

Islamic Intellectual Capital: Zakat Compliance Among Zakat Payers in Terengganu, Malaysia

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Abstract

Islamic Intellectual Capital (IIC) is a new notion of intellectual capital and has been critically discussed by the government and academic researchers due to its indirect impact on the Islamic economy. One of IIC's dimensions, i.e., Islamic Structural Capital that measuring the infrastructure, processes and methodologies of an organization's operation is vital to be ascertained especially for a Zakat institution that responsible for economy of Muslim community. The present study was undertaken to examine the Terengganu zakat payer's compliance behavior, to adapt the Theory of Planned Behaviour (TPB) in describing their behavior that influenced by their perception of Zakat fairness. A total of 100 zakat payers from compliant in Terengganu for the year 2020 were sampled and analyzed. The findings revealed strong positive effects of Perception of Zakat Fairness on zakat compliance behavior when the relationship was supported by the element of intention to comply. In using a revised TPB framework, the study makes a significant theoretical contribution to Zakat literature. Furthermore, this study has many practical implications for the zakat bodies as the administrative agency regarding awareness compliance issues.

Keywords: Islamic Intellectual Capital, Zakat, Perception of Zakat Fairness, Zakat Compliance, Theory Planned Behavior, and Intention to Comply.

Introduction

Today's economy is changing with greater emphasis on intangibles such as intellectual capital (IC). This change is also affected the Islamic economy. However, to the understanding of Islamic intellectual capital, Muslim jurists and commentators of the Qur'an have employed the term, Aaliyah, to signify the human capacity and fitness to perform and hold certain social and religious obligations. Aaliyah denotes aptitude, fitness, competence validity, authority, and qualification, which collectively connote the human ability and quality to perform specific duties diligently. According to Muslim jurists, Aaliyah is understood as the "eligibility to hold duty and the validity of having legitimate rights." Eligibility here denotes the human ability to perform and contributing effectively to the betterment of living consciously. While primarily the term Aaliyah represents the human nature in Islamic jurisprudence, administratively, obtaining Aaliyah means reaching intellectual maturity and mental fitness, where the individual is entitled to be fully responsible accountable expected to contribute to the betterment of human life. Hence, though Aaliyah paves the way for the individual to have legal obligations and rights

in legal terms, it grants the rights of labor and freedom of choice.

Farah et. al. (2019) found that Aaliyah elements are also including in the zakat systems in Malaysia. He also explained that Zakat bodies in Malaysia were promoted, and awareness with the soul and spirit to zakat payer to obey and contribute to the zakat collection. In other parts, Zakat is a compulsory charity that each Muslim pays as part of their commitment to the creator. Zakat is the third pillar of the five pillars of Islam. Specifically, Zakat is the significant amount of money that must be paid to a particular group of people (asnaf) in specific ways when the precise wealth is achieved in a specific amount to specific terms (Al-Mamun & Haque, 2015). In Malaysia, Zakat is under the Islamic religious council for every state. The policies on zakat affairs which contain a collection method, payment policy, and enforcement are different for each. In Malaysia, the federal government has an insufficient role in promoting and checking religious affairs. Notwithstanding the Zakat, collection and payments are administered by spiritual matters. The collection of Zakat in Malaysia is still low. Many employees pay income tax which is a legal obligation; they do not need interested pay with Zakat, which is a religious responsibility (Ali et al. ,2018). According to a study done by Al-Mamun & Haque (2015), the total collection of tax is still higher than the whole zakat collection by the Zakat bodies. Despite fatwa, Zakat on income remains a voluntary practice rather than being compiled by Muslims in Malaysia. At the moment, there is no enforcement at the state level, which may prevent the efficiency of the zakat requirement and regulations.

Nurbarizah (2008), most of the previous research focused on the role of Zakat from the Administration of Zakat payments in the Practice of Fatwa aspect. Some preliminary studies used the Theory of Planned Behaviour that introduced their study compliance behavior on zakat paying. Their study used compliance behavior on Zakat paying without defining the compliance behavior in Islamic principal duty, which is different from tax compliance. Previous studies examined the compliance behavior on zakat contribution without determining the compliance behavior in Islamic policy and obligation.

Furthermore, the Zakat ability of income is an ever-contentious issue. The zakat donation is different because a part of Ibadah and it serves the creator (Allah S.W.T). In contrast, compliance behavior of a taxable is not a religious responsibility. the government will issue a penalize when the taxpayer does not comply with paying the tax. In particular, the underlying motivations for zakat payers need to be investigated and explored since there is lacking in the dimension and definition of compliance behavior in the context of zakat contribution. While Farah et. al. (2019) found Islamic Banking and Finance was defined the compliance behavior on Zakat paying under Islamic principle is different from tax compliance. They also found Zakat is one of the Islamic duties to attain goodness and cleanliness of spirit and soul. It is stated in the Holy Quran, under Surah 87 and Verse 14 mention He indeed is successful who purifies himself. However, this study wants further research on the definition of the compliance behavior on zakat donation among and to explore whether planned behavior model can be applied under the Zakat paying context. This paper aims to identify the relationship of compliance behavior and Islamic Intellectual Capital elements such as Tauzif, Masuliyah and Amanah among zakat payers in Terengganu.

Literature Review

Islamic structural capital

Intellectual structural capital is defined as one of the elements of Islamic intellectual capital. It also has been defined as packaged helpful knowledge convertible into profit and value (Edvinsson & Malone, 1997). It is also deliberated as a critical intangible asset for future

competitiveness that a firm should manage and deploy to achieve desired outcomes (Chien, 2012) In comparison with Western theories, Islam assumes a relatively holistic approach to Intellectual Capital. Before explaining the concept of Islamic Intellectual Capital, we must explore some Islamic values that are relevant to the topic. The fundamentals of Islam focus on the Tawheed (oneness) concept, which means that all the human soul's bond to Allah SWT, One Creator-Sustainer God (Hashi & Bashiir, 2009). They also defined trustee of God (Khalifa), Muslims must believe that God has empowered them with qualities of intellect, knowledge, free will and guidance to perform their responsibility effectively.

Omar et al. (2020) stated, one of the dimensions in the Islamic structural capital was Islamic Structural Capital (Baniah). Baniah is important because they bring order, safety, correctness, and quality to the organization. Bontis (1998) argues that if organizations do not have adequate procedures and systems, intellectual capital will not reach its peak. Many previous research done on structural capital in conventional method. Thus, this study will fill the research gap. Below are the proposed components of Islamic structural capital (Baniah). Omar et al. (2019) also mentioned that the Islamic Structural Capital (Baniah) components included infrastructure of facilities and amenities, technology, structure of Islamic leadership, authority (Taufid), responsibility and accountability (Mas'uuliyah), consultation (Syura), culture of teamwork (Taawun), conflict, trust (Amanah), transparency, and Advise (Naseeha), and process and procedure of recruitment and selection, compensation, rewards and benefits, performance appraisal and quality. Thus, this study will explore two components of Taufid and Mas'uuliyah of Terengganu Zakat institution through the perception of fairness among the zakat payers which will later determining their intention and compliance behaviour.

1.0 Zakat Compliance

Al Muman & Haque (2015) found Zakah is that part of a man 's wealth that is allocated for the poor (Asnaf). They are also defined as a mandatory levy imposed on the Muslims to take surplus money or wealth from the comparatively well-to-do members of the Muslim Society and give it to the destitute and needy. On the other part, tax is defined as the process of allocating money for the government utilizing contributions from individual persons (Yusoff et al., 2018). Phalil et. al (2013) narrates those taxes are imposed solely to raise revenue to cover the state's operating and development expenditure. Tax is levied on consumption or income, whereas Zakat is set on a various and broader range of covering both productive wealth and passive properties (Al Mamun & Haque, 2015). Zakat is practice on all of the items describing an individual income and computed after deduction of his or her expenses if it reaches Nisab (which is equivalent to 85 grams of gold). That is extensively applied to by a significant number of Muslim peoples, including in Malaysia.

2.0 Perception of Zakat fairness

The positive or negative behavior influences the perception of fairness based on behavioral belief and the outcome evaluation. The study is consistent with what has been defined by Ajzen (1991). This variable is operationalized as a social responsibility and commitment to meet the zakat requirement in Malaysia. When payers feel stressed about paying Zakat and justices in the allocation of asnaf, this positive perception to the zakat bodies will influence payers to comply with behavior (Yusoff et al., 2018). Therefore, morale and perception of fairness are combination factors that can influence taxpayers to comply or not with the tax regulations and procedures (Jayawardane, 2015).

H1: There is a significant relationship between perception of zakat fairness and zakat

compliance behavior.

H2: There is a relationship between perception of zakat fairness and intention to comply.

3.0 Intention to comply

Baron & Kenny (1986) described that intention as an obvious example of a mediator concept in social psychology. Ajzen and Fishbein (1980) assume that intentions mediate the influence of attitudes and normative factors on behavior, and their formulation describes an accurate statement of an influential mediating position. However, the definition or assumptions relationship of a model is not considered concerning the nature of the Intention and Behavioural connection. Such diverse variables as gender, time delay, perceived likelihood of co-workers, workers complying, skill, and resources are all treated as mediating factors (Ajzen & Fishbein, 1980). Therefore, they suggest that intentions are better operationalized as mediator variables than the moderator. The reason intention is a better predictor as a mediator variable is because it involves a control behavior. Consistently, this study adapts from what had been suggested by Ajzen and Fishbein (1980).

H3: Intention to comply mediates the relationship between perception of zakat fairness and zakat compliance behavior.

5.0 Theory Planned Behaviour

The theory of planned behavior is a critical theory that describes within the context of social psychology and interprets human behavior. This theory was developed by Ajzen (1991). This theory explained behaviors of the people within the society are under the influence of definite factors, arise from specific reasons and emerge in a planned action (Yusoff et. al., 2018). Notwithstanding, the ability to perform a particular behavior depends on the individual's purpose towards that behavior. The factors defining the scope of the behavior are attitude towards behavior, subjective norms, and perceived behavioral control (Tamer et al., 2011).

The intention is to derive the performance of the behavior and it is also the basis of this theory. Its change or connection into a different behavior depends on the taxpayers' intention. (Tamer et. al, 2011). The intention is the factor showing the degree of individual efforts in order to perform certain behavior (Ajzen, 1991). The intention is illustrated by attitudes towards behavior, individual norms and perceived behavior to include the evaluations made by the individual who will perform the behavior regarding particular behavior. Yusoff et. al. (2018) identified individual opinion behavior once perception. Concerning Zakat and related behavior, some events suggest that TPB has been used as a framework to examine taxpayers' intentions. Al-Mamun & Haque et. al. (2015) studies how zakat payers perceive compliance. They used TPB that underpinned the study as the most robust theoretical base to understand zakat payer's compliance. He also extends this theory to understand the relationships between Muzakki behavior and Muzakki knowledge. The result provides good support for the theory suggesting that the TPB model provides a good description of zakat compliance behavioral intentions. Several beliefs were found to help develop and understand zakat compliance behavior.

Conceptual framework of the study

This conceptual framework of our current research has been constructed about the literature review. This particular model focuses on Muslim perception of the zakat system in Malaysia. From this literature review, researchers have discovered out independent variables, called the perception of zakat fairness to find out the expected relationship with the dependent

variable named zakat compliance behavior in Malaysia. Figure 1 represents a proposed model.

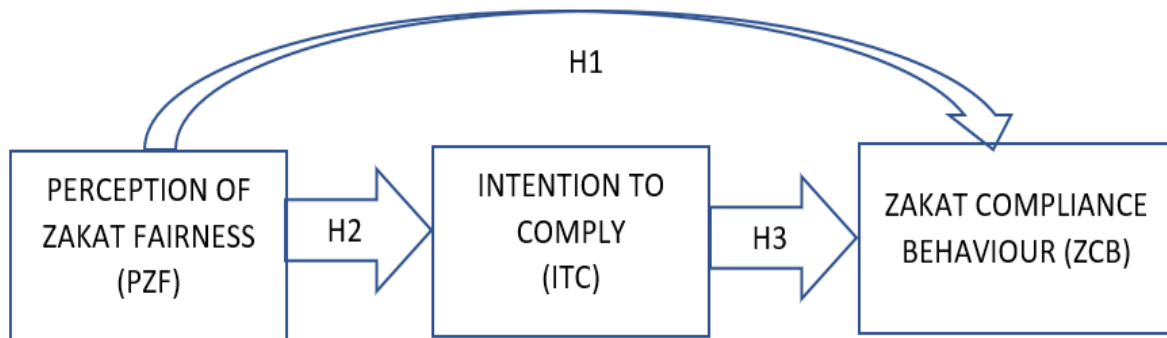


Figure 1

Results and Discussion

The method of study is focused on quantitative. Data from the present study were gathered from questionnaires using the Likert scale. Questions were adapted from previous studies conducted by Phalil et. al. (2013) for the perception of zakat fairness and Yusoff et. al. (2018) for intention to comply and zakat compliance behavior. The questions were edited according to their suitability under Malaysian conditions. A total of 120 questionnaires were distributed to respondents representing the zakat payers by Majlis Agama Islam dan Adat Melayu Terengganu (MADAM) with 100 questionnaires returned (83.33%). Table 1 gives a descriptive analysis of the respondents involved:

Gender	Quantity	%	Age (years)	Quantity	%
Male	54	54%	20-30	12	12%
Female	46	46%	30-40	64	64%
			50-60	24	24%
			60 and above	0	0%
Total	100	100%	Total	100	100%
Education	Quantity	%	Occupational Sector	Quantity	%
Primary School	0	0%	Government	73	73%
Secondary School	1	1%	Private	27	27%
Diploma	11	11%			
Degree	81	81%			
Master/PhD	7	7%			
Total	100	100%	Total	100	100%

Figure 2 and Tables 2 show the results of the analysis. This analysis is using WarpPLS 7.0. It can be seen that perception of zakat fairness did not significantly influence zakat compliance behavior in Terengganu ($p=0.15$). This variable, however, is significantly influencing zakat compliance behavior when the intention is a mediator variable ($p<0.01$). The coefficient of determination (R^2) for the zakat compliance variable is 0.15. Therefore, it is a good value and acceptable in behavior study (Yusoff et. al., 2018). Intention to comply was

a mediator with contributed $R^2 = 0.07$. The low value of R^2 in this variable indicates that most of the variables chosen cannot illustrate the magnitude and possibilities of compliance behavior (Nur Azrina Mohd Yusoff et al., 2014). As a result, Nur Azrina Mohd Yusoff et al. (2014) agreed that the chosen variable could explain only 7% of the variance in the tax non-compliance rate. At the same time, the remaining variance is unexplained. The low R^2 found in this study is comparable with Juahir et al. (2010), which was about 10%. It was argued that with limited access to tax collection data and this is a cross-sectional study, the low R^2 is acceptable.

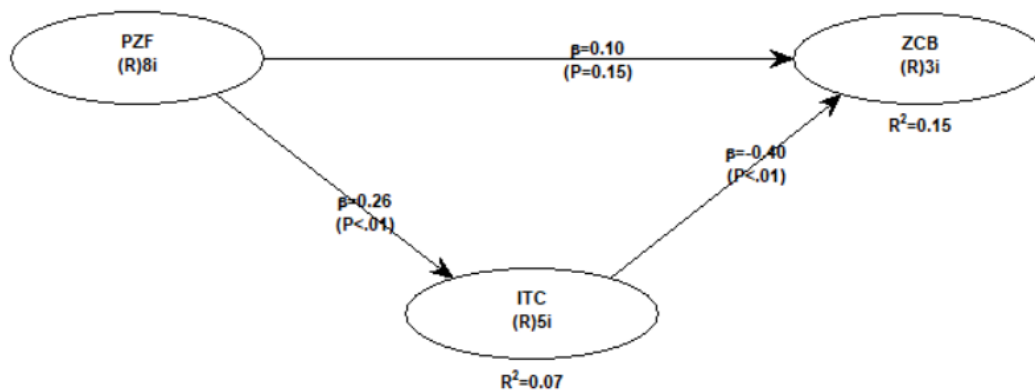


Figure 2: Results of Analysis

Table 2: Hypotheses Results

Hypotheses	P-Value	Value	Results
H1	0.15	0.10	Rejected
H2	<0.01	0.26	Accepted
H3	<0.01	0.40	Accepted

Results of the analysis show that respondents believe that perception of zakat fairness could influence zakat compliance when it is supported by intention to comply. Without intention to comply, zakat payers become noncompliant. It is shown that some non-economics factor also influences the payers to become compliant toward Zakat in Terengganu. On the others hand, intention to comply is also negatively correlated with compliance behavior with a p-value is <0.01. From the results, it is shown that perception of zakat fairness is influenced by intention to comply. This variable is gained the highest effects on compliance behavior when the element of intention to comply was highest. However, the perception of zakat fairness becomes negative toward compliance behavior when it was not supported by intention.

Conclusions and Limitations

Perception of Zakat Fairness could increase in zakat compliance behavior when it is supported by intention to comply. The present study analyzed the relationships of Islamic intellectual capital and attitude factors on zakat compliance behavior in Terengganu. This study has been suggested by Omar et al. (2003). Islamic intellectual capital factor is an excellent reason to focus on zakat bodies because it would reduce noncompliance cases without spending a vast amount to awareness for zakat payers. Therefore, zakat bodies should educate zakat payers to be more responsible.

From the findings, it could be summarized that the respondent's belief in the element of perception of zakat fairness influences the compliance decision. It will affect the zakat payer's

behavior. In the perception of Zakat, fairness is related to Islamic Intellectual capital, the intellectual needs believe and intentions. Zakat payers usually will follow whatever statement comes from a religious or scholarly person. When the religious or scholar person gives a positive statement about Zakat, the follower will follow. In this case, zakat bodies should be aware of the current situation to avoid negative statements which will influence zakat payers not to comply. Further studies in multi-religious countries such a Malaysia might expose the different beliefs among zakat payers. This discussion is a better practical implication to the country with a multi-religious population such as ASEAN to understand the difference between zakat payers' beliefs and further understand the factors influencing taxpayers in different contexts.

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