

The Effect of Board Governance on Business Zakat Compliance with Trust and Transparency as Intervening Variable

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Abstract: Zakat is a mandatory contribution of a specific portion of one's assets that every Muslim must make after they meet the stated criteria. Zakat is disbursed to the designated beneficiaries (asnaf) who are eligible to receive it. In order to guarantee that zakat funds offer asnaf the most possible advantages, strong board governance is crucial to zakat management. This study aims to examine the effect of board governance on business zakat compliance with public trust and transparency as intervening variable. This study was carried out in East Java, Indonesia. The respondents of this study business owners in East Java who pay zakat through Lazismu. Data was gathered using the survey methodology. Fifty three business owners participated in this study. Partial least squares structural modeling (PLS-SEM) is used to analyze the data. The study's findings suggest a direct relationship between board governance and zakat compliance. The results of this study further demonstrate that the relationship between board governance and zakat compliance is mediated by trust and transparency. The findings of this study emphasize the importance of zakat institutions to strengthen board governance with a primary focus on transparency and building trust.

Keywords: Zakat; board governance; trust; transparency; compliance

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INTRODUCTION

Zakat is an Islamic mechanism employed to distribute income and wealth. Zakat fitrah and zakat maal are anticipated to mitigate wealth inequality. Additionally, zakat can serve as a reliable tool to address poverty by means of productive zakat initiatives. The National Amil Zakat Agency (BAZNAS) notes that the realization of zakat fund collection in Indonesia will reach IDR 14 trillion in 2021. This amount is only around 4.28 percent of the projected domestic zakat potential of IDR 327.6 trillion. One reason for the low rate collection of zakat funds is that people prefer to distribute their own zakat directly to Mustahiq (Febriyanti, 2020); (Soleh, 2020);

(Ninglasari & Muhammad, 2021); (Febriana et al., 2022); (Rachman, 2022); (Rozaan et al., 2023);(Kurniasari, 2024).

The lack of effective governance is a key factor contributing to the reluctance of muzakkis to pay zakat through zakat organizations. (Muhammad & Saad, 2016b); (Bara & Pradesyah, 2020);(Widiastuti et al., 2021). In the context of zakat institutions, governance refers to the systematic management and direction of the zakat institution's operations, with the goal of improving the well-being of the genuine mustahik and ensuring transparency and responsibility to the muzakkis (Wahab & Rahim Abdul Rahman, 2011). Higher good governance will enhance higher zakat compliance (Muhammad & Saad, 2016a)(Tsalas et al., 2019) (Abd Samad et al., 2021). Transparency and board governance are critical domains in Zakat Governance (Sawmar & Mohammed, 2021).

Zakat transparency pertains to the availability of information to muzakkis and the general public regarding the zakat fund and its procedures. Greater zakat transparency is expected to promote adherence. Zakat officials should exhibit transparency by openly sharing comprehensive information on the collection and allocation of zakat funds (Abd Samad et al., 2021). Based on prior studies, boosting transparency will improve zakat compliance (Mardini et al., 2020)(Saptono & Khozen, 2024); (Roziq et al., 2021) (Muroqobatullah & Zamzami, 2022); (Yunizar & Danel, 2023). On the other hand, (Saputri & Mulyany, 2021) found that transparency has no effect on zakat compliance.

The governance of the board plays a crucial role in carrying out the vision and values of their organizations and guaranteeing the effective implementation of plans to achieve them. Zakat payers anticipate that the board governance will exhibit proficiency, efficiency, and impartiality in their interactions with all parties involved, including zakat beneficiaries (Oladimeji Abioye Mustafa et al., 2013). The aforementioned findings indicate that board governance has an impact on muzakki trust, as demonstrated by (Abioyea et al., 2011) ; (Ghani et al., 2018)(Elvira et al., 2024).

In addition to governance, another contributing factor to the inadequate collection of zakat is the insufficient level of public confidence in professional zakat administration (Wibisono, 2018)(Handayani et al., 2019)(Kesuma & Sobri, 2020)(Saad et al., 2020)(Adriansyah et al., n.d.)(Syaikhu et al., 2022)(Hasan & Prabowo, 2022)(Syauqi et al., 2022). Due to the prevailing lack of confidence in zakat institutions, zakat payers now tend to opt for directly donating their zakat to the intended recipients. A study done by (Ab Rahman et al., 2019) demonstrates that the perceived corporate credibility of zakat organizations has an impact on individuals' knowledge of paying zakat. If business owners who pay Zakat view the Zakat authority as reliable and trustworthy, meaning that the Zakat funds are used wisely to provide services such as assisting the poor, these business owners may perceive fair treatment, which can influence their compliance behavior. Multiple studies indicate that trust has a significant impact on the level of zakat compliance (Muhammad & Saad, 2016a)(Hasan & Prabowo, 2022)(Obaid et al., 2020)(Bin-Nashwan et al., 2021)(Sadallah & Abdul-Jabbar, 2022)(Abdullah et al., 2023)(Kasri & Sosianti, 2023).

This research is different from previous research in several ways. First, there are still few studies investigating the effect of board governance on trust (Abioyea et al., 2011)(Ghani et al., 2018)(Elvira et al., 2024). This research builds on previous research by examining the relationship between board governance, trust and zakat compliance, which is rarely studied. Second, regarding trust and zakat compliance, numerous research have been done. This study builds on earlier research by examining trust as a mediating variable in the relationship between board governance and zakat compliance. Therefore, this study aims to examine the effect of board governance on zakat compliance with trust and transparency as intervening variable.

Hypotheses Development

Board governance on zakat compliance

The board governance of a zakat institution plays a crucial role in effectively guiding zakat compliance in the right path (Sawmar & Mohammed, 2021) Effective leaders establish zakat-consistent vision and mission statements as their top priority. When an organization has a clearly defined and effectively communicated strategy, individuals are more inclined to comprehend its objectives. This enhances the institution's perception of its purpose and belief in its ability to carry out its assigned task. The establishment of a transparent, accountable, and integrity-driven culture within a company is a direct outcome of executives who uphold Islamic values and principles (Oladimeji Abioye Mustafa et al., 2013). All of these attributes are necessary for zakat compliance. An adept and engaged board is necessary in the zakat institution to ensure the efficient administration and allocation of zakat funds in accordance with sharia law. An effective oversight can be achieved by forming a board of individuals with various backgrounds and competence in social welfare, sharia law, and financial management. The primary responsibilities of the zakat institution's board include implementing rigorous financial regulations, ensuring compliance with sharia principles, and strategically managing the allocation of zakat monies. This vigilance is necessary because a well-managed institution is more likely to attract and retain muzakki, which in turn affects the muzakki's compliance in paying zakat through the zakat institution (Muhammad & Saad, 2016b)(Tsalas et al., 2019)(Abd Samad et al., 2021).

H1: Board governance positively affect zakat compliance

Trust Mediates the effect board governance on zakat compliance

The concept that board governance positively impacts zakat compliance through muzakki trust highlights the importance of organizational governance and leadership in enhancing muzakki trust (Abioyea et al., 2011)(Elvira et al., 2024). An adept board have the capacity to create a zakat corporate environment that promotes accountability, conscientious leadership, and dedication to Islamic principles. As a result, the organization's actions become more transparent, allowing muzakki and other stakeholders to have a clear understanding of how zakat funds are managed. Muzakki's trust in zakat institutions is strengthened when they observe the existence of efficient governance and capable leadership inside the

institution. As trust grows, muzakki become increasingly assured that their zakat funds will be utilized to aid asnaf under the guidance of a dependable and skilled board personnel, hence fostering higher levels of zakat compliance (Bin-Nashwan et al., 2021)(Sadallah & Abdul-Jabbar, 2022)(Abdullah et al., 2023). This approach recognizes the vital significance of corporate governance in shaping the trust-based processes that encourage zakat compliance (Tsalas et al., 2019).

H2: Board governance have a positive effect on zakat compliance mediated by public trust

Transparency Mediates the effect board governance on zakat compliance

Transparency guarantees that all financial transactions and zakat-related procedures are easily observable and accessible to the public, which is crucial in reducing the influence of board governance on zakat compliance. An essential element of effective board governance is the establishment of guidelines and practices that uphold ethics, integrity, and accountability (Ameyaw et al., 2024). Transparency serves as a means to establish trust among many parties involved, such as those providing funding and those benefiting from it, when proper governance systems are implemented. Enhanced adherence is achieved by transparent reporting of zakat collection and distribution, instilling confidence that the funds are managed prudently and utilized effectively. The transparency enables the identification and resolution of any discrepancies or financial mismanagement, ensuring that the zakat system adheres to Islamic laws and norms.

Transparency also enables the board governance structure to make decisions and carry out monitoring (Zadjuli & Shofawati, 2020). Board members can ensure their decisions align with company goals and compliance standards by having access to unambiguous and thorough information regarding financial operations and the influence of zakat funding. This level of transparency enhances compliance by allowing regulatory bodies and external auditors to effectively monitor and evaluate a company's adherence to zakat rules. Transparency enhances the credibility of organizations by promoting a culture of openness. Transparency guarantees the efficient fulfillment of zakat obligations in conformity with sharia, thereby achieving the religious and social aims of zakat in Islam. This circumstance can enhance the level of compliance among muzakkis in making zakat payments through zakat institutions.

H3: Transparency mediates the effect of board governance on zakat compliance

Based on the explanation in developing the hypothesis, the research framework can be depicted in Figure 1 below

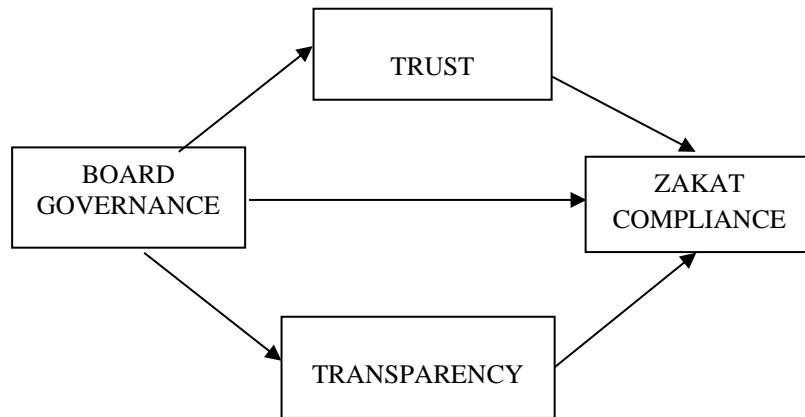


Figure 1. Theoretical Framework

RESEARCH METHODS

This study employed a quantitative methodology, collecting primary data through a cross-sectional questionnaire survey. The respondents were chosen from among business zakat payers, as business zakat continues to be the primary source of zakat money. The study population comprises individuals in Malang East Java who pay zakat through Lazismu. Lazismu is a zakat institution operating at the national level, dedicated to empowering the community by effectively utilizing zakat, infaq, waqf, and other charitable money received from people, institutions, organizations, and other agencies.

Given the uncertainty surrounding the population in this study, the sample size is established using the criteria presented by (Roscoe, 1975). According to (Roscoe, 1975), the sample size should be a minimum of 10 times the number of variables in the research model. Given that this study encompasses four variables, a minimum of 40 respondents is necessary for the sample size. In this study a total of 80 questionnaires were sent out, and 53 of them were returned, yielding a 66.25% response rate. The data collected from participants will be examined utilizing the SmartPLS program. The SEM-PLS method is appropriate for this study because to its capability to handle models with high complexity, estimate causal links between research variables, and identify and assess the direct and indirect effects (mediation) of exogenous variables on endogenous variables. Furthermore, SEM-PLS is proficient at analyzing models that do not necessitate normal distribution assumptions and have limited sample sizes.

This study examines four key variables: board governance as an independent variable, zakat compliance as a dependent variable, and trust and transparency as mediating variables. The operational definition and measurement of each variable are as stated below:

1. Board governance, in this specific context, refers to the organization, composition, and quality of the persons who make up the board responsible for supervising the zakat organization. This variable includes elements such as the members' professional acumen, integrity, knowledge of sharia, societal influence, and capacity to advocate for zakat contributors. This variable is evaluated using a set of five questions taken from (Oladimeji Abioye Mustafa

et al., 2013), which are specifically designed to analyze fundamental aspects of the board of directors in zakat institutions.

2. Transparency in this study pertains to the degree to which zakat organizations offer unambiguous, precise, and readily available information to the public regarding the administration of zakat funding. Transparency include the adoption of regular reporting procedures, widespread dissemination of information, and a willingness to receive comments and requests from the public. The evaluation of this variable is based on a collection of six questions modified from (Sawmar & Mohammed, 2021) research, which examines several facets of transparency inside the zakat institution.
3. In this study, trust refers to the level of faith that the public has in zakat organizations with regards to their ethical behavior, honesty, and adherence to sharia principles when managing zakat funds. This trust includes the belief that the institution will act fairly, transparently, and in accordance with the established instructions. This variable is evaluated using a set of six questions adapted from (Bin-Nashwan et al., 2021), which measure the extent of trust that muzakkis have in zakat institutions.
4. Zakat Compliance in this study refers to the degree to which individuals or business proprietors conform to zakat regulations, which involves fulfilling their zakat obligations by paying payments through legally recognized zakat institutions. Adhering to sharia requirements in paying zakat requires being knowledgeable, unwavering, and dedicated. Additionally, it involves a predilection for allocating zakat through established zakat organizations. This variable is evaluated by a series of four questions based on (Bin-Nashwan et al., 2021) research, which measures the extent to which muzakki or business owners comply to their zakat obligations.

All items should be evaluated using a five-point Likert scale, which ranges from "strongly disagree" (1) to "strongly agree" (5).

RESULTS AND DISCUSSION

Table 1 provides a concise summary of the demographic information of the participants in this study, encompassing significant attributes such as age, gender, educational attainment, kind of business, and annual income.

Table 1. Respondent Profiles

Variable	Frequency	Percentage (%)
Gender		
• Male	38	71.70
• Female	15	28.30
Total	53	100
Age		
• 30–39 years	8	15.10
• 40–49 years	15	28.30
• 50–59 years	20	37.73
• 60 > years	<u>10</u>	18.87

Total	53	100
type of business		
• Services	21	39.62
• Trading	25	47.17
• Manufacturing	7	13.21
Total	53	100
Highest education		
• Secondary school	2	3.77
• High school	12	22.64
• Diploma	16	30.19
• Bachelor	9	16.98
• Master	13	24.53
• Doctorate	1	1.89
Total	53	100
Annual Income		
• 150 - 250 million per year	20	37.73
• 250 - 500 million per year	14	25.42
• > 500 million per year	19	35.85
	53	100

This study encompassed a total of 53 participants, each possessing diverse demographic attributes, as outlined in Table 1. The survey results indicate that the male respondents were the majority, with 38 individuals representing 71.70% of the total, whereas the female respondents were 15, accounting for 13.21%. In term of age, The majority of respondents fell within the age bracket of 50 to 59 years, comprising a total of 20 individuals, which accounted for 37.73% of the sample. There were 15 respondents (28.30%) between the ages of 40 and 49, and 8 respondents (15.10%) between the ages of 30 and 39. In addition, 10 individuals (18.87%) were aged above 60. In terms of educational background, the respondents were divided into three main sectors based on their type of business: the service sector, comprising 21 individuals (39.62%); the trading sector, comprising 25 individuals (47.17%); and the manufacturing sector, comprising 7 individuals (8.7%).

Moreover, the respondents are classified according to their educational background into the following categories: Among the entire population, one individual (1.9%) has successfully finished elementary school or its equal, two individuals (3.77%) have successfully completed junior high school or its equivalent, and twelve individuals (22.64%) are high school graduates or possess an equivalent qualification. Out of the total number of individuals, 16 people, which accounts for 30.19%, have successfully acquired a diploma. Additionally, 9 individuals, equivalent to 16.98%, possess a bachelor's degree or an equivalent qualification. Moreover, 13 people, representing 24.53%, hold a master's degree. Lastly, just 1 person, making up 1.89%, has completed doctorate education. Regarding annual income, 37.73% of the respondents earn between 50 to 250

million per year, 26.42% earn from 250 to 500 million per year, and 35.85% earn more than 500 million per year.

Hypothesis testing

The path coefficients for the direct effects between the independent variables (predictor) and the dependent variable (outcome) in the model are shown in Table 2. Table 3 presents the route coefficients for the indirect effects in this model. These indirect effects quantify the extent to which the board governance variable influences zakat compliance through the mediating factors of trust and transparency.

Table 2. Path Coefficients – Direct Effects

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
Board Gov → Transparency	0.854	0.853	0.048	17.634	0.0000
Board Gov → Trust	0.814	0.829	0.027	30.018	0.0000
Board Gov → Zakat Compliance	0.407	0.415	0.114	3.569	0.0004
Transparency → Zakat Compliance	0.209	0.194	0.103	2.031	0.0428
Trust → Zakat Compliance	0.415	0.421	0.087	4.741	0.0000

Table 3. Path Coefficients – Indirect Effects

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
Board Gov → Transparency → Zakat Compliance	0.179	0.162	0.084	2.131	0.034
Board Gov → Trust → Zakat Compliance	0.338	0.350	0.076	4.463	0.000

Figure 2 depicts the outcomes of the structural model analysis conducted using the PLS-SEM methodology. This model illustrates the correlation between the independent variable of Board Governance, the mediating factors of Trust and Transparency, and the dependent variable of Zakat Compliance. Overall, the data indicates that effective management of the zakat board not only directly enhances zakat compliance, but also achieves this by fostering trust and transparency in zakat institutions.

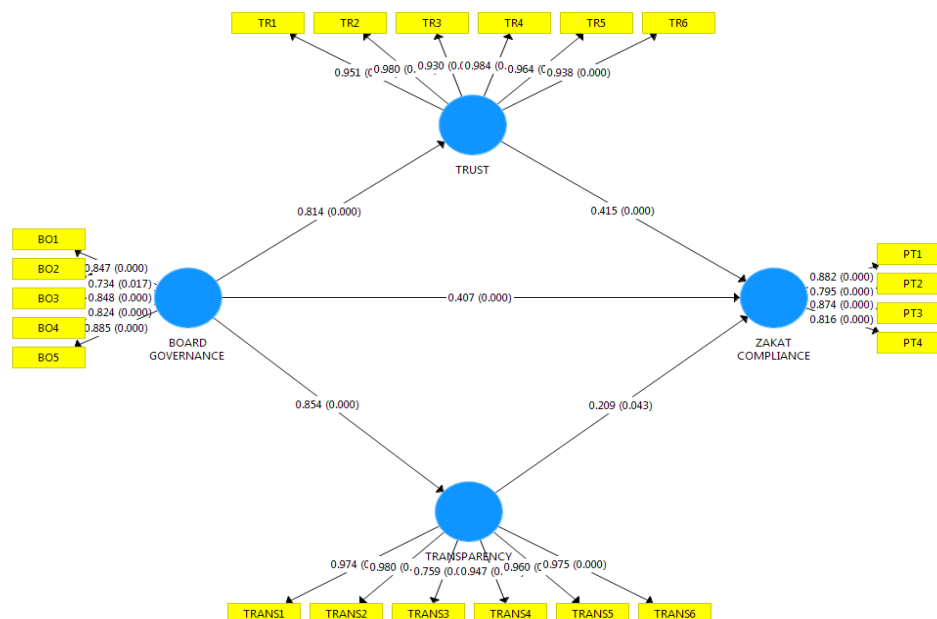


Figure 2. Structural Model

Board governance affect zakat compliance

The first hypothesis aims to examine the impact of board governance on zakat compliance. The t-test findings in Table 2 indicate a t value of 3.569, accompanied by a p-value of 0.0004, which is less than the significance level of 0.05. This suggests that board governance has a substantial impact on trust. Therefore, hypothesis 1 is confirmed.

Trust mediates the effect board governance on zakat compliance The second hypothesis is to investigate how trust influences the relationship between zakat compliance and board governance. The t-test results from Table 3 show a t-value of 2.131 and a p-value of 0.034, which is less than the significance level of 0.05. This finding indicates that the connection between board governance and zakat compliance is mediated by trust. Therefore, hypothesis 1 is confirmed.

Transparency mediates the effect board governance on zakat compliance

The third hypothesis aimed to examine the role of transparency in mediating the relationship between board governance and zakat compliance. The research revealed that the p-value of the transparency mediation effect was 0.000. Since the p-value is less than 0.05, we can accept hypothesis 3, which suggests that transparency serves as a mediator between board governance and zakat compliance.

DISCUSSION

Board governance positively affect zakat compliance

The study's findings suggest that board governance has a significant influence on zakat compliance. The diversity of professional backgrounds among board members is a crucial feature of zakat governance. In order to guarantee equitable and effective administration of zakat monies, it is imperative that the board comprises individuals with varied experiences and talents. The presence of diversity in zakat management promotes competency by ensuring that choices and policies are established with a wide range of perspectives in mind. Muzakki exhibit greater motivation to provide zakat to zakat institutions when they believe the board of directors to possess experience and professionalism.

Compliance with zakat provisions is significantly impacted by the participation of board members who possess a robust reputation and experience in sharia law. Members who place a high value on integrity can enhance the trust of muzakki who contribute to zakat organizations, while sharia specialists guarantee that zakat monies are administered in strict conformity with sharia standards (Roziq et al., 2021)(Rejosumarto & Bulut, 2024). Their presence serves as confirmation that zakat funds are being administered in compliance with sharia law. Muzakkis are more inclined to meet their zakat responsibilities through zakat institutions due to their assurance that their zakat is appropriately distributed to the designated beneficiaries, referred to as the eight asnaf. Furthermore, the presence of significant figures and advocates of zakat payments on the governing bodies of zakat organizations enhances adherence to zakat responsibilities. Prominent individuals can enhance the trustworthiness of zakat organizations and draw in more muzakkis, while representatives of zakat payers ensure that the needs and wishes of the community eligible to receive zakat are fulfilled (Yerrou et al., 2023). By involving representatives of zakat payers, zakat institutions can gain a deeper understanding of the expectations of muzakki and subsequently fulfill those expectations, leading to an increase in zakat compliance.

Board governance have a positive effect on zakat compliance mediated by public trust

The results of this study suggest that trust acts as an intermediary in the connection between zakat compliance and board governance. Effective board governance, which includes a variety of member backgrounds, member integrity, and the participation of sharia experts and representatives of zakat payers, improves the transparency and responsibility of zakat institutions. Muzakki's trust and inclination to donate zakat to a zakat organization will be enhanced when the institution's board diligently and in compliance with sharia principles oversees the zakat money. On the other hand, insufficient governance can gradually weaken the confidence of the public and impede the commitment to zakat. Put simply, there is a robust correlation between efficient board governance and heightened zakat compliance, a relationship that is reinforced by public confidence.

Moreover, these findings highlight the significance of board governance in enhancing public confidence and enhancing zakat compliance. Institutions that supervise the allocation of zakat and exhibit transparency, responsibility, and

involvement of different important participants have the power to foster public trust (Sawmar & Mohammed, 2021) (Bin-Nashwan et al., 2021). Consequently, this acts as a stimulus for individuals to perform their zakat requirements with more adherence. This demonstrates how effective management can influence zakat compliance, both directly and indirectly, by increasing Muzakki trust in zakat institutions.

Transparency Mediates the effect board governance on zakat compliance

The results of this study suggest that transparency plays a role in facilitating the relationship between board governance and zakat compliance. This emphasizes the vital need of a capable and responsible board in improving the clarity and transparency of zakat institutions. A transparent board will consistently furnish the public with comprehensive information pertaining to the institution's accomplishments, operational endeavors, and management of zakat monies. The transparency of the institution enhances the confidence of muzakkis and bolsters the reputation of the organization. Muzakkis are more likely to donate zakat to zakat institutions when they have trust that their zakat funds are efficiently managed and used in accordance with sharia principles.

In addition, the advantages derived from precise and punctual information are a direct outcome of enhanced transparency facilitated by robust board governance. Transparency in disclosing facts regarding the utilization of zakat funds serves to diminish public doubt and mistrust towards an organization, hence enhancing its accountability (Yunizar & Danel, 2023). If individuals have trust in the reliability and effectiveness of zakat administration, they are more likely to choose the institution as their preferred method for making zakat payments. Transparency plays a crucial role in bridging the gap between board governance and zakat compliance (Mohammad Qutaiba et al., 2024). It helps to establish and uphold public trust, hence promoting a higher level of commitment to zakat payment through zakat institutions.

CONCLUSION

The research findings indicate that board governance influence zakat compliance. Furthermore, the findings of this study also indicate that the correlation between board governance and zakat compliance is mediated by trust and transparency. Muzakki trust in zakat institutions and the transparency of zakat administration enhance the impact of board governance on zakat compliance. In order to enhance zakat compliance, zakat institutions must bolster trust and transparency, while also enhancing board governance.

The findings of this study have significant implications for the application, framework, and regulations in the subject of zakat. Zakat institutions should enhance their board governance by prioritizing regular reporting, ensuring information transparency, facilitating report accessibility, and being responsive to the public in order to enhance zakat compliance. Furthermore, the significance of establishing trust and transparency in the institution's operations is evident, as research has demonstrated that these factors play a mediating role in the connection between governance and zakat compliance. In theory, this study enhances the

comprehension that effective governance has a substantial impact on attaining compliance, and emphasizes the intermediary function of trust and transparency in this correlation, which can serve as the foundation for future investigation. These findings can motivate the government or relevant authorities to implement more stringent regulations or standards for board governance in zakat institutions. Additionally, they can enhance audits and supervision to ensure increased transparency and public confidence in zakat institutions.

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