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## Factors Influencing Business Zakah Compliance Behavior among Moslem Businessmen in Malaysia: A Research Model

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### Abstract

This paper aims to propose a research model for examining the influence of internal and external factors on Business Zakah compliance behavior among businessmen in Malaysia. An extensive literature review method was utilized to identify and analyze the relevant literatures in order to propose the model. This paper identified two internal and two external factors of the compliance behavior. The internal factors are knowledge and self-efficacy while service quality and interaction are the external factors. Theoretical and practical implications of the paper as well as suggestions for future research were also discussed.

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*Keywords:* Business Zakah compliance behavior; knowledge, self-efficacy, service quality, interaction; Moslems businessmen.

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### 1. Introduction

Zakah is one of the five pillars in Islamic faith. It is also known as a religious levy or almsgiving. A person who paying Zakah not primarily doing a favor to the recipient but also meeting a claim on himself by purifying wealth (Gambling & Karim, 1986). The Quran (the Holy Book which Moslems believe to have been divinely revealed to the Prophet, at various times and places), Surah At-Taubah verse 103 states that so unlike taxes, Zakah has spiritual connotations (Al Quran dan Terjemahannya, 2000). Since the days of the Prophet (peace be upon him), Zakah has played an important role for Moslems socio-economy development throughout the world. Similarly, Zakah has been

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utilized to improve standard of living and economic developments of Moslems in Malaysia. Thus, the continuous increment of Zakah fund is critical to ensure its role as ‘community development agent’ can be further strengthened.

Zakah institutions in Malaysia have taken various actions to increase Zakah fund. Specifically, the main focus of the actions is to encourage eligible Moslems to discharge their Zakah obligation. The actions taken include corporatization of Zakah Collection and Distribution Center, increase promotional activities and provide various Zakah payment facilities such as remittance, money order, bank draft and bank standing instruction. Recently, Zakah can also be paid via short messaging system (SMS).

Considering the above efforts, it is expected that Zakah payment would increase among Moslems in Malaysia. However, recent evidence indicates that payment of Business Zakah to its institutions among eligible Moslem businessmen in the country is still low (Ahmad Radzuan, 2009; Halizah, Kasumalinda & Agoos Munalis, 2011). For instance, although Federal Territory recorded the highest collection of Zakah in Malaysia, only 1.7% or 747 eligible businessmen paid the Zakah in 2008. In addition, not more than 2.2% of them in states of Penang and Johor discharged the obligation in the same year. In short, low compliance behavior on Business Zakah is evident in the country (Halizah et al., 2011). Despite various factors that influence individuals’ compliance behaviors have been reported in a variety of contexts (for examples, taxation, information technology, marketing and tourism) (Alabede, Ariffin & Md Idris, 2011; Elliott, Armitage, & Baughan, 2003; Palil & Mustapha, 2011; Verboon & Dijke, 2007), research models that address this issue from the Zakah context is still limited. Thus, the purpose of this paper is to propose a research model for examining the influence of internal and external factors on Business Zakah compliance behavior among Moslem businessmen in Malaysia. The research model can be applied to further explain the issue in future.

The paper is structured as follows; Section 2 highlights the pertinent concepts and hypotheses development related to this paper. Following this, the proposed research model is illustrated. The paper ends with conclusions, implications and suggestion for further research.

## **2. Literature Review and Hypotheses Development**

### *2.1 Business Zakah Compliance Behavior*

Zakah is levied on money, investments (for income generation), animals, agriculture, trade and business (Gambling & Karim, 1986). Zakah on business income which is the focus of this paper is levied on the business net asset at the rate of 2.5 percent (Kedah Zakah Department, 2008). All types of Zakah are mandatory on eligible Moslems as the act of worship to the God. The obligation is not enforced in the most countries. This means that if a Moslem chooses to defy such obligation, then the individual will be personally held responsible for the act and will be punished in the hereafter for disobeying the God’s law. However, in some Moslem dominated countries such as in Saudi Arabia, Pakistan and Malaysia, Zakah law has been enacted to enforce the God’s law. Such law provides authority to Zakah institutions to collect the obligation in a more systematic way.

In Malaysia, each state and federal territory has its own Zakah institution. The institution is under jurisdiction of the respective state government (Abu Bakar, 2007). For federal territories, Zakah institutions are under jurisdiction of the federal government (Abu Bakar, 2007). Failure to pay any of the Zakah obligations would expose individuals to fine and imprisonment. For example, state of Kedah’s Zakat Enactment (1998) states that a fine not exceeding MYR600 (US\$272) and imprisonment not more than six months will be imposed if a Moslem is convicted of avoiding the obligation or transferring the asset in order to evade such obligation. Furthermore, the obligation must be paid in accordance with the rules set out in the Moslem code of law (or Sharia) (Gambling & Karim, 1986) and through its institutions. Failure to do so a Moslem is subject to the above mentioned punishments (Kedah Zakat Enactment, 1998)

However, it is interesting to highlight that eligible Moslems can pay their Zakah obligation directly to any of the eight recipients. As specified in The Quran, Surah At-Taubah verse 60 “Zakat is for the poor and the needy and those who are employed to administer and collect it, and for 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 wayfarers: this is a duty ordained by God, and God is the All-Knowing, the Wise” (Al Quran dan Terjemahannya, 2000). Although such behavior does not entail punishments in the hereafter, it breaches the Zakah law. Given such situation, Business Zakah compliance behavior in this paper refers to payment of Zakah on business income in accordance with the Moslem code of law (or Sharia) to the institutions among the businessmen.

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