only to zakat institutions. Thus,

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payment of zakat directly to zakat recipients can be eliminated. This in line with ruling that say zakat is valid only if payment is made to zakat institutions.

Effort to introduce zakat law to public also must be intensified. At the moment, many people does not know about zakat law. Knowledge about zakat law should be inculcated because it can influence behavior of zakat stakeholders. For example potential zakat payers would know that they have the obligation to pay zakat only to zakat institutions. This can prevent action such as paying zakat directly to zakat recipients who in their eye is eligible to receive zakat.

Besides, promotion about zakat law should also be intensified. The traditional way of distributing information through flyer can still be carry on. However, the alternative way should be explored also. This can be done in many way, the current way is via social media where information about zakat law can be sent through WhatsApp, Facebook and other social media channel. Information should be frequently sent to alert the people. Therefore, information about zakat law must be short and precise so that readers can easily digest the information. In addition, series of quizzes about zakat law that offer interesting prizes could also be held to encourage people to know more about zakat law.

It is time for every zakat institution to have a strict law. Zakat institutions can refer to Income Tax Act 1967 as a guideline in streamlining the zakat law. The penalty like fine and jail is seem a bit harsh but sometime it is the only effective way to educate stubborn people.

5.5.3   Accountability

Zakat institutions must ensure the accountability concept is embedded in its operation. Employees with high accountability awareness tend to pursue organizational goal rather than their own personal goal. There are several ways zakat institutions can foster accountability in their organizations. First, perhaps zakat institutions can take initiatives to review back their objectives. Accountability becomes difficult if the employees confuse with the role they should play due to lack of clarity of objectives. Therefore the objective of zakat institutions should be clear, concise, measurable and achievable so that accountability can be improved.

Zakat institutions also need to conduct frequent follow-up on decision taken. For example, regular follow-up on the provision of capital to zakat recipients in conducting the business. The report should be constantly updated so that the progress of the business can be monitored. Zakat institutions should not assume that their responsibilities were completed after the fund was given. If the report reveals that the business is not running as planned, immediate action should be taken to rectify the problems. This is necessary to ensure that the goals can be achieved by identifying what needs to be done to achieve it.

In addition, zakat institutions should also be concerned about rewarding the employees when the objectives have been achieved. For example if goals for zakat collection has successfully been met, the employees who most contributed to the achievement of these objectives should be rewarded accordingly. Rewarding the employees for their excellence performance can foster accountability environment in zakat institutions.

However, zakat institutions need to be caution if they exercise punishment to the employees when the objectives are not achieved. This is because punishment will sow fear to their employees. This will bring negative effect such as the employees will not dare to speak up or try something new. As a result, this leads to a loss of innovation and employees are afraid to take risks in the organization.

Workplace environment that contribute to accountability does not appear overnight, strong support from leaders are required to stimulate success of having accountability in zakat institutions. This is because leaders have strong influence on employees and they have power to make decision. Since accountability is fundamental to the existence of an organization which is constantly learning, so leaders must motivate their employees to always learn and improve themselves. This is important so that improvements can be carried out continuously.

5.5.4   Service Quality

Stakeholders of zakat institutions are very concern with service quality provided by the zakat institutions. Service quality of zakat institutions can influence zakat payers to perform their obligation. The result reveals that service quality is one of the important factors in good zakat institution's governance. Zakat institutions must focus and improve its service quality to enhance public confident towards its governance. This is consistent with previous studies that a good perception of service quality will generate public confident (Kamil, 2002). Besides, service quality of zakat institutions is capable to influence one's perception on certain behavior. Thus, zakat institutions need to improvise

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public perception towards their service quality. It is recommended that aspects of service quality that need to be focused are customer quality and management quality.

Customer quality can be achieved by improving the way zakat institutions treat their customer. Customers are the king so their desire need to be fulfilled to maximize their satisfaction. The way the customers are greeted when they visit zakat institutions, the way they are treated during the phone call, time taken to serve them and the facilities at zakat office, all these are matters that need improvement from zakat institutions if they honestly want to deliver service quality. For example, it was observed that some zakat institutions does not pay attention to the layout of their zakat counter which make their office far behind if comparison is made with successful corporate office. Therefore, the layout of zakat counter should be improved to impress their customers. If this requires investment, zakat institutions must not hesitate to invest so that better service and comforts can be provided to their customers.

Meanwhile, in term of management quality, it can be improved by appointing credible people to be in the management team so that they can drive zakat institutions towards excellence. This group of people with great ability and good experience would have clear vision where zakat institutions should be headed. Management quality will surge the reputation of zakat institutions in the eye of zakat stakeholders.

5.5.5 Religiosity of Zakat Employees

The result reveals that religiosity is important in zakat institution's governance. Therefore, zakat institutions can take proactive action by emphasizing this element in their governance. Since zakat institutions are closely related with religion, employees who are working in zakat institutions are perceived as having characteristic of good Muslim. Therefore, zakat employees cannot make mistakes because any mistakes made will impair the perception of zakat stakeholders. Zakat institutions need to ensure that all of its employees have good religiosity although some of them do not have background in Islamic field.

Zakat institutions can promote religiosity in the organizations by reviewing back their recruitment procedures. This is important because zakat institutions require good employees so they need to scrutinize the candidate for zakat employees before them being absorbed into zakat institutions. The process of scrutinizing can be done in many ways, for example the existing procedures that only give emphasis on academic qualification should be revised. Besides academic qualification, religiosity of the candidates should be assessed also to create balance personality. Recruitment is the entry point for the potential employees to join the organization. Those potential staff with good level of religiosity will be given priority beside their academic qualification. For example during the interview, questions relating to smoking, jemaah prayer, recitation of Al-Quran, reading on Islamic book, attending religious class and voluntary fasting can be asked to assess their religiosity. From there, zakat institutions can reject applicants who smoke because smoking is gazetted as illicit. Smoking indicates that smokers do not obey the commandment from Allah and thus cannot be trusted to become responsible employees if

appointed. Likewise, female applicants who do not wear hijab should not be shortlisted since their religiosity can indirectly be measured via their appearance. Those people who do not fear Allah normally willing to do anything to please their lust and their action might be risky to zakat institutions and thus jeopardize the goals that have been set.

Whereas for existing employees, encouragement should be made for them to perform the compulsory prayer in jemaah to strengthen the fraternity of zakat employees. Those employees who practise it will become valuable employees to the organization. Besides, opportunity should be given to them to strengthen their Islamic knowledge and add value to zakat institutions. Zakat employees must be encouraged and assisted to improve themselves. This can be done by allowing them to join religious class and providing them with religious books. This bring several benefit such as public can see zakat employees as knowledgeable employees, carry Islamic identity and could guarantee the prosperity of the zakat institutions. Therefore, top management of zakat institutions who attempt to bring changes in employee behaviours in their organisations need to integrate religiosity in their governance.

5.5.6 Participation

Zakat institutions can also focus on participation as one of the ways to improve its governance. Zakat employees who being recognized through participation will be more motivated to serve better and will enhance their responsibility towards the organization. Participation can be done by involving key zakat employees in discussion and policy making. Key zakat employees is identified based on his or her position and experience in

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zakat institutions. Accumulated knowledge generated by key employees while working in zakat institutions will give valuable information to zakat institutions when proposing new policy for improvement. This is because the new policy that zakat institutions want to introduce have taken into consideration all important aspects related to it. Therefore, zakat institutions can ensure that the new policy will be free from drawback because all necessary inputs have been considered and thoroughly analyzed before the policy is introduced. So it can be said that zakat institution's governance will be reliable when management of zakat institutions is sensitive to the opinion of its employees, encourage them to speak up and contribute idea.

Meanwhile, from the perspective of employees, they see participation as something positive to them because participation allow them to voice out their concern. If the key employees are involved in policy making, then employees will have representative who know in great detail what their job specification and able to provide accurate information to top management. Top down approach is no longer suitable in the contemporary environment. This is because top management do not really know in detail since they do not involve with the activities directly so what they propose in the meeting might not be the best solution because the problem not accurately determined.

Another initiative that zakat institutions can take is to establish amil association. This association must be established at national level so that it can strengthen the cooperation between amil in Malaysia and resolve several issues that differ among the states. Amil association can provide useful inputs to zakat institutions when they want to establish new policy relating to zakat collection and zakat distribution. For example they can make

recommendation to top management about what kind of assistance that is required and suitable for zakat recipients.

5.5.7 Enforcement

The result reveals that enforcement is important in zakat institution's governance. Therefore, zakat institutions need to embed enforcement in its governance. At present, zakat institutions unwilling to take action against people who does not pay zakat because they prefer to educate rather than to punish. However this raises a very important question, until when? This is because everything has a time limit. It is time for zakat laws to be gazetted and enforced. If zakat law is not enforced, persons who are eligible to pay zakat will find many excuses not to pay zakat.

Although one could say that paying zakat is obligatory duty for every Muslim since it is a command from Allah, but if we combine with the enforcement from human law, then it would bring more desirable effect to zakat institutions. With enforcement, people is more encourage to fulfill the obligation to avoid any unnecessary punishment. For some people, it is easier for them to follow the commands of Allah but to some others, they need extra motivation to obey. And that extra motivation can take place in the form legal action. So punishment should be given to the disbelievers so that it can be a lesson to others. Of course for the first time there will be a lot issues arise for example why only selected people being punish not all but when people start to be educated and get the message, then slowly they will obey the rules especially when they feel that zakat institutions are serious in enforcing the zakat law.

The enforcement is closely related to the adequacy of the workforce in an organization. Informal information obtained indicates that zakat institutions is lacking of staff to pursue their goal efficiently (Mohd Sani, personal communication, December 4, 2012). They are lacking of staff to pursue additional activities such as enforcement. Therefore it is suggested that zakat institutions recruit more staff so that the workload can be fairly distributed. If zakat institutions have sufficient staff, they will be able to establish enforcement unit for those institutions without such unit. Whereas for those who already have enforcement unit, they can focus to carry out the enforcement activities. It is not an easy job to enforce zakat law. For example zakat institutions need to locate people who do not pay zakat and then they need to issue reminder letters several time before legal action can be taken against them. This tedious process require a lot of time, efforts and energy to be sacrificed for this activities. However, it will give positive effect to zakat institutions because good enforcement will encourage and force more eligible people to pay zakat to zakat institutions. This will increase zakat collection and will enable zakat institutions to intensify the efforts towards the eradication of poverty and provide social justice to society.

5.5.8 Audit Committee Independence

Audit committee independence is found to be significant in zakat institution's governance. Thus, MAIN at state level and JAWHAR at federal level can propose that every zakat institution should establish the audit committee for those zakat institutions that do not have such committee. Whereas for zakat institutions that already have audit committee,

the selection of members to be included in the audit committee must be thoroughly done so that their independency can be guaranteed.

The current practise in some zakat institutions was found to take thing for granted where audit committee members are appointed without giving detail consideration about their independence. Therefore the existing procedures or policy need to be revised so that members of audit committee with greater independence can be appointed. This can be done by looking back the selection process of audit committee members. The selection process must take into consideration several aspect such as the members must come from various background and whether there is a mixture among professional and nonprofessional members in the committee. This is crucial so that monitoring role can be effectively carried out to improve zakat institution's governance. Any noncompliance with the procedures and policy of zakat institutions will be advised since they are vested with power to express their opinion about the management activities.

In addition, zakat institutions must try to maximize audit committee independence because zakat institution's governance will be strengthen by having audit committee that have freedom to speak. This is because the perception of zakat stakeholders towards zakat institution's governance is improved after they know that audit committee independence is at satisfactory level. Thus, it will make zakat institution's governance more reliable with audit committee independence.

Despite the fact that zakat institutions are nonprofit organizations, pressures and influences from the top management still exist. This will give members of audit committee

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without independence a difficult time and challenging task and often forced to comply with the desire of top management. That is why audit committee independence is very important because it gives greater strength to the members to practise the professionalism and thus able to give opinion that will lead zakat institution's governance into desirable level.

5.5.9   Audit Committee Diligence

Audit committee diligence is found to be significant in zakat institution's governance. Therefore zakat institutions must ensure that audit committee diligence exist by conducting frequent audit committee meeting. Zakat institutions can do this by checking the number of audit committee meeting held in one year. It is suggested that zakat institutions must increase audit committee meeting up to acceptable number at least four times per year. So if the number of audit committee meeting is less than four, zakat institutions should make an effort to increase it. Whereas, if the current practise show that the number of audit committee meeting is four, then zakat institutions can opt to maintain the current practise. But if the current practise show that the number of audit committee meeting is more than four, then zakat institutions can choose to reduce it to four or maintain as it is.

It is important for zakat institutions to emphasis on this aspect because of several benefit that they can derive from audit committee diligence. For example, the role of audit committee can be efficiently and aggressively played via frequent audit committee meeting. Audit committee diligence also will assist monitoring function played by audit

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committee. This can prevent zakat institutions from involving in an activity that will impair the goodwill of zakat institutions such as irregularities in the awarding of tenders.

In addition, zakat institution's governance will be strengthen by having frequent audit committee meeting. This is because the perception of zakat stakeholders towards zakat institution's governance is improved after they know that audit committee diligence is at satisfactory level. Thus, it will make zakat institution's governance more reliable when audit committee meeting is held regularly.

5.6 Conclusion

This study has a purpose to fill up the research gaps by giving enhanced understanding about zakat institution's governance. Underlying theories for this study are tested in different context from the western, where it originates. This is to test the applicability of these theories in zakat environment. This study gives a significant contribution to zakat institutions and also to the literature in zakat field. It was conducted during a time when confidence level of stakeholder towards zakat institutions are low. Main reason for this issue is the governance of zakat institutions that has been disputed. States in Malaysia is found to adopt one of the following three management structure; conventional structure, partial privatized structure or full privatized structure. The adoption of variety management structure cause some difficulties to know which management structure for zakat institutions that is really efficient. This study focused on determining the factors that constitute zakat institution's governance so that zakat institutions can use it to improve their governance up to the highest level.

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A framework consisting of 15 variables was tested and provided an understanding on the important factors that constitute governance in zakat institutions. The framework, which was developed based on an examination of literature and supported by underlying theories, has been quantitatively tested. The result of the study is capable to give meaningful contribution to theory and practice. In term of theory, this study integrates two theories to understand phenomena relating to zakat governance. Variables that emerged from these theories are tested using confirmatory factor analysis at second order level. The formation of second order level ensures a strong position of the model in terms of reliability and validity.

This study has successfully answered the research questions and fulfils all of its objectives. This includes the evaluation of important factors that constitute governance in zakat institutions. For the first objective, it was found that IT, law, accountability, service quality, religiosity of zakat employees, participation, enforcement, audit committee independence and audit committee diligence are important factors that constitute governance in zakat institutions. Whereas for the second objective that examine the magnitude of the variables, the result shows that IT was ranked first with 0.783, law was ranked second with 0.780, accountability was ranked third with 0.713, service quality was ranked fourth with 0.658, religiosity of zakat employees was ranked fifth with 0.649, participation was ranked sixth with 0.642, enforcement was ranked seventh with 0.607, audit committee independence was ranked eighth with 0.581 and audit committee diligence was ranked ninth with 0.514. These are the variables that have strong influence to zakat institution's governance. Any effort to improve zakat institution's governance must focus more on these factors. The empirical evident from this study can provide useful

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insights relating to governance of zakat institutions and increase the confidence level of stakeholders towards zakat institutions.

Practical implications for zakat institution's governance as mentioned above are applicable to all zakat institutions in Malaysia. However, generalization of the findings must be made with care as zakat institutions in Malaysia differ greatly to zakat institutions in other countries and also with other public sector agencies. In the context of governance, the findings of this study can increase the body of knowledge in zakat environment and other fields such as in other nonprofit organizations, or perhaps also in corporate governance sectors. While this research contributes to the theoretical and practical knowledge, it also act as a trigger germination of the idea for the future study related to zakat.

5.7 Recommendation for Future Research

This study is still far from perfection. Although the study was to some extent able to deal with inquiries about zakat institution's governance, there are still unresolved issues that need a solution. These findings pave the way for future research in relation to zakat institution's governance. Therefore, several other studies still need to be done. The followings are the recommended future research:

1. This study covers only three states in Malaysia (Kedah, Pahang and Selangor). Each state is a representative of one governance structure. Kedah is the representative for conventional governance structure, Pahang is the representative

for partial privatized governance structure and Selangor is the representative for fully privatized governance structure. Therefore, future study should consider covering more states in Malaysia to provide more comprehensive data which will lead to better and precise generalization. Although covering all states is not feasible (due to time and cost), perhaps the future research should consider increasing the representative state for each governance structure.

2. Population of this study is zakat payers because they are the stakeholders who plays vital role in zakat activity. In addition, they are the one who have low confident towards zakat institutions. Future research should widen the scope to other stakeholders such as zakat employees and zakat recipients. Wider scope would allow more comprehensive understanding about zakat institution's governance since the relationship of these stakeholders in zakat activity is very crucial. In addition, zakat employees and zakat recipients are also primary stakeholders of zakat institutions.

3. This study used a questionnaire as a method to obtain the data. However, this method is prone to vulnerabilities that would normally result in low feedback from the respondents. Besides there is tendency that the respondents just answer without reading the questions. Therefore, future research should consider other approaches to overcome this drawback and thus increase the reliability of the data. Among other methods that can be used to obtain the data is interview.

4.   The model for this study is based on stakeholder theory and agency theory. Both theories do not focus on relationship with God. It is recommended that future research should incorporate more Islamic value or principles in its model. Such practice would improve the model and offer better solution to zakat institutions.

5.   The model in this study is analyzed using AMOS platform at the measurement model. Perhaps future research could do more in depth analysis up to structural model.

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KAJIAN MENGENAI TADBIR URUS INSTITUSI ZAKAT DI MALAYSIA

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Bagi setiap kenyataan di bawah ini, sila bulatkan pada angka yang sesuai mengenai tadbir urus institusi zakat. PENTING: Tolong jawab SEMUA soalan.

		Sangat Tidak Setuju				Sangat Setuju
BAHAGIAN A:		1	2	3	4	5
SAIZ LEMBAGA PENGARAH						

Tadbir urus institusi zakat sepatutnya…

1.	Mempunyai saiz lembaga pengarah yang besar (melebihi sepuluh orang).	1	2	3	4	5
2.	Lebih mantap dengan saiz lembaga pengarah yang besar.	1	2	3	4	5
3.	Lebih diyakini dengan saiz lembaga pengarah yang besar.	1	2	3	4	5
4.	Mampu menghasilkan idea yang baik dengan saiz lembaga pengarah yang besar.	1	2	3	4	5
5.	Dapat dipantau secara berkesan dengan saiz lembaga pengarah yang besar.	1	2	3	4	5

BAHAGIAN B:
KEBEBASAN LEMBAGA PENGARAH

Tadbir urus institusi zakat sepatutnya…

1.	Mempunyai lembaga pengarah yang bebas.	1	2	3	4	5
2.	Melantik ahli lembaga pengarah yang bebas dari luar institusi zakat.	1	2	3	4	5
3.	Lebih mantap apabila lembaga pengarah mempunyai kebebasan bersuara.	1	2	3	4	5
4.	Lebih diyakini dengan adanya lembaga pengarah yang bebas.	1	2	3	4	5
5.	Dapat dipantau secara berkesan oleh lembaga pengarah yang bebas.	1	2	3	4	5

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Bagi setiap kenyataan di bawah ini, sila bulatkan pada angka yang sesuai mengenai tadbir urus institusi zakat. PENTING: Tolong jawab SEMUA soalan.

		Sangat Tidak Setuju				Sangat Setuju
BAHAGIAN C: **KEPAKARAN LEMBAGA PENGARAH**		1	2	3	4	5

Tadbir urus institusi zakat sepatutnya…

1.	Terdiri dari lembaga pengarah yang mempunyai kepakaran tertentu dalam bidangnya.	1	2	3	4	5
2.	Mempunyai lembaga pengarah yang berpengalaman luas dalam bidangnya.	1	2	3	4	5
3.	Lebih mantap jika adanya lembaga pengarah yang pakar.	1	2	3	4	5
4.	Lebih diyakini dengan pengalaman luas lembaga pengarah.	1	2	3	4	5
5.	Dapat dipantau secara berkesan oleh lembaga pengarah yang pakar.	1	2	3	4	5

BAHAGIAN D:
KEBEBASAN JAWATANKUASA AUDIT

Tadbir urus institusi zakat sepatutnya…

1.	Mempunyai jawatankuasa audit yang bebas.	1	2	3	4	5
2.	Melantik ahli jawatankuasa audit yang bebas.	1	2	3	4	5
3.	Lebih mantap apabila jawatankuasa audit mempunyai kebebasan bersuara.	1	2	3	4	5
4.	Lebih diyakini dengan adanya jawatankuasa audit yang bebas.	1	2	3	4	5
5.	Dapat dipantau secara berkesan oleh jawatankuasa audit yang bebas.	1	2	3	4	5

Bagi setiap kenyataan di bawah ini, sila bulatkan pada angka yang sesuai mengenai tadbir urus institusi zakat. PENTING: Tolong jawab SEMUA soalan.

	Sangat Tidak Setuju				Sangat Setuju
BAHAGIAN E:	1	2	3	4	5
KEPAKARAN JAWATANKUASA AUDIT					

Tadbir urus institusi zakat sepatutnya…

1.	Terdiri dari jawatankuasa audit yang mempunyai kepakaran tertentu dalam bidangnya.	1	2	3	4	5
2.	Mempunyai jawatankuasa audit yang berpengalaman luas dalam bidangnya.	1	2	3	4	5
3.	Lebih mantap dengan adanya jawatankuasa audit yang pakar.	1	2	3	4	5
4.	Lebih diyakini dengan pengalaman luas jawatankuasa audit.	1	2	3	4	5
5.	Dapat dipantau secara berkesan oleh jawatankuasa audit yang pakar.	1	2	3	4	5

BAHAGIAN F:
KERAJINAN JAWATANKUASA AUDIT

Tadbir urus institusi zakat sepatutnya…

1.	Mengadakan mesyuarat jawatankuasa audit yang kerap (sekurang-kurangnya tiga kali setahun).	1	2	3	4	5
2.	Dapat berfungsi dengan baik sekiranya mesyuarat jawatankuasa audit diadakan secara kerap.	1	2	3	4	5
3.	Lebih mantap apabila mesyuarat jawatankuasa audit kerap diadakan.	1	2	3	4	5
4.	Lebih diyakini apabila mesyuarat jawatankuasa audit kerap diadakan.	1	2	3	4	5
5.	Dapat dipantau secara berkesan oleh mesyuarat jawatankuasa audit yang kerap.	1	2	3	4	5

Bagi setiap kenyataan di bawah ini, sila bulatkan pada angka yang sesuai mengenai tadbir urus institusi zakat. PENTING: Tolong jawab SEMUA soalan.

	Sangat Tidak Setuju				Sangat Setuju

BAHAGIAN G: KEPIMPINAN	1	2	3	4	5

Tadbir urus institusi zakat sepatutnya…

		1	2	3	4	5
1.	Menggunakan kuasa kepimpinan untuk mempengaruhi organisasi.	1	2	3	4	5
2.	Dapat mencapai matlamat organisasi melalui kepimpinan.	1	2	3	4	5
3.	Melaksanakan kepimpinan yang menyatukan pemimpin dan pekerja.	1	2	3	4	5
4.	Melaksanakan kepimpinan yang menepati tuntutan agama.	1	2	3	4	5
5.	Lebih cemerlang jika mempunyai kepimpinan yang berkualiti.	1	2	3	4	5

BAHAGIAN H: PENGLIBATAN PEKERJA

Tadbir urus institusi zakat sepatutnya…

		1	2	3	4	5
1.	Mempunyai pekerja yang mampu memberikan idea.	1	2	3	4	5
2.	Menggalakkan pekerja untuk bersuara.	1	2	3	4	5
3.	Membenarkan wakil pekerja untuk terlibat dalam proses pembuatan keputusan.	1	2	3	4	5
4.	Meningkatkan tanggungjawab pekerja di dalam organisasi.	1	2	3	4	5
5.	Lebih diyakini apabila pihak pengurusan peka terhadap pendapat pekerjanya.	1	2	3	4	5

Bagi setiap kenyataan di bawah ini, sila bulatkan pada angka yang sesuai mengenai tadbir urus institusi zakat. PENTING: Tolong jawab SEMUA soalan.

		Sangat Tidak Setuju				Sangat Setuju
BAHAGIAN I: AKAUNTABILITI		1	2	3	4	5

Tadbir urus institusi zakat sepatutnya…

1.	Mengamalkan akauntabiliti dalam pengurusan.	1	2	3	4	5
2.	Meningkatkan kepatuhan kepada peraturan melalui akauntabiliti.	1	2	3	4	5
3.	Dapat mengelakkan penyelewengan melalui akauntabiliti.	1	2	3	4	5
4.	Lebih diyakini dengan adanya akauntabiliti.	1	2	3	4	5
5.	Lebih bertanggungjawab dengan adanya akauntabiliti.	1	2	3	4	5

BAHAGIAN J: KETELUSAN

Tadbir urus institusi zakat sepatutnya…

1.	Memastikan maklumat boleh didapati oleh semua pihak.	1	2	3	4	5
2.	Memastikan maklumat didedahkan tepat pada masanya.	1	2	3	4	5
3.	Memastikan maklumat yang didedahkan itu tepat.	1	2	3	4	5
4.	Memastikan maklumat yang didedahkan mencukupi.	1	2	3	4	5
5.	Lebih diyakini dengan adanya ketelusan dalam pelaporan maklumat.	1	2	3	4	5

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Bagi setiap kenyataan di bawah ini, sila bulatkan pada angka yang sesuai mengenai tadbir urus institusi zakat. PENTING: Tolong jawab SEMUA soalan.

	Sangat Tidak Setuju				Sangat Setuju
BAHAGIAN K: **KUALITI PERKHIDMATAN**	1	2	3	4	5

Tadbir urus institusi zakat sepatutnya…

1.	Mengamalkan kualiti dalam perkhidmatan.	1	2	3	4	5
2.	Memastikan pelanggan dilayan dengan cepat.	1	2	3	4	5
3.	Memastikan pelanggan dilayan dengan mesra.	1	2	3	4	5
4.	Memastikan pelanggan dilayan dengan adil.	1	2	3	4	5
5.	Lebih diyakini dengan adanya kualiti dalam perkhidmatan.	1	2	3	4	5

BAHAGIAN L:
TEKNOLOGI MAKLUMAT

Tadbir urus institusi zakat sepatutnya…

1.	Menghasilkan pembuatan keputusan yang baik dengan adanya teknologi maklumat.	1	2	3	4	5
2.	Mampu menyebarkan maklumat dengan cepat melalui teknologi maklumat.	1	2	3	4	5
3.	Dapat menjimatkan masa dengan adanya teknologi maklumat.	1	2	3	4	5
4.	Dapat mengurangkan beban pekerja dengan penggunaan teknologi maklumat.	1	2	3	4	5
5.	Lebih diyakini dengan penggunaan teknologi maklumat.	1	2	3	4	5

Bagi setiap kenyataan di bawah ini, sila bulatkan pada angka yang sesuai mengenai tadbir urus institusi zakat. PENTING: Tolong jawab SEMUA soalan.

		Sangat Tidak Setuju				Sangat Setuju
BAHAGIAN M: **NILAI AGAMA**		1	2	3	4	5

Tadbir urus institusi zakat sepatutnya…

1.	Lebih diyakini apabila pekerjanya rajin solat berjemaah.	1	2	3	4	5
2.	Lebih diyakini apabila pekerjanya selalu membaca Al-Quran.	1	2	3	4	5
3.	Lebih diyakini apabila pekerjanya suka membaca buku-buku agama.	1	2	3	4	5
4.	Lebih diyakini apabila pekerjanya rajin menghadiri kuliah agama.	1	2	3	4	5
5.	Lebih diyakini apabila pekerjanya selalu berpuasa sunat.	1	2	3	4	5

BAHAGIAN N:
UNDANG-UNDANG

Tadbir urus institusi zakat sepatutnya…

1.	Mempunyai unit undang-undang tersendiri.	1	2	3	4	5
2.	Mempunyai undang-undang zakat yang jelas.	1	2	3	4	5
3.	Mempunyai undang-undang zakat yang mencukupi.	1	2	3	4	5
4.	Mempunyai undang-undang zakat yang boleh dikuatkuasakan.	1	2	3	4	5
5.	Lebih diyakini apabila undang-undang zakat sentiasa disemak.	1	2	3	4	5

Bagi setiap kenyataan di bawah ini, sila bulatkan pada angka yang sesuai mengenai tadbir urus institusi zakat. PENTING: Tolong jawab SEMUA soalan.

		Sangat Tidak Setuju				Sangat Setuju
BAHAGIAN O: PENGUATKUASAAN		1	2	3	4	5

Tadbir urus institusi zakat sepatutnya…

1.	Mempunyai unit penguatkuasa yang mantap.	1	2	3	4	5
2.	Dapat mengesan mereka yang tidak membayar zakat.	1	2	3	4	5
3.	Dapat mendakwa mereka yang tidak membayar zakat.	1	2	3	4	5
4.	Dapat meningkatkan kepatuhan kepada peraturan melalui penguatkuasaan.	1	2	3	4	5
5.	Lebih diyakini apabila penguatkuasaan dijalankan secara kerap.	1	2	3	4	5

BAHAGIAN P: DEMOGRAFI

1. Jantina:

   ☐ Lelaki

   ☐ Perempuan

2. Umur: _____ tahun

3. Taraf perkahwinan:

   ☐ Kahwin

   ☐ Bujang

   ☐ Lain-lain (Bercerai / Duda / Janda)

4.   Pendidikan tertinggi:

☐   Doktor Falsafah / Sarjana

☐   Sarjana Muda

☐   Diploma

☐   Sijil Tinggi Pelajaran Malaysia (STPM) / Sijil Pelajaran Malaysia (SPM)

☐   Sijil Rendah Pelajaran (SRP) / Penilaian Menengah Rendah (PMR)

☐   Lain-lain, sila nyatakan _____

5.   Negeri didiami sekarang: _____

SOALAN TAMAT

Sekian, Terima Kasih.