

LOCALIZATION OF MALAYSIAN ZAKAT DISTRIBUTION:  
PERCEPTIONS OF AMILS AND ZAKAT RECIPIENTS

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## ABSTRACT

This study attempts to investigate the perceptions of zakat recipients (the end user) and the amil (the implementer) on whether localization of zakat distribution would be a possible solution to address the problem of zakat management in Malaysia. The study is motivated by the findings of previous studies that the Muslim society is still not satisfied with management of zakat distribution. Research questions include the perceptions of amils and zakat recipients on; (a) the localization concept of zakat distribution; (b) the main determinants of zakat localization; (c) the relationship between zakat localization and the quality of life; and the influence of religiosity on the quality of life of zakat recipients;(d) the factor determinants that amils agreed to implement localization, as well as (e) the potential role of the mosque in implementing localization. Data collected using purposive random sampling on a sample of amils and zakat recipients in Malaysia. The respondents were selected from the states of Selangor, Penang, Federal Territory Kuala Lumpur, Malacca, Terengganu and Kedah. The collected data was analyzed using Exploratory Factor Analysis (EFA), Confirmatory Factor Analysis (CFA) Structural Equation Modeling (SEM), analysis of variance (ANOVA) and logistic regression (LR). The findings of this study show that majority of respondents strongly support the concept of localization of zakat distribution, especially the amils compared to zakat recipients. It also indicates that all variables, namely trust in Islamic institution (input factor), perceived zakat management (process factor), asnaf's attitude to change and asnaf's quality of life (output factor) as well as the proposed localization of zakat distribution (opinion factor) have significant relationship amongst the variables. This finding also indicates that the successful implementation of localization is dependent on the importance of the role of the mosque. Finally, this study recommends the role of the mosque should be strengthened from the outset and then, it would facilitate the implementation of the localization of zakat management.

## ***ABSTRAK***

Kajian ini bertujuan mengkaji persepsi penerima zakat (pengguna akhir) dan amil (pelaksana) sama ada lokalisasi pengagihan zakat berkemungkinan menjadi satu penyelesaian untuk menangani masalah pengagihan zakat di Malaysia. Kajian ini didorong oleh hasil kajian sebelum ini menunjukkan bahawa masyarakat Islam masih lagi tidak berpuas hati dengan pengurusan pengagihan zakat. Persoalan kajian merangkumi persepsi amil dan penerima zakat terhadap; (a) konsep lokalisasi pengagihan zakat; (b) faktor penentu penerimaan lokalisasi pengagihan zakat; (c) hubungan antara lokalisasi pengagihan zakat dan kualiti hidup; dan pengaruh faktor keagamaan terhadap kualiti hidup penerima zakat; (d) faktor penentu amil bersetuju untuk melaksanakan lokalisasi pengagihan zakat; (e) peranan masjid untuk melaksanakan lokalisasi pengagihan zakat. Data telah dikutip menggunakan kaedah pensampelan rawak yang melibatkan responden amil dan penerima zakat di Malaysia. Responden kajian ini adalah dipilih dari beberapa negeri iaitu Selangor, Pulau Pinang, Wilayah Persekutuan Kuala Lumpur, Melaka, Terengganu dan Kedah. Data yang dikumpul telah dianalisis menggunakan analisis penjelajahan faktor (EFA), analisis pengesahan faktor (CFA), model persamaan berstruktur (SEM), analisis varian (ANOVA) dan regresi logistik (LR). Dapatan kajian menunjukkan majoriti responden amat menyokong konsep lokalisasi dalam pengagihan zakat, terutamanya responden amil berbanding penerima zakat. Kajian juga menunjukkan kesemua pembolehubah yang dikaji iaitu kepercayaan terhadap institusi Islam (faktor input), persepsi terhadap pengurusan zakat (faktor proses), sikap asnaf untuk berubah serta tahap kualiti hidup asnaf (faktor output) dan cadangan lokalisasi pengagihan zakat (faktor pendapat) mempunyai hubungan yang signifikan antara kesemua pembolehubah yang dikaji. Kajian ini juga mendapati kejayaan perlaksanaan konsep lokalisasi amat bergantung kepada peranan penting yang dimainkan oleh institusi masjid. Akhirnya kajian ini mencadangkan peranan institusi masjid perlu diperkasakan yang akan menguatkan perlaksanaan konsep lokalisasi dalam pengagihan zakat.

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## LIST OF ACRONYMS AND ABBREVIATIONS

<b>ANOVA</b>	Analysis of Variance
<b>AVE</b>	Average Variance Extracted
<b>CFA</b>	Confirmatory Factor Analysis
<b>CFI</b>	Comparative fit index
<b>CR</b>	Construct Reliability
<b>df</b>	Degree of freedom
<b>EFA</b>	Exploratory Factor Analysis
<b>FT</b>	Federal Territory
<b>Ikaz</b>	Zakat Research Institute of Malaysia
<b>JAKIM</b>	Department of Islamic Development Malaysia
<b>LR</b>	Logistic Regression
<b>ML</b>	Maximum Likelihood
<b>KMO</b>	Kaiser-Meyer-Olkin
<b>MSA</b>	measure of sampling adequacy
<b>NZRF</b>	Non Zakat Recipient Fund
<b>pbuh</b>	Peace be upon him
<b>RFI</b>	Relative fit index
<b>RI</b>	Religiosity Index
<b>RMSEA</b>	Root mean-square error of approximation
<b>SEM</b>	Structural Equation Modelling
<b>SIRC</b>	State Islamic Religious Councils
<b>SR</b>	Structural Regression
<b>TLI</b>	Tucker-Lewis Index



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# CHAPTER 1

## INTRODUCTION

### 1.1 PROBLEM STATEMENT

For decades, initiatives have been taken by many institutions around the world to design and implement policies and develop appropriate structures and governance to combat poverty. Despite these efforts, the problem of poverty continues to prevail. Studies continue to be undertaken on areas such as the characteristics and causes of poverty and interventions to improve the living conditions of the poor. Undoubtedly, more research has to be undertaken to formulate effective policies and institutions to alleviate poverty (Siregeldin, 2000; Rao, 2002). From the Islamic perspective, research on zakat is also focusing on poverty where improving the welfare of the poor (one of the zakat beneficiaries) remains a major objective of zakat practices. Whilst most studies in the past concentrated on the role of zakat from the philosophical aspect, an increasing number of current empirical studies are focusing on the performance of zakat institutions in alleviating poverty.

The main aim of these studies is to identify the most appropriate strategy to combat poverty using the zakat approach. Siregeldin (2000) stressed that the income-based approach, whilst necessary in certain cases, is still not sufficient to address poverty issues. Other alternative approaches for the formulation of sustainable poverty alleviation policies have to be explored, especially in terms of sociopolitical externalities. He added that although economic forces are important, the aspect of sociopolitical, cultural, and other non-economic factors associated with human development should be considered in the policy analysis of poverty alleviation.

Earlier studies have found that zakat is an important fiscal policy tool, specifically in improving economic growth or at least changing the quality of life<sup>1</sup> and attitude of the poor and the needy zakat recipients in Muslim countries and communities (Mannan; 2003, Wess, 2002; Hairunnizam et. al, 2004; Hassan & Khan 2007; Mahyuddin & Abdullah, 2011; Nazirudin et. al, 2011; Azhana & Abd Halim, 2012). These fiscal policy outcomes are possible if the zakat funds are governed and managed wisely and professionally and focused on human development, as mentioned by Sirageldin (2000). Therefore, good governance of zakat management<sup>2</sup> is crucial as it could facilitate poverty alleviation among the Muslims. Of interest is the concept of fiscal decentralization. As strongly argued by Rao (2002), fiscal decentralization<sup>3</sup> is the appropriate way to combat poverty because experiences have shown that the sub-central government plays an important role in designing and implementing poverty alleviation strategies (Pauly, 1973; Ladd & Doolittle, 1982; Brown & Oates, 1987).

In principle, proper implementation of zakat management would ultimately improve the socio-economic conditions of the Muslims in a state. This is because, the priority of zakat institutions is to eradicate poverty in the Muslim society (Sadeq, 2002) and therefore proper zakat management is crucial to achieve this objective. This raises the question of whether zakat institutions in Malaysia have managed their zakat funds efficiently. Earlier studies revealed that there were many problems involved in zakat management in Malaysia. The studies have also demonstrated the negative perceptions

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<sup>1</sup> In Malaysia, the quality of life of individuals could be viewed in terms of personal development, healthy living, accessibility and freedom to acquire knowledge and enjoy living standards that exceed the basic and the psychological needs of individuals, to achieve a level of social welfare in line with the objectives of the country (Economic Planning Unit, 2002).

<sup>2</sup> It refers to the process of collection and distribution of zakat by every state in Malaysia. This study will focus on zakat distribution since it has become a major and an important issue in zakat management. Many studies reveal that zakat payers were not satisfied with zakat management, especially the distribution aspect.

<sup>3</sup> Largely refers to a number of policy reforms in which central government agencies transfer rights and responsibilities to more localized institutions.

of the Muslim society towards the current zakat management, especially in terms of zakat distribution (Mohamed Dahan, 1998; Sanep et. al, 2006; Muhammad Syukri, 2006; Abd Halim et. al, 2008, Hairunnizam et. al, 2010; Steiner, 2011). A related problem that has been identified is the shortage of staff and experts in the zakat institutions relative to the numerous tasks under their responsibilities. As noted by Sadeq (1995) and Abdul-Wahab, et. al. (1995), such limitations could lead to inefficiencies and ineffectiveness or in other words under potential performance of zakat institutions. Related problems faced by the zakat authorities include lack of management expertise, lack of commitment, lack of information and legal aspects.

With respect to zakat management in Malaysia, several scholars have stressed that the efficiency and effectiveness of zakat collection and distribution mainly depend on good governance of zakat institutions. A possible solution could be the process of decentralization of zakat management (Abdul Aziz, 1993; Kahf, 1995; Abdul Ghafar & Nur Azura, 2006) or specifically corporate<sup>4</sup> governance or corporatization of zakat management (Shawal & Hasan, 2008; Abd Halim et. al, 2008). However, empirically, there are no significant indications that the corporatization of zakat management could improve zakat management in Malaysia (Nor Ghani et. al, 2001). In fact, the negative perceptions from the Muslim community still exist, including in states where zakat management has been corporatized (Sanep et. al, 2006; Hairunnizam et. al, 2010). A possible explanation for such scenario is that the corporatization of zakat management has mainly emphasized on the structure of administrative organization and how to increase zakat collection rather than on effective zakat distribution (Fadzila, 2011).

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<sup>4</sup> Also known as a form of decentralization. However this study believes that corporatization of zakat collection has improved collections from year to year, but in terms of zakat distribution, corporatization alone could not completely solve the current problem discussed. There is a need to integrate the concept of localization to implement especially the zakat distribution.

Recognizing this gap, the present study attempts to analyze the issue of implementation of good governance, especially on zakat distribution, where everyone is able to participate in the decision making process. One of the characteristics of good governance is participation from interested parties in zakat management. The participation should come from the rulers, the zakat payers, the zakat recipients and also the Muslim society as a whole. For that reason, good governance actually is significantly related to decentralization or localization, participation and poverty alleviation (Dreze, 1990; Sirageldin, 2000; Rao, 2002; Booth, 2003; Asfar 2010). In fact, for the zakat institution to gain legitimacy and trust of their customers, several studies have urged that it must engage continuously with the local community (Sirageldin, 2000; Steiner, 2011). Other studies have proposed that the concept of decentralization in zakat management, practiced in Malaysia during the pre-colonial era, should also be considered as a reference point for future studies (Abdul Aziz, 1993; Steiner, 2011).

Though localization appears to be a viable solution to zakat management problems, the concept still has to be examined closely and must take into account the interest of the local Muslim communities or neighborhood. Some earlier studies have suggested the concept of decentralization through localization of zakat management (Sirageldin, 2000; Muhammad Syukri, 2006; Suhaib, 2009). Localization of zakat management has been practiced successfully in some Muslim countries, for instance Pakistan (Kahf, 1995b) and Kuwait (Ajeel, 1995). However, Pakistan implemented the zakat distribution model through local committees<sup>5</sup> (Kahf, 1995b). In the case of Malaysia, a likely approach would be to localize zakat using the direct distribution model based on the Malaysian Islamic jurisdiction framework. The zakat institution at

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<sup>5</sup> Local committees in Pakistan are volunteers who receive no indemnities or material incentives. This study is not in favor of this implementation because it could cause ineffectiveness of policy strategies and implementation (see Muhammad, 1995)

the state level would be strengthened with participation from the local community or neighborhood via local amil<sup>6</sup> and the local mosque<sup>7</sup>, and still within the formal system of zakat management in each state.

Earlier studies have proposed localization of zakat management for several reasons. First, the zakat fund could be utilized for development of local infrastructure, education, industries, agriculture and handicraft, based on local preference, which would benefit the local people in terms of improving social cohesion (Suhaib, 2009). In addition, from the geographical aspect, the communication gap between zakat institutions and zakat recipients could be eliminated. Thus, the zakat fund could be distributed efficiently to the zakat recipients, especially the poor and the needy. Moreover the potential zakat recipients in that particular area could also be easily identified (Muhammad Syukri, 2006). Further, the localization of zakat management could raise awareness among local communities; enable the creation of a local community data base that could be used in poverty-reduction strategies effectively, besides being more accessible and less costly (Sirageldin, 2000). However none of these studies have empirically tested the effectiveness of localization of zakat management in alleviating poverty in general. Hence this study would attempt to fill this research gap. The objective of the study would be to empirically investigate perceived localization of zakat management and whether the implementation of zakat localization should apply the bottom-up approach, that is, it begins from the zakat payers, the zakat recipients or the Muslim society as a whole. To achieve this objective, this study would attempt to investigate the issue of implementing localization of zakat management from the perspective of the amils (zakat implementers) and the zakat recipients (zakat users).

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<sup>6</sup> Local amils should be appointed professionally and as full time workers to perform their duty throughout the year.

<sup>7</sup> suggests the creation of local zakat office in the mosque

Our literature review revealed that, theoretically, the root of the concept of localization is based on the framework of the location-based theory of fiscal federalism by Tiebout (1956), which discussed localization in terms of the structure of institution and governance. Indeed, the concept of fiscal decentralization has a significant relationship with the concept of fiscal federalism (Musgrave, 1959; Oates, 1972; Musgrave, 1997). The fiscal federalism theory initially has a strong connection with decentralization that mainly focuses on maximizing social welfare in a locality particularly, or a state and a country generally. The implementation of decentralization involves the institutions that should take the responsibility of the government administrator and the political power that would give administrative and information cost advantage to the implementer. It could be done through the provision of local public goods and services to the particular individual or consumer or by targeting the specific location or geographical area (Atkinson & Stiglitz, 1980) that finally could lead to Pareto optimum provision of public goods (Tiebout, 1956).

However, to make the theoretical concept more practical in the study of zakat, this study would relate the concept of localization with the concept of public management and neighborhood decentralization (Rondinelli & Cheema, 1983; Burns et al, 1994; Schnider, 2003; Lameck, 2011). Localization is therefore defined as the physical relocation of services from centrally-located offices to sites within local communities. This idea is in line with the study done by Steiner (2011) which suggests that the zakat centers should continue engaging with the local communities to gain legitimacy and trust from their customers. Indeed, Burns et al. (1994) derives the word “localization” from the concept of neighborhood-decentralization. Bergh (2010) refers to localization as a participatory approach that is related to democratization. Localization could strengthen and improve the relationship between local councils and

the citizens which in turn would improve the performance of decision making bodies and institutions at the lower level. Hence, basically localization of zakat management is the idea of engaging and improving relationship between amils as zakat implementers and the zakat recipients as zakat users to gain trust and legitimacy from the Muslim society, especially those who pay zakat.

Decentralization or specifically localization of management or administration has its advantages. For instance, the local officer is trusted more than the state officer and the former is also more accountable as he is closer to the people (Braun & Grote, 2002; Shah & Thompson, 2004; Sharma, 2009). The officer elected in a specific area could take full responsibility of his duties and tasks as well as increase the responsiveness to local needs (Oates, 1972; Kahf, 1995a; Faguet, 2004) and this would lead to improvements in transparency and accountability (Manor, 1999; Tugrul & Shah, 2002; Park & Wang, 2010). On the other hand, the local institution could promote domestic involvement in any of the activities in the area (Francis & James, 2003; Alatas et. al, 2003; Park & Wang, 2010) and encourage participation among members of the society (Bergh, 2010; Crook, 2003; Lemeck, 2011). Apart from that, local participation in the implementation of any programs planned by the local government could also improve accountability to local citizens (Rao, 2002).

Decentralization could also lead to allocation of resources efficiently and effectively by diverting resources and power to the local government (Faguet, 2000; Hankla, 2008; Asfar, 2010), leading to cost efficiency (Rao, 2002; Balaguer-Coll, et al, 2010). It could also reduce inequalities or disparities and separatism between regions and localities (Crook & Manor, 2000; Hankla, 2008). Many studies have also stressed that localization could enable quality governance by efficiently and reliably providing



citizens with the public goods and services that they desire (Tiebout, 1956; Oates, 1972; Treisman, 2007). The local government would have an incentive to provide public over specific goods, adhere to local priorities and be sensitive to local needs (Breton, 2002; Faguet, 2004; Sharma, 2005). Decentralization provides access to source of information that enables the local government to improve the targeting of social assistance to the poor (Alderman, 2002).

The potential benefits of implementing localization of zakat management in any state or country also mainly depends upon the nature of intergovernmental competition (Breton, 1996), local power structure and the political institutions (Rao, 2002). The effectiveness of the implementation of poverty alleviation policies also depends on the responsiveness and capacity of local government institutions. Governments that are 'closer to the people' should, in principle, be able to provide services more efficiently and effectively than a centralized authority (Bird, 1993; Rao, 2002). However, it should be pointed out that decentralization could be a failure (Breton, 2002). Many studies have shown that, empowerment of the poor and the nature and extent of their participation also depend on the local power structure and the effective measures to avoid exploitation of power by the local elite (Bardhan, 2002). Moreover, some questions have also been raised about the increased local corruption levels and the absence of capacity by local governments to provide efficient services (Prud'homme, 1995; Tanzi, 1995).

Thus, to implement the concept of localization in zakat management, some issues and problems mentioned earlier should be addressed. The response of amils<sup>8</sup> as zakat implementers who represent the local authorities in zakat management and the

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<sup>8</sup> In Malaysia, amils are those who work as zakat collectors, including permanent and temporary amils, who traditionally collect zakat in the month of Ramadan, especially at the mosque.

zakat recipients as users of zakat service provided by the amil are equally important. Their perceptions are necessary to strengthen the basis of zakat management to ensure that any implementation of policy could become interminable and established in the society (Williamson, 2000). This study endeavors to investigate the significant factors that could affect their perceptions on the concept of localization. This study also believes that the role of the local mosque that is much closer to and trusted by the society (Sidi Gazalba, 1976; Mutiara & Muchtar, 2010; Marlina, 2010) and the role of trusted *imam*<sup>9</sup> as amil (Abdul Aziz, 1993; Abdul-Wahab et. al, 1995) or the role of local zakat officer are very important to implement the concept of zakat localization. This is because the major role of the mosque is to enhance the spirit of Islam and *dakwah* in the Muslim society. In fact, probably the issue of mismanagement of zakat could be minimized if the local elite do not dominate the organization.

Another issue that has to be explored is the relationship between implementing the concept of localization of zakat distribution and the attributes of zakat recipients in terms of religiosity<sup>10</sup>, attitude to change<sup>11</sup> and quality of life. This study focuses on the issue of religiosity because it is a basic part of the Muslim's survival in this world and the hereafter<sup>12</sup>. Thus it is wise for this study to hypothesize that to achieve sustained poverty eradication, the zakat recipients should have the attitude to change, particularly to pay zakat (Sirageldin, 2000; Azhana & Abd Halim, 2012). Two factors that could facilitate this change in attitude are improvements in their quality of life and positive thinking nurtured by religiosity. Some studies have shown that there is a significant

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<sup>9</sup> *Imam* are known in the pre-colonial period as good role models in the Muslim traditional society.

<sup>10</sup> Based on individual action within the law of *sharia*. This means that if an individual obeys Allah's command consistently and expects His good pleasure, then the individual is considered to have a better level of religiosity than those who are not obedient to the order of Allah (Siti Adilah, 1999).

<sup>11</sup> The attitude of the recipients in this study refers to their attitude to change their status from being a zakat recipient to a zakat payer (Hailani, 2008). It is an early attempt to deflect public's view in labelling this group as "poor-minded" who do not want change.

<sup>12</sup> Based on LZS experience, lack of religiosity such as accountability and honesty was one of the reasons why the *asnaf* fail to succeed in their business (refer to Ahmad Shahir, 2011)

relationship between religiosity and quality of life (Ellison et. al, 1989; Ellison, 1991; Schieman et. al, 2003; Greene & Yoon, 2004). However, these studies have been conducted in the context of Christianity and not Islamic religiosity.

The role of the amils as implementers of zakat is also important (Mohd Tamyas, 2008; Ruziah, 2011; Ram, 2011; Hairunnizam et. al, 2011), especially in addressing problems related to zakat management such as breach of trust, unfair distribution, abuse of using zakat funds, inefficient management and distribution methods (Mohammed Dahan, 1998; Hairunnizam et. al, 2009). These have led to dissatisfaction among the members of society and could give rise to negative reactions such as paying zakat through unofficial channels (Sanep et. al, 2006). Thus far, no study has been conducted in Malaysia to investigate empirically the role, ability and the background of amils in the context of transforming them into professional amils in the long run, as suggested by Mujaini (2011). Are the amils ready and able to take the responsibility of implementing the concept of localization? As mentioned specifically in the Al-Quran (Surah 9: Verse 60), the amil has a significant role to manage the collection and distribution of zakat fairly and efficiently. In reality, however, majority of the amils in Malaysia, are only active in the month of Ramadan and their operations are confined to their specific areas or villages, where most of them perform their duties in the mosque. Based on this practice, it is believed that the concept of localization of zakat distribution could be implemented because the amils have close interaction with the local village community and hence are more trusted, especially the amil who is also the *imam* or at least is involved as a committee member of the village mosque.

## **1.2 RESEARCH QUESTIONS**

Based on the above discussion, the research questions for this study are;

1. What are the perceptions of the amils and zakat recipients towards the concept of zakat localization and what are the main determinants of zakat localization as perceived by the amils and zakat recipients?
2. Could the perceived zakat localization influence the level of religiosity, attitude to change and the quality of life of the zakat recipients?
3. Are the amils ready and able to take the responsibility to implement the concept of zakat localization?
4. Can the mosque play an important role in implementing the concept of zakat localization?

## **1.3 OBJECTIVES OF THE STUDY**

The general objective of this study is to examine the perceptions on localization of zakat distribution among amils and zakat recipients in Malaysia. To pursue the objective, this study would:

1. examine the perceptions of amils and zakat recipients on the concept of zakat localization and identify the main determinants of zakat localization as perceived by the amils and zakat recipients
2. evaluate the relationship between perceived zakat localization and the level of religiosity, attitude to change and quality of life as perceived by the zakat recipients.
3. analyze the factors that would influence the behavior of the amils to implement the localization of zakat management.

4. examine how the mosque could play an important role in implementing the concept of zakat localization from the perception of the amils and zakat recipients.

#### **1.4 HYPOTHESIS OF THE STUDY**

Based on the earlier discussions, this study would examine the following hypotheses:

1. Most amils and zakat recipients are agreeable to the concept of localization and the level of acceptance<sup>13</sup> is equally the same between amils and zakat recipients;
2. All the variables namely, trust in Islamic institution (input factor), perceived zakat management (process factor), asnaf's attitude to change and their quality of life (output factor), as well as the proposed localization of zakat distribution (opinion factor) have significant relationships with each other. The proposed localization of zakat distribution (opinion factor) is significantly affected by the output factor;
3. All possible determinants i.e. demographic factor and additional allowances significantly influence the behavior of the amil in terms of (1) willingness to accept the responsibility of becoming a local amil; (2) ability to perform the duty as a professional and on a full time basis ; as well as (3) acceptance at least in their mind of the concept of localization in zakat distribution; and
4. The role of the mosque (institution factor) has a significant relationship with the proposed localization of zakat distribution from the perception of amils and zakat recipients.

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<sup>13</sup> This study uses Likert scale namely; 1: strongly not agree, 2; not agree, 3: moderately agree, 4; agree, 5: strongly agree.

## **1.5 SIGNIFICANCE OF THE STUDY**

Most of the literatures on zakat are of a theoretical nature. This is a clear absence of any major study that is empirically-based. This study is a modest attempt to fill that gap. This study has also other significant contributions.

Firstly, many studies have discussed the advantages of fiscal decentralization and localization of tax management, but none have analyzed the perceptions or acceptance of the implementer and the end user of such services. Most of the studies have only focused on the perspective of the tax system, which involves the tax payers. This study would be the first attempt to deal with zakat management in Malaysia and explore the perceptions and agreements of the amils as zakat implementers and the zakat recipients as zakat users towards the concept of localization. Both parties are important as agents in the zakat management system. Indeed, the consent of both agents is essential to ensure that the proposal on localized zakat management would be sustainable in the long run. The perceptions of the zakat recipients and the amils are implicitly based on their preference of the potential zakat service, if the institution localizes zakat management. This would indicate that localization of zakat is possible and more importantly that both parties attain their preferences.

Secondly, this is the first study that attempts to analyze comprehensively the proposal on localization of zakat management in Malaysia. This study uses a statistical method of hypothesis testing to answer all the objectives stated earlier. The most important analysis in this study is to construct the localization variable of zakat management that has not been constructed in any single study on zakat or on tax. This study would construct the variable of localization based on the framework of location-

based theory of fiscal federalism and fiscal decentralization and identify this variable as a latent variable<sup>14</sup>

Thirdly, this is the first attempt to investigate the willingness of the amils as zakat collectors, to implement the proposal on zakat localization. The role of the implementer has not been discussed in detail in past literature on zakat decentralization except for listing his/her position, tasks and the characteristics they should possess in performing their duties. However, this study is different for it not only obtains the amil's perception on acceptance of localization of zakat distribution, but also studies his willingness and readiness to implement, and become professional amils<sup>15</sup>. The possible factors affecting their acceptance to implement zakat localization is also studied to ensure that in the future, the proposal of localization could be implemented effectively.

Finally, another significant contribution of this study is exploring the role of the mosque in implementing the proposal on localization of zakat. As would be discussed in the literature review later, many studies have proved that the geographical factor is important and that the zakat institution should set up a branch in the locality. In Islam, the mosque is important as it is the closest institution to the Muslim society and could be used as the potential institution to address any social problems. The role of this specific institution to manage localized services via zakat has not been discussed in any literature on fiscal federalism.

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<sup>14</sup> The variable is called latent variable in SEM because this variable is not measured directly

<sup>15</sup> See Mujaini (2011). He has defined professional amil as one who is proactive and innovative (*Mujtahid*)

## **1.6 METHODOLOGY OF THE STUDY**

Analysis of prior studies shows that their methodological approaches mainly use cross country data as the main unit of analysis to examine the effects of fiscal decentralization on several macroeconomics variables. However this study uses the primary data collected from the amils and zakat recipients in several states in Malaysia, using purposive random sampling. The amils as well as the poor and the needy zakat recipients were selected from the states of Selangor, Penang, Federal Territory Kuala Lumpur (FT Kuala Lumpur), Malacca, Terengganu and Kedah. The poor and the needy recipients were selected because they represented the largest percentage (almost 50 per cent) of zakat recipients (Hairunnizam et.al, 2010). Amils comprise permanent and temporary amils who collect zakat during Ramadan. Selangor and Penang are the states that have corporatized zakat collection and distribution. The choice of the states are based on the justification that FT Kuala Lumpur and Malacca have corporatized zakat collection but not zakat distribution, while Terengganu and Kedah represent the states that have not corporatized at all. The differences between zakat management structures are expected to provide balanced and unique results which would be interesting to analyze.

This study also develops localization as a latent variable based on its characteristics and advantages in aspects of zakat distribution, using Exploratory Factor Analysis (EFA), Confirmatory Factor Analysis (CFA) and Structural Equation Modeling (SEM). SEM is a family of statistical models that seeks to explain the relationships among variables, expressed in a series or equations (similar to a series of multiple regression equations). These equations depict all the relationships among the



constructs involved in the analysis, which constructs are unobservable or latent variables<sup>16</sup> or factors (Hair et. al, 2006).

SEM has its advantages namely; estimation of multiple and interrelated dependence relationship, ability to represent unobserved concepts in these relationships and correct measurement error in the estimation process, and developing a model to explain the entire set of relationships. SEM conveys two important aspects of the procedure, namely the causal process represented by a series of structural equations, and this structural equation could be modeled pictorially to enable a clearer conceptualization of the theory under study. The hypothesized model could then be tested statistically in a simultaneous analysis of the whole set of variables. If the goodness of fit is adequate, the model argues for the plausibility of suggested relationship among variables and vice versa (Bryne, 2001; Kline, 2011).

This study also analyses the data using logistic regression to analyze the main factors that contribute to a dependent variable, especially the background of amils. Diagnostic tests on this data have to be performed. However the study finds that most of the data are multivariate non-normal data and therefore several procedures such as bootstrapping are required to reconfirm, analyze and discuss the estimation results (Bryne, 2001).

## **1.7 OUTLINE OF THE STUDY**

The rest of this study consists of six chapters which could be summarized as follows. Chapter Two focuses on the literature review. The first part deals with the background of zakat management in Malaysia which consists of the phase of zakat

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<sup>16</sup> The unobserved constructs, of which observed variables are fallible representations (Hoyle, 2011)

development from pre-colonial period and the trend of zakat collection and distribution among all the states in Malaysia. The second part provides a detail discussion on the issue of collection-distribution gap, the issue of zakat distribution to eight asnafs and the issue of non-recipients of zakat fund, a significant motivation for this study. Subsequently, the literature review explores the core component of localization based on earlier studies, especially the connection with the concept of fiscal federalism, fiscal decentralization, and neighborhood decentralization.

Chapter Three focuses on the theoretical framework and hypotheses of the zakat distribution model based on prior studies. The chapter aims to clarify the concept of localization that is mainly based on tax modeling and adapts this concept in the framework of zakat-based compliance. This study also incorporates the theory of rational choice, rational expectation as well as attribution and exchange theories to link the perceptions of amils and zakat with the concept of localization. Several core zakat distribution models are developed according to the main objectives, based on all the literature discussed.

Chapter Four provides the discussion on research methodology. It outlines several techniques or tools of analysis including structural equation model (SEM), logistic regression (LR) and analysis of variance (ANOVA). Details regarding the research questions, the hypothesis of the study, the hypothesis structural model, variables measurement, data collection and study area are all provided in the chapter.

Chapter Five presents the descriptive statistical analysis and the results of the estimations. This chapter focuses on testing each hypothesis of the study. The first part discusses the pilot study and presents an overview of the demographic profile of amils

and zakat recipients. The second part discusses the construction of localization variable using EFA and CFA. The third part presents the results of the tested hypotheses along with a discussion as to whether localization could be implemented in the context of Malaysian zakat distribution. Finally the concluding remarks and the policy implications are presented in Chapter Six.

## **CHAPTER 2**

### **LITERATURE REVIEW**

#### **2.1 INTRODUCTION**

This chapter focuses on the literature review specifically on the effectiveness of zakat management in Malaysia based on two main aspects, namely (1) zakat collection-distribution gap and (2) the trend of zakat distribution to the eight asnaf and the issue of bureaucracy in identifying the poor and the needy. These are the main issues in zakat management in Malaysia that have to be addressed through localization of zakat distribution. This chapter also reviews the literature on decentralization and localization that forms the basis of the concept of zakat localization.

#### **2.2 DISTRIBUTION OF ZAKAT: AN OVERVIEW**

Zakat is a Quranic term that signifies the specific obligation of giving a portion of an individual's wealth and possessions for primarily charitable purposes. Literally zakat is derived from the Arabic word which means "that which purifies" and "that which fosters" (Mannan, 1986). It also carries other connotations, such as "increase" and "virtue," as well as "giving." It is mentioned in the Quran together with other terms such as *sadaqa* that also carry the connotation of giving and charity.

Zakat is the pivot and the hub of Islamic public finance and covers the moral, social and economic spheres. In the moral sphere, zakat washes away the feeling of greed and acquisitiveness of the rich. On the other hand, in the social sphere, zakat acts as a unique measure vouchsafed by Islam to abolish poverty from the society by making it a social obligation for the rich. In the economic sphere, zakat prevents the accumulation of wealth in the hands of a few. It is a compulsory contribution of the

Muslims to the state (Mannan, 1986). Zakat is also recognized as a self-help measure adopted with full religious backing, to support those poor and destitute who are unable to help themselves, and alleviate misery and poverty from the Muslim society (Chapra, 1992). According to Rao (2002), poverty is associated with low levels of human development and access to social services. In addition, the state could also exercise zakat as a vital instrument to fulfill the basic needs in an Islamic economy<sup>17</sup> as well as an instrument of fiscal policy (Ziauddin, 1991; Siddiqi, 1996; Chapra, 2000).

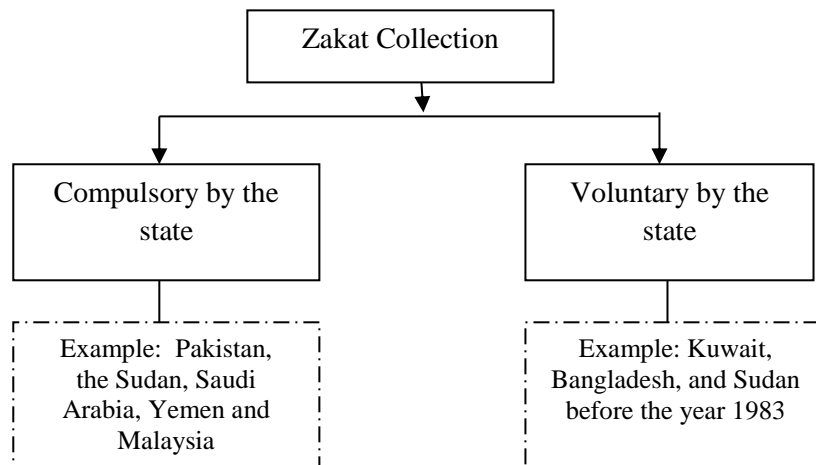
Zakat is the third pillar of Islam and an act of worship to Allah (Qardawi, 1999). Technically, zakat is defined as determining a share of one's wealth to be distributed among the lawful beneficiaries who are entitled for the wealth, as prescribed by Allah in the Holy Quran, (Qardawi, 1999). From the *fiqh* perspective, zakat refers to 'a payment of certain portion of certain type of wealth for the benefit of certain groups that have been specified by Allah' (Mahmood Zuhdi, 2003). Since zakat is a kind of wealth contribution, Mohd. Daud (1998) regarded zakat as an act of 'monetary worship' to Allah.

Zakat is not a voluntary institution, but rather it is compulsory to be operationalized by the state. It used to be done at the state level during the time of the Prophet (pbuh) until the demise of Islamic rule. There has been discontinuity in this matter for centuries. Lately, some Muslim countries are beginning to institutionalize the administration of zakat while others are yet to do so. According to Kahf (1995b), zakat administration could be divided into two main parts. First, compulsory collection of zakat by the state. Countries having compulsory zakat administration include Pakistan, Sudan, Saudi Arabia, Yemen and Malaysia. Second, is the voluntary zakat

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<sup>17</sup> Zakat also known as a tool of development economics to achieve welfare economy, as during the era of Caliph 'Umar 'Abd al-Aziz (101H). Please refer to Mujaini (2011).

administration by the state, for instance, zakat administration in Kuwait, Bangladesh, and Sudan before the year 1983 (refer to Figure 2.1). In the voluntary zakat administration, the state creates a Zakat fund, to which the people might voluntarily make their zakat payments.



**Figure 2.1: Model of Zakat Collection**  
Source: Kahf (1995b)

There are two types of zakat in Islam, that is *zakat fitrah* (*zakat al-fitr*) and zakat on wealth (*zakat al-mal*). The first is a flat fee imposed on each person to be paid in the month of Ramadan or early Syawal to purify those who pay zakat and to bring happiness to the poor and needy on the Muslim festival day (Qardawi, 1999). The latter refers to zakat that is levied on an individual’s wealth or income.

Zakat has a crucial impact on the individual Muslim as well as on the Muslim society as a whole. With respect to an individual Muslim, zakat is deliberately imposed to purify his or her soul and wealth. Spiritually, zakat prevents the payer from being stingy and materialistic. On the other hand, the recipients purify their hearts from the feelings of envy, jealousy and anger towards the wealth of the rich. Additionally, zakat aims to bridge the gap between the rich and the poor (Sadeq, 2002). For instance, the rich contributes a part of their wealth for the poor. They share the burden and sufferings

of the poor. The poor in turn enjoy the happiness and the wealth of the rich. Ultimately, this concept of redistribution of wealth would minimize the income gap in the Islamic society (Nazifah Mustaffha, 2007).

Zakat is known as a financial and economic tool to cleanse one's wealth. Actually in most economic activities, there could be the effect of externalities to third parties either in the process of producing output or generating income. Probably the equilibrium in the economic transaction is not optimum and unfortunately does not take into account the effects of these externalities on third parties. Optimal balance could be achieved through government intervention either through the imposition of taxes, subsidies, etc. Thus, in the Islamic economic system, the imposition of zakat possibly could be optimized in all economic activities (Sanep & Hairunnizam, 2005).

The injunction of zakat as defined in the Al-Quran does not elaborate in detail the collection of zakat, but it is explained in the Hadith of the Prophet (pbuh). However the Al-Quran has specifically mentioned in detail regarding the distribution of zakat. According to Qardawi (1999), it was not left to rulers or those with personal opinions to decide zakat distribution according to their whims. He added that during Prophet's (pbuh) time, some greedy individuals attempted to take some proceeds<sup>18</sup> of the zakat. When the Prophet (pbuh) did not give way to their attempts, they criticized and boycotted the Prophet (pbuh). Allah has sent these verses deploring their greed and

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<sup>18</sup> zakat fund or collection

revealing their hypocrisy and those same verses mention the categories<sup>19</sup> of those who deserve zakat. Al-Quran, al-Taubah: 58-60, where Allah (s.w.t) says:

*“Among them there are who find fault with you concerning the collected of sadaqa. If they are given some of it, they are pleased but if they are not given any, they are angry. If only they had been pleased with what Allah and His Messenger gave them and said, ‘Allah is enough for us. Allah will give us His bounty as will His Messenger. It is to Allah that we make our plea’. Collected sadaqa is for: the poor, the destitute, those collect it, reconciling people’s heart, freeing slaves, those in debt, spending in the way of Allah and traveler. An Obligation imposed by Allah. Allah is All-Knowing, All-Wise.”*

From these verses in the Al-Quran, it could be concluded that the distribution of zakat is a very significant task<sup>20</sup>. In reality, both the economists and sociologists agree that in any taxation system the determination of the proceeds is more important than the collection of funds, as the government has sufficient means to collect taxes efficiently and justly. However, the poor distribution of zakat funds has occurred historically (Qardawi, 1999; p. 341). To conclude, it is learnt from the verses of Al-Quran that the distribution of zakat is a vital task of the amil or zakat institution to ensure that the proceeds reach the zakat recipients efficiently and fairly. Hence, it is important to distribute zakat wisely and effectively as well as prioritize the zakat

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<sup>19</sup> There are eight categories of zakat recipients (asnaf) as mentioned in the holy Quran (At Tawbah:60); (1) The destitute or indigent (*Fakir*): Those who don't have material possessions nor means of livelihood, (2) The Poor (*Miskin*): Those with insufficient means of livelihood to meet basic needs, (3) The Indebted (*Al Gharimin*): Those who are in debt and have difficulty repaying it, (4) Stranded Traveller (*Ibnu sabil*): The traveller who does not have enough money to complete their journey, (5) To Free Slaves (*Al Riqab*): Zakat money is to be used to purchase slaves and free them, (6) New Muslims or Converts (*Muallaf*): Those who are new to Islam and require help to integrate themselves into the Muslims community, (7) In the Path of Allah (*Fisabilillah*): Zakat money can also be spent in the path of Allah. This can include many things, basically any project that helps Muslims or Islam and (8) Zakat Workers (Amils): Those whose job it is to collect and redistribute zakat money get their salary from the zakat money (Azhana & Abd Halim, 2012; p.1210).

<sup>20</sup> The main task of amil is to distribute zakat in order to strengthen the asnaf belief (*aqidah*), socio-economic and human capital (Mujaini, 2011)



distribution to asnaf. Mujaini (2005b) and Mujaini (2011), for example have classified the eight asnafs into three main groups, namely:

1. Distribution based on need. It includes the poor, needy, *al-gharimun*, *al-riqab* and *ibn sabil*.
2. Distribution based on nurturing and encouragement of religious beliefs and morals. It includes *muallaf* and *fi-sabilillah*.
3. Distribution based on incentives and motivation, such as amil.

This categorization is actually the main basis for defining collection and distribution of zakat to each asnaf as stated earlier. The critical question here is whether zakat should be distributed equally to all asnafs (based on one-eighth part to each asnaf). Mohamad Uda (2005) and Mahmood Zuhdi (2003) explain that there are two opinions on this matter. Firstly, the opinion of the Shafi'i school which argues that zakat collection must be distributed equally to eight groups of people as stated in Surah *al-Tawbah* verse 60, including zakat *al-fitr*. It refers to the letter (ل) *lam* meaning ownership, which means all asnafs have the same rights or portion because it is connected with the letter (و) *waw*, which is part of the letter *ataf*, that means "and". Consequently, this school of thought holds that all zakat funds should be distributed equally to all eight asnafs. However if the zakat institution fails to identify all the eight asnafs, then the fund should be distributed at least to three asnafs, including the amil itself. According to Shafi'i school, there are four asnafs who should be given priority as well as the amil, namely the poor and the needy, *al-gharimun*, and *ibn-sabil*.

The second opinion is that of the *jumhur* or majority school (Hanafi, Maliki and Hanbali), which say that the zakat fund should be distributed only to a single asnaf,

based on the same verse from the Al-Quran. They have argued that all eight asnafs are denoted by the letter (ا) *alif* and (ل) *lam*, which means (ل) *lam al-tak'rif*, for instance the asnaf *al-fuqara* which contains an allusion (*Majaz*). However, according to Wahbah (1997), this argument is not strong enough and illogical to be accepted and therefore could be rejected. Based on the two opinions, the Shafi'i school of thought and the *jumhur*, it is more appropriate and fair to follow the method of zakat distribution by the Shafi'i. Mujaini (2011) asserts that the amil should have new ideas in this era to manage the zakat fund efficiently. There should be proper planning and use of current approaches to search for the truth (*ijtihad*), where any decision made is up-to-date and benefits the asnaf.

However, nowadays identifying and locating the eight asnafs is still be an important issue. Even though many zakat institutions have been corporatized and use comprehensive information technology, internet and database, the problem that still faced by zakat institutions was obtaining as much information as possible concerning the asnafs as well as searching for potential asnafs in the region. Localization of zakat management is possible where the focus is on own localities and communities as in principle, zakat should be distributed as soon as possible. Qardawi (2000) however states that while zakat *fitrah* must be spent in the current year, the distribution of zakat on wealth, which depends on *nisab* and *haul*, could be delayed to the following year. Zakat must also be disbursed in the locality of its origin, as mentioned by Abu Ubaid (154-244 A.H.) in his book *Al-Amwal* and managed under the supervision of the state, according to the set of rules introduced by the Prophet (pbuh) (Abdul Aziz, 1993). Distributing zakat beyond its locality is only permissible under special circumstances, such as to ensure the rights of the local asnafs are fulfilled and to meet the larger interest of the Muslims in other areas. In the case of Malaysia, the Kelantan State Fatwa

Council (Dec 1, 1990) agreed that zakat could be transferred to other regions if there is an important need. The transfer of zakat is also compatible with the views of Shafi'i school of thought.

Abd Halim et.al, (2011) asserts that the managing of zakat fund, like other financial funds, is guided by various parameters. The parameters could be grouped into three aspects namely organization, asnaf requirement and governance. Organization involves: (1) Trust: All proceeds of zakat is a trust in the hands of management that must be distributed to the recipients; (2) Inclusive: the collection of zakat to be distributed to all rightful recipients (asnafs); (3) Fair: The proceeds should be distributed fairly to all asnafs. However, any fund that is not spent could be transferred to another asnaf, in order of importance. As for asnaf requirement, it comprises: (1) *Had kifayah*: Zakat should be given at a rate sufficient to every individual in the asnaf; (2) Selected recipients: The distribution of zakat is as determined by Islamic law to the eight asnafs of zakat; (3) Immediate distribution: Amil or organization shall immediately implement the distribution after it identifies valid recipients; and (4) Preference: The distribution of zakat to be implemented according to priorities of the fakir, the poor and amil. Finally, in terms of governance, it depends on several factors namely; (1) Control: The distribution of zakat to be done with careful monitoring and control; (2) Accountable: Amil is responsible for zakat collection and distribution; and (3) Transparent: The collection of zakat and zakat distribution to be clearly set and audited.

## 2.3 THE DEVELOPMENT OF ZAKAT MANAGEMENT

### 2.3.1 The era of Prophet (pbuh)

The collection and distribution of zakat historically began during the era of the Prophet (pbuh), though the role of the state in collecting and distributing zakat began much later in Prophet's (pbuh) time in Medina. The people were required to pay zakat after the covenant between the Prophet (pbuh) and the Ansar at al-'Aqabah. However, the zakat payment was viewed as a personal obligation without any specific rules and legal requirements imposed by the state. Amils were instructed to collect zakat from the rich and distribute them among the poor. Baladhuri and Al-Tabari indicated that the Prophet (pbuh) sent 'Ala al Hadrami to Bahrayn and also 'Amr to 'Uman in the year of 6 *Hijrah* to 8 *Hijrah*. Mu'adh ibn Jabal was sent to Yemen in the year of 9 *Hijrah*. At that time, the Prophet (pbuh) himself sent amils to 31 places or tribes in the Arabian Peninsula. In 'Uman, 'Amr collected zakat from the rich and disbursed it among the poor while Mu'adh disbursed the zakat collected in Yemen (Abdul Aziz, 1993; p.38-39).

During that time, the collection and distribution of zakat was in principle localized. This means that what was collected in an area was also distributed in the same area. None of the collections were given to the central government<sup>21</sup>. There were no reports of the existence of surplus funds in any area or of *zakat* funds being transferred from one area to another during the life of the Prophet (Kahf, 1999; p. 17). The Prophet (pbuh) as the head of the state used to send the amils<sup>22</sup> to collect and distribute zakat to the zakat recipients. It should also be noted that Medina at that time had a small government, whose functions were always undertaken by a continuous

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<sup>21</sup> Zakat is a compulsory levy, supervised by the state. All the Muslims at that time must pay zakat through the amils appointed by the state. Paying zakat directly to the beneficiaries of zakat, in their own locality was rejected by several jurists even though the Muslims had lack of confidence in the government (see Abdul Aziz, 1993; p.49)

<sup>22</sup> Also known as Zakat workers or zakat collectors

supply of voluntary manpower and financial contributions from its enthusiastic believers (Kahf, 1999; p. 4). Abdul Aziz (1993) reaffirms the argument by a Hadith<sup>23</sup> that the zakat is to be collected from the rich and distributed among the poor, which means that the zakat is essentially to be spent within the region where it is collected. So, the role of central *Baitul Mal* (Treasury) is only nominal with respect to zakat, and it would only be entitled basically to a specific amount collected in the capital city.

From the evidences and arguments above, it could be noted that generally the rule is that zakat is collected and distributed within a tribe or region. However in some cases the amil does not necessarily have to distribute all their collections to the paying community. Therefore the criterion of distribution was mainly governed by the needs of the community. If there was a surplus of zakat or credit balance after the process of zakat distribution, especially from the rich region, or the numbers of Muslims in a particular locality were lesser than the non-Muslims, the amil should transfer that surplus zakat to the central *Baitul Mal* (Abdul Aziz, 1993; p.40).

It is therefore an undisputed fact that zakat was collected and distributed by the Islamic state, especially in the early period. The state government has the right to take charge of zakat collection and distribution, once the government decrees that payment of zakat must be made to *Baitul Mal*. Indeed the majority of *fuqaha'* emphasize that individuals must pay their zakat through the government<sup>24</sup>. The main reason behind that

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<sup>23</sup> Please refer the Hadith in Abdul Aziz (1993; p.39) where the Hadith was referred to *Sahih al-Bukhari, Kitab al-Zakat*

<sup>24</sup> After the end of the rule of the *Rashidun* Caliphs, especially after the rule of Mu'awiyah, there was a general lack of confidence in the government. However a number of jurists such as Sa'd b. Abi Waqqas (d.55 A.H), Abu Hurayrah (d.57 A.H), Abu Said al-Khudri (d.74 A.H) and Abd'Allah b. 'Umar (d.73 A.H) were reported to hold the view that the collection of zakat is the religious responsibility of the government. On the contrary, jurists such as Ibn 'Abbas and his student Ta'us and Sa'id b. al-Musayyib were reported to have said that when the rulers do not spend the zakat on the specified people, it is preferable to hand over the zakat directly to the beneficiaries (see Abdul Aziz, 1993).

argument is supported by many scholars who agreed that the *Baitul Mal* could disburse zakat to its proper recipients as mentioned in the Al-Quran.

The interesting thing to note is that the concept of 'localization' was applied even during Prophet's (pbuh) time. The government revenue was distributed efficiently in zakat and other taxes. There were various small state governments (including amils), and zakat collected was distributed immediately after collection. Kahf (1999) mentioned that it was reported that during Prophet's (pbuh) time many workers often said that they used to return from their zakat missions empty handed because they had distributed the zakat on the spot. He added that this scenario indicated that there were sizeable needs for such distribution and little was usually left as spare revenue in the public treasury or as precautionary reserves for future expenses. To sum up, the localization of zakat was applied successfully and zakat distributed efficiently during Prophet's (pbuh) time.

### **2.3.2 The History of Zakat Management in Malaysia**

The main objective of this part is to provide an overview of the historical origin of the contemporary practice of zakat in Malaysia and examine whether zakat localization has been in practice. Many studies have discussed the development of zakat, particularly in Malaysia. The focus of this study however would be to compare the views in such studies, for instance by Abdul Aziz (1993), Abdul Wahab et. al, (1995), Shawal (2007) and Steiner (2011), especially from the Malaysian and non-Malaysian perspectives. To begin with, studies by both Abdul Aziz (1993) and Steiner (2011) agreed that there were three major phases in zakat development in Malaysia, namely;

Phase 1: Zakat practice in pre-colonial Malaysia

Phase 2: Zakat practice in colonial Malaysia

Phase 3: Zakat practice in independent Malaysia

Abdul Aziz (1993) and Steiner (2011) used the religious experience in the states of Kelantan and Kedah<sup>25</sup> mainly because these two states were predominantly populated by Muslims who were mainly engaged in paddy-cultivation. Paddy is subjected to zakat, so called *usyr*. Special emphasis was given to Kelantan, as a model for other states in Malaysia, because it was the first state in Malaysia to establish a religious council<sup>26</sup>. Thus, historically, Kelantan could be considered as one of the earliest Malay states to practice Islam.

### **Phase 1: Zakat Practice in Pre-colonial Malaysia**

According to Steiner (2011), during this phase, zakat localization was practised in villages based on local traditions and customs or *adat*. Zakat management at that time was not administered formally (Abdul Wahab et. al, 1995). The smallest political unit was the village and the headman (*penghulu*), by virtue of his own status within his village, acted as the communication bridge between the residents and the district chief (Abdul Aziz, 1993). Steiner (2011) stressed that traditionally zakat was purely a local and voluntary affair. However, the local villages developed social monitoring systems to ‘punish’ the individual who was perceived as not fulfilling his/her obligation. Steiner (2011) also added that there were no local zakat distributors and the distribution of zakat was conducted by the zakat payers themselves. The beneficiaries were identified locally by the local zakat payers.

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<sup>25</sup> Were known as Unfederated Malay States and were individually administrated under a form of ‘indirect rule’ by British ‘Advisers’.

<sup>26</sup> The creation of the Majlis Agama dan Isti’adat-Melayu Kelantan, hereafter referred to as Majlis Agama, in 1915.

However, the studies by Abdul Aziz (1993) and Abdul Wahab et. al, (1995), indicated that in the village tradition, the local religious teacher and *ulama'* or *imam*<sup>27</sup> of the community played a significant role in distributing zakat to eligible beneficiaries. This was not mentioned by Steiner (2011). Abdul Aziz (1993) stated that this group was known as the religious elite in the village and payment of zakat through them raised the zakat payer's esteem. This tradition is still continued until today (Abdul Wahab et. al, 1995). It should be noted that during that time, the close association between the religious elite and the ruling elite strengthened the legitimacy of the traditional political system in which the religious elite had a special social rank and prestige (Abdul Aziz, 1993). Consequently, in this early development of zakat practice, the Muslim community clearly acknowledged the important role of the religious people in their community.

## **Phase 2: Zakat Practice in Colonial Malaysia**

In this phase, the dominance of the local village was challenged when the state authorities interfered by introducing a process of centralization of the zakat procedures. They took control of zakat at the village level. Hence, the central ruling elite and its bureaucratic institutions were the dominant epistemic authorities in defining zakat practices (Steiner, 2011). In fact, the future development of zakat practices was concentrated and centralized at the religious authority level through the establishment of Islamic Religious Councils that had the powers to determine the zakat practices. The Council of Religion and Malay Customs governed Islamic affairs and Malay customs, including zakat administration (Abdul Wahab et. al, 1995).

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<sup>27</sup> The *Imam* in the traditional Kelantanese village community leads the congregation of prayers, solemnizes marriages, performs burials, administrates zakat collection etc. The village *imam* in Kelantan also has another function as the district chief. Thus, the *imam* at that time was an unrivalled local leader competent to act in all matters of public concern (see Abdul Aziz, 1993; p.119)



In 1915, the first Islamic Religious Council was established in Kelantan and it became a model for other states in Malaysia. It was recognized by the colonial administration in the Rules for the Members of the Islamic Council and Malay Customs Enactment (No. 14) of 1916 (Kelantan). This Enactment granted the Council<sup>28</sup> specific authority to collect zakat or payment could be made to an officially appointed amil. This system of zakat practice took the power from the local villages and established the control of the state bureaucratized institutions over zakat practices (Abdul Aziz, 1993). The centralized bureaucratic institution would also identify the zakat payer and beneficiary, which was previously done at the local village level (Steiner, 2011). More importantly, according to Steiner (2011), the implementation of the centralized zakat system changed the concept of zakat from being ‘voluntary’, to that of a compulsory tax payment. This gave rise to several implications, namely; (1) obligation to pay zakat was ‘top-down’ because the matter of enforceability and compliance become a central issue in the discourse; (2) the amount of zakat paid was no longer traditionally determined by individuals; and (3) the beneficiary of zakat was no longer determined by the payer but by the central government. As a result, zakat was bureaucratized and centralized with the codification of zakat practice initiated by the government, replacing the village that focused on local practices.

This study found that studies by Abdul Aziz (1993), Abdul Wahab et. al, (1995) and Steiner (2011) mentioned about the role of the *imam* during this phase. All of them agreed that the role of the *imam* or religious teacher at the local level was reduced or diminished<sup>29</sup>. For instance Steiner (2011) pointed out that in Kelantan; the *imams* had

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<sup>28</sup> The Zakat Enactment was introduced in Kedah in 1955, which also centralized zakat collection.

<sup>29</sup> The position of *imams* was subordinate to central authority, thereby being a servant of a powerful bureaucracy and without the benefits of a fixed salary.

to surrender<sup>30</sup> 7/8ths of zakat *fitriah* collected at the village level to the state religious council. It became a source of financing for the administration of Islamic affairs<sup>31</sup> (Abdul Aziz, 1993; Abdul Wahab et. al, 1995; Steiner, 2011). In fact, Abdul Aziz (1993) revealed that the power of the village *imam*, as an important person in all functions in a particular area or district, was restricted to enhance the role of the civil administration.

### **Phase 3: Zakat Practice in Independent Malaysia**

The practice of zakat in post-independent Malaysia is characterized by partial introduction of corporatization and corporate governance into the administration of zakat. This infusion was not necessarily a unified practice in Malaysia, as each of the thirteen states was free to determine its own conceptualization of zakat, resulting in ‘non-corporatized’, ‘partially corporatized’ and ‘fully corporatized’ models (Steiner, 2011).

As discussed earlier, the establishment of the religious state council was to unify and strengthen zakat management through the process of bureaucratization and centralization by the religious council. However, the Muslim society was not satisfied with its role (Abdul Aziz, 1993). As a result, Steiner (2011) found that corporate governance was introduced into the zakat mechanism in response to the criticism by zakat payers and beneficiaries towards bureaucratization and centralization of zakat.

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<sup>30</sup> In 1917, the *Majlis* in Kelantan required *imams* to surrender seven-eighth of the zakat *fitri* but they criticized these regulations. Even though the *Majlis* decided in 1919 to reduce its share to four-fifth in order to appease them, discontent among the *imams* still continued (Abdul Aziz, 1993; p.122)

<sup>31</sup> Abdul Aziz (1993; p.124) stated that more than 95% of the income of the *Majlis* was derived from zakat paid mainly by the peasants. Payment to the beneficiaries of zakat was not highlighted at all. The amount paid as salaries for the officials of the three central mosques were higher than the amount paid to *asnaf*. More than half of the zakat collected was not distributed and was considered as surplus in the account of the *Majlis*. All these led the *imams* to oppose the *Majlis*.

The establishment of the zakat centre, as an organised and professional body, was regarded as another necessary initiative to ensure the smooth functioning of zakat management (Shawal, 2007) and uplift public confidence. The management of zakat as a social institution was directly dependent on the credibility, transparency and accountability of the zakat institution through corporatization of zakat management<sup>32</sup>. To make it more credible, zakat payers and zakat recipients should become important participants in the discourse on zakat practices. They should be given an active role in the decision making process (Steiner, 2011). The rationale of this initiative was to empower the zakat institution, and to ensure that zakat rules and regulations were effectively managed (Shawal, 2007).

The history of corporatization of zakat management started with the establishment of the Zakat Collection Centre, Wilayah Persekutuan, Kuala Lumpur (PPZ-MAIWP) in January 1991, followed by the establishment of the Penang Zakat Management Centre (PUZ-PP) in June 1994, Selangor Zakat Centre (PZS-MAIS) in 1992, Negeri Sembilan Zakat Centre (PZ-MAINS) in September 1998, Pahang Zakat Centre (PZ-MAIP) and Malacca Zakat Centre (PZM) in 1996. At present, only seven states are implementing the idea and the other six states, namely Kedah, Perlis, Kelantan, Terengganu, Perak and Johor are still continuing the conventional approach of managing zakat (Sanep & Hairunnizam, 2006). *Tabung Baitulmal* Sarawak was corporatized in 2001 and the latest the Pusat Zakat Sabah was corporatized in 2007. However, to date, only Selangor, Penang, Sarawak and Sabah have fully corporatized both the collection and distribution functions (Fadzila, 2011; Norazlina & Abdul

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<sup>32</sup> Through the mechanism of accountability and transparency, the zakat payers are informed of how their zakat payments are managed, thereby gaining their confidence. Though zakat payers, unlike in the early pre-colonial days, are not controlling who receives their money, they now at least are able to find that information freely in the annual reports available at the zakat institution or on websites (see Steiner, 2011).

Rahim, 2011b). A Department of Waqaf, Zakat and Haji (JAWHAR) was established under the Prime Minister Department for managing and ensuring that the administration of zakat and charity is properly organized, systematic and effective (Norazlina & Abdul Rahim, 2011a). Under the various enactments relating to zakat rules and regulations, the power to issue *fatwa* is given to the Sultan, Mufti and the state religious officials. Hence, each state might have different zakat rules and implementation procedures (Shawal, 2007).

Shawal (2007) is of the view that it is important to institutionalize zakat as a social institution to meet the various objectives of zakat management, especially eradicating poverty, ensuring that zakat is practiced in accordance with the *sharia* Law, as well as meeting the religious and social obligations. As a result, the concept of zakat as an Islamic socio-economic instrument to improve the Muslims socio-economic welfare has been well accepted. According to Shawal (2007), the practice and implementation of zakat as a social institution and economic instrument is dependent on the political will of the state and the initiatives to improve the Muslims' socio-economic welfare and well-being. Broadly speaking, there is no standardization of managing zakat across the nation. The constitutional requirements provide that each state has the jurisdiction to practice and implement different zakat rules and regulations, as long as they do not contradict with any provisions in the Constitution.

According to Shawal (2007), since the implementation of the Islamization Policy in 1985 and the Corporatization Policy in 1991, the government has been open towards implementing new approaches of managing government agencies. Thus, the government was receptive to the new scope of managing zakat institutions. Traditionally zakat was viewed as a personal *ibadah* and religious obligation, but this

was shifted to a new paradigm of recognizing zakat as a social institution. Thus, as a social institution, zakat is recognized as Islam's social welfare scheme and economic instrument, especially in relieving poverty among the Muslim *ummah* (Shawal, 2007).

## **2.4 ZAKAT MANAGEMENT IN MALAYSIA**

### **2.4.1 Trends in Zakat Collection and Distribution in Malaysia**

Zakat collection in Malaysia increased in all the states each year. Table 2.1 and Table 2.2 show the increase from RM450 million in 2004 to RM 1,363.77 million in 2010. On an average, the increase in zakat collection was about 20 per cent each year during the period 2005 to 2008. It decreased slightly around 13 per cent in 2009 and 2010. The states that had corporatized their zakat collection, such as FT Kuala Lumpur and Selangor exhibited the highest zakat collections in Malaysia. FT Kuala Lumpur collected RM 110 million in 2004, RM 248.80 million in 2009 and RM 282.68 million in 2010. Selangor also showed relatively high zakat collections; especially after 2005 when this state lead zakat collection in Malaysia. For instance in 2010, Selangor collected RM 336.93 million, an enormous increase compared to RM 159.84 million in 2006, RM 133.12 million in 2005 and RM 108.83 million in 2004. Similarly the other states in Malaysia also showed an increase in their zakat collections.

**Table 2.1: Collection and Distribution of Zakat in Malaysia 2004 - 2007**

State	2007				2006				2005				2004			
	Collect (RM Mil.)	Dist. (RM Mil.)	Surplus <sup>1</sup> (RM Mil)	Surplus (%)	collect (RM Mil.)	Dist. (RM Mil.)	Surplus <sup>1</sup> (RM Mil)	Surplus (%)	collect (RM Mil.)	Dist. (RM Mil.)	Surplus <sup>1</sup> (RM Mil)	Surplus (%)	collect (RM Mil.)	Dist. (RM Mil.)	Surplus <sup>1</sup> (RM Mil)	Surplus (%)
<b>Corporatized Zakat Institution with collection and distribution</b>																
Penang	37.09	30.01	7.07	19.1	30.59	26.25	4.3	14.2	28.00	21.34	6.66	23.8	23.29	20.58	2.71	11.6
Selangor	202.19	174.52	27.67	13.7	159.84	135.65	24.2	15.1	133.12	101.54	31.59	23.7	108.83	100.25	8.58	7.9
Sarawak	23.13	11.61	11.52	49.8	20.55	8.05	12.5	60.8	15.30	6.54	8.76	57.3	15.57	4.63	10.94	70.3
Average	87.47	72.05	15.42	27.53	70.33	56.65	13.67	30.03	58.81	43.14	15.67	34.93	49.23	41.82	7.41	29.93
<b>Corporatized Zakat Institution with collection but distributed by <i>Baitul Mal</i></b>																
FT Kuala Lumpur	173.82	121.22	52.59	30.3	147.59	101.55	46.0	31.2	130.14	99.52	30.62	23.5	110.63	56.61	54.02	48.8
Malacca	22.07	17.03	5.04	22.8	n.a	n.a	-	-	17.69	13.82	3.87	21.9	14.24	12.71	1.52	10.7
N Sembilan	29.36	31.19	-1.84	-	25.82	24.72	1.1	4.3	23.10	22.25	0.84	3.7	19.04	15.27	3.76	19.8
Pahang	41.49	37.22	4.27	10.3	35.97	18.55	17.4	48.4	n.a	n.a	-	-	n.a	n.a	-	-
Average	66.69	51.67	15.02	21.13	69.79	48.27	21.50	27.97	56.98	45.20	11.78	16.37	47.97	28.20	19.77	26.43
<b>Collection and distribution by <i>Baitul Mal</i></b>																
Terengganu	51.44	31.76	19.68	38.3	42.87	28.70	14.2	33.1	40.37	28.05	12.31	30.5	36.15	38.10	-1.95	-5.4
Perak	41.28	30.87	10.41	25.2	33.85	24.52	9.3	27.6	27.54	21.54	6.00	21.8	25.72	20.02	5.70	22.2
Johor	73.32	64.82	8.50	11.6	54.73	43.41	11.3	20.7	49.36	37.47	11.89	24.1	38.05	27.55	10.50	27.6
Kelantan	40.20	24.31	15.89	39.5	35.64	21.74	13.9	39.0	29.37	20.21	9.17	31.2	22.44	16.56	5.88	26.2
Kedah	36.69	36.06	0.63	1.7	35.23	27.45	7.8	22.1	30.19	20.21	9.98	33.1	22.21	19.78	2.42	10.9
Sabah	17.51	18.83	-1.31	-	16.65	12.22	4.4	26.6	11.31	8.99	2.33	20.6	7.78	4.90	2.88	37.1
Perlis	16.70	11.60	5.10	30.6	11.87	6.80	5.1	42.7	n.a	n.a	-	-	6.41	5.36	1.05	16.4
Average	39.59	31.18	8.41	24.48	32.98	23.55	9.43	30.26	31.36	22.75	8.61	26.88	22.68	18.90	3.78	19.29
<b>Overall Total</b>	806.28 [23.81]	641.06 [33.66]	165.22 [-3.71]	(24.4)	651.20 [21.61]	479.61 [19.46]	171.6 [28.05]	(29.7)	535.49 [18.90]	401.48 [17.28]	134.01 [24.04]	(26.3)	450.35	342.32	108.03	(24.0)

Note: n.a: data not available

<sup>1</sup> Surplus zakat = collection – disbursement

( ) figure in average

[ ] per centage changes from previous year

**Source:** Zakat Report every year

**Table 2.2: Collection and Distribution of Zakat in Malaysia 2008 - 2010**

State	2010				2009				2008			
	collect (RM Mil.)	Dist. (RM Mil.)	Surplus <sup>1</sup> (RM Mil)	Surplus (%)	collect (RM Mil.)	Dist. (RM Mil.)	Surplus <sup>1</sup> (RM Mil)	Surplus (%)	collect (RM Mil.)	Dist. (RM Mil.)	Surplus <sup>1</sup> (RM Mil)	Surplus (%)
<b>Corporatized Zakat Institution with collection and distribution</b>												
Penang	53.24	54.35	-1.11	-	47.95	51.82	-3.87	-	41.76	45.60	-3.84	-
Selangor	336.93	330.36	6.57	1.95	283.65	276.62	7.03	2.48	244.41	189.00	55.41	22.67
Sarawak	39.14	23.92	15.22	38.89	36.92	23.64	13.28	35.97	36.10	18.07	18.03	49.94
<b>Corporatized Zakat Institution with collection but distributed by <i>Baitulmal</i></b>												
FT Kuala Lumpur	282.68	200.54	82.14	29.06	248.80	174.99	73.81	29.67	211.36	167.51	43.85	20.75
Malacca	34.01	31.39	2.62	7.70	30.72	32.16	-1.44	-	26.91	20.72	6.19	23.00
N Sembilan	50.20	51.74	-1.54	-	42.28	41.21	1.07	2.53	37.41	36.82	0.59	1.58
Pahang	80.87	58.60	22.27	27.54	71.87	46.75	25.12	34.95	57.96	22.22	35.74	61.66
<b>Collection and distribution by <i>Baitul mal</i></b>												
Terengganu	76.45	61.74	14.71	19.26	73.52	52.58	20.94	28.48	66.20	35.81	30.39	45.91
Perak	69.64	66.79	2.85	4.09	67.19	59.97	7.22	10.75	56.96	36.64	20.32	35.67
Johor	122.36	110.31	12.05	9.85	109.23	97.42	11.81	10.81	100.74	74.30	26.44	26.25
Kelantan	70.37	63.91	6.46	9.18	66.52	56.48	10.04	15.09	58.17	25.30	32.87	56.51
Kedah	76.45	66.06	10.39	13.59	67.58	56.00	11.58	17.14	53.20	42.13	11.07	20.81
Sabah	32.86	26.02	6.84	20.82	25.39	24.37	1.02	4.02	23.80	19.38	4.42	18.57
Perlis	38.09	30.73	7.36	19.32	25.25	26.75	-1.50	-	23.13	15.85	7.28	31.47
<b>Overall</b>	1 363.77	1 176.5	186.83	(16.77)	1 196.87	1 020.8	176.11	(17.44)	1 038.09	749.35	288.76	(31.91)
<b>Total</b>	[12.24]	[13.23]	[5.74]		[13.26]	[26.59]	[-63.97]		[22.33]	[14.45]	[42.78]	

Note: n.a: data not available

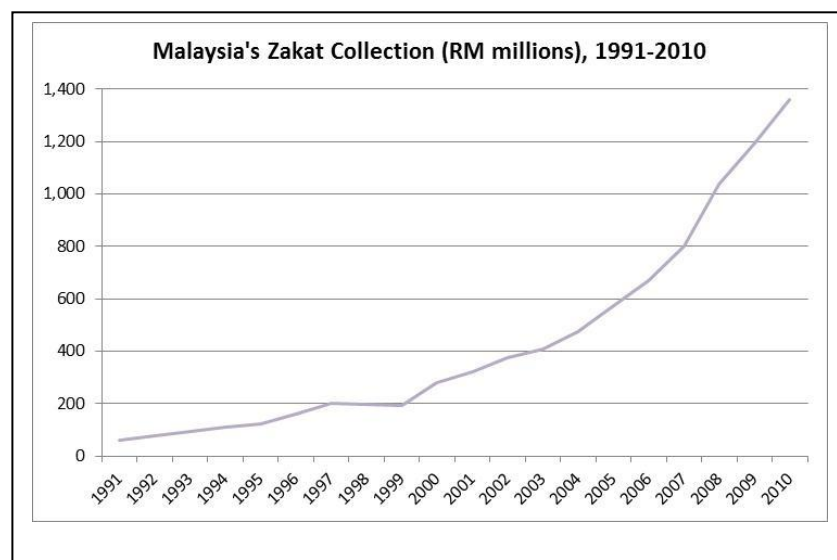
<sup>1</sup>. Surplus zakat = collection – disbursement

( ) figure in average

[ ] per centage changes from previous year

**Source:** Zakat Report every year

Abd Halim et. al. (2008) believed that the professional approach of governing zakat institution has contributed to the significant increase in zakat collection. The modernization and corporatization of zakat management has undoubtedly contributed to the increase in zakat collection. Despite the hefty increase, the zakat institutions have yet to reach their full potential in collections. Abd Halim et. al. (2011) suggested that zakat on salaried income and businesses as well as new sources of zakat are some of the areas that need to be further exploited to ensure the potentials are realized. The trend in Malaysia's zakat collection from 1991 to 2010 is illustrated in Figure 2.2.



**Figure 2.2: Malaysia's Zakat Collection (RM million), 1991-2010**  
Source: Abd Halim et. al. (2011)

However, the performance of zakat disbursements by the zakat institutions is not quite as excellent as the zakat collection. Table 2.1 shows that on average 24.3 per cent of the zakat proceeds or about RM 175.8 million were left undistributed to zakat recipients each year during the period 2004 to 2010. Interestingly this trend in zakat disbursements occurred in states that corporatized their zakat institutions like Selangor, FT Kuala Lumpur and Sarawak and also in the other states that did not corporatize their zakat collection or distribution such as Terengganu, Kelantan and Perlis. For instance,



in FT Kuala Lumpur, the surplus zakat was 29 per cent in 2010, for Pahang it was 27.54 per cent and for Sarawak 38.89 per cent.

This negative situation gives a strong signal that the zakat institutions are facing a major problem in distributing the zakat. Fadzila (2011) reasoned that even though the zakat institutions have been corporatized, the transformation of zakat management has still not occurred<sup>33</sup>. Most of the zakat institutions are still focusing on conventional management approach such as Total Quality Management<sup>34</sup> (TQM) instead of using the Islamic management approach.

According to Mohamad Zaini (2011), transformation of zakat management, especially in Malaysia, should be supported by several elements namely integrity, accountability, transparency, commitment, orientation, consensus, responsiveness, effectiveness and finally efficiency. These form the underlying basis of the concept of decentralization and localization. Thus, this study believes that the concept of localization in zakat distribution could be a possible way to overcome the problem in zakat management, especially in zakat distribution, as suggested by Abdul Aziz (1993) and Muhammad Syukri (2006)

#### **2.4.2 Perception towards Zakat Management in Malaysia**

Proper implementation of zakat management would ultimately improve the socio-economic conditions of the Muslim society in that state. The foremost priority of zakat is to eliminate poverty from the Muslim society (Sadeq, 2002). Since zakat re-allocates the resources from the rich to the poor (i.e. zakat deters concentration of

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<sup>33</sup> Zakat institutions have only transformed in terms of zakat distribution i.e from sustainable zakat to productive zakat, but this is still not enough (see Fadzila, 2011).

<sup>34</sup> Fadzila (2011) believes that TQM is not in line with Islamic perspective, especially in terms of philosophy.

wealth in the hands of the rich), it becomes an effective approach to fight poverty (Sadeq, 2002). Studies have revealed that there are many problems involved in zakat management, especially in terms of zakat distribution (Mohamed Dahan, 1998; Sanep et. al, 2006; Muhammad Syukri, 2006; Abd Halim et. al, 2008).

Abd Halim et. al, (2008) reported incidences of negative perceptions on the management of zakat funds, which if not addressed properly could affect future development of zakat institutions. They were of the view that zakat institutions should convince the public that the fund collected were not only distributed in accordance with *sharia* but also administered professionally and efficiently. The study tested the performance of the zakat institutions using the performance indicators (such as output, input, quality and process) to measure the effectiveness in collecting and distributing the zakat fund. Their findings revealed that Pusat Zakat Wilayah Persekutuan (PPZ), Lembaga Zakat Selangor (LZS) and Pusat Urus Zakat Penang (PUZ) showed the best performance among the zakat institutions in Malaysia.

Many studies also revealed that the zakat payers were not satisfied with zakat management, especially the aspect of zakat distribution (Mohd Dahan, 1998; Sanep et. al, 2006; Hairunnizam et. al, 2009; Hairunnizam et. al, 2010a). The majority of zakat payers in Malaysia felt the process of distribution was vague and the information regarding zakat distribution was unclear. Other studies also agree that zakat collection should be disbursed immediately to the recipients and should not be postponed (Nik Mustapha, 1991). There should also not be any unwarranted delay (Kahf, 1995a; Mujaini 1995b). Unless the zakat institutions address these problems of zakat distribution promptly, the growing dissatisfaction amongst the zakat payers might prompt them to pay through unofficial channels. In other words, there is a possibility

that the zakat payer would pay zakat directly to the zakat recipients (Aidit, 1989; Muhammad Syukri; 2006; Sanep et. al, 2006; Hairunnizam et.al, 2009).

Another related problem that has been identified is the shortage of staff and experts in the zakat institutions relative to the numerous tasks under their responsibility. As noted by Sadeq (1995) and Abdul-Wahab, et. al, (1995), such constraints could lead to inefficiency and ineffectiveness or in other words under potential performance of zakat institutions. The lack of management expertise, lack of commitment, lack of information and legalities in zakat administration could give rise to dissatisfaction among the society at large, and subsequently jeopardize the reputation of zakat institutions in Malaysia. Thus, this study strongly recommends the zakat institutions to improve their governance in zakat management through location based or decentralization approach. As a result any problems happened in zakat management such as illegal sale of application forms to zakat recipients by the amils can be rectified through proper regulation and spiritual training and these tasks could efficiently been done through localization of zakat management.

To address the above-mentioned problems, writers such as Shawal and Hasan (2008) suggested the implementation of corporate governance in zakat institutions. For good corporate governance, individuals and society should participate in the decision making process of zakat institutions. The participation should be from the rulers, the zakat payers, the zakat recipients and also the Muslim society as a whole. The zakat institutions should allow the public to give their opinions through direct channels such as e-mails, seminars on zakat, as well as question and answer sessions with the management.

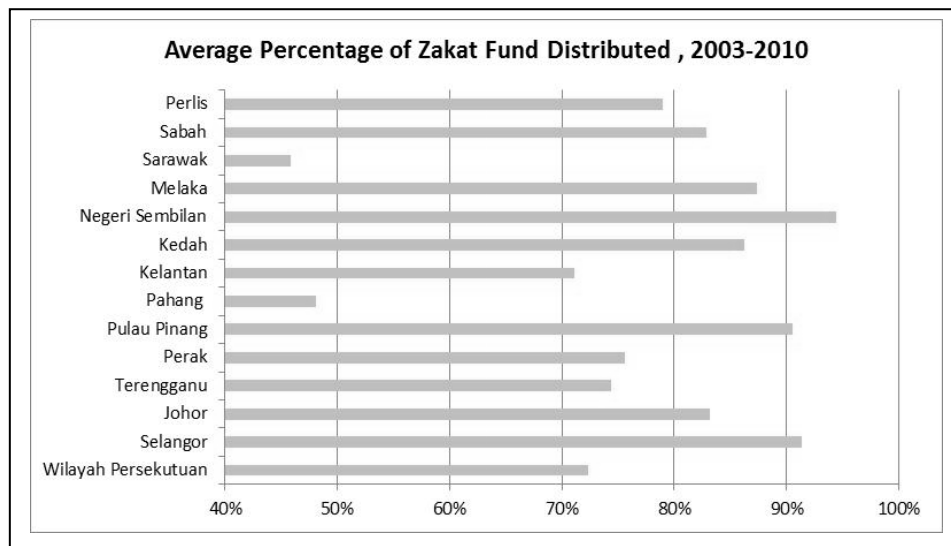
The question that arises is whether the concept of corporate governance is similar to privatization or localization? Tanzi (2002) is of the view that privatization should be considered as a possible alternative to decentralization for at least some government activities. However, the big difference between these concepts is that privatization removes the element of subsidy because users must bear the full costs for the privatized services. Furthermore, the usage of the word “privatization” is not suitable for zakat institutions, which rather use the word ‘corporatization’ (Nazifah Mustaffha, 2007).

The corporatization of zakat management in Malaysia was introduced in several states such as Selangor, FT Kuala Lumpur, Penang, Malacca, Negeri Sembilan, Sarawak and Pahang. However it is learnt that, generally, corporatization focused only on zakat collection while zakat distribution remained the responsibility of the State Islamic Religious Councils (SIRC). Only the zakat institutions in Selangor, Penang and Sarawak manage both zakat collection and distribution (Zakat Report, 2007; p.96).

What is most interesting is the suggestion made by Muhammad Syukri (2006) who urged the zakat institutions in Malaysia to practice the concept of localization. His argument is based on several factors. First, the statistics of zakat distribution in Malaysia show that only about 70 to 75 per cent of the zakat fund was distributed while 25 to 30 per cent was left idle (Muhammad Syukri, 2006; Hairunnizam et.al, 2010a). The significant reason was the emerging gap between zakat institution and zakat recipients, which is discussed in detail in the following section.

### 2.4.3 Zakat Collection-Distribution Gap

To give a better perspective of the surplus zakat fund that is left idle, this study refers to the study by Abd Halim et. al, (2011) that discusses the zakat collection-distribution gap. According to Abd Halim et. al, (2011), despite the increases in both collection and distribution of zakat, many zakat institutions in Malaysia disbursed an average of less than 90 per cent of the zakat fund during the period 2003-2010. About seven or 50 per cent of zakat institutions were managed efficiently, in which on average about 80 per cent of the zakat fund were consistently distributed during the said period as illustrated in Figure 2.3. Their study also found that the average percentage of zakat fund distributed between 2003 and 2010 among the 14 states was 77 per cent.

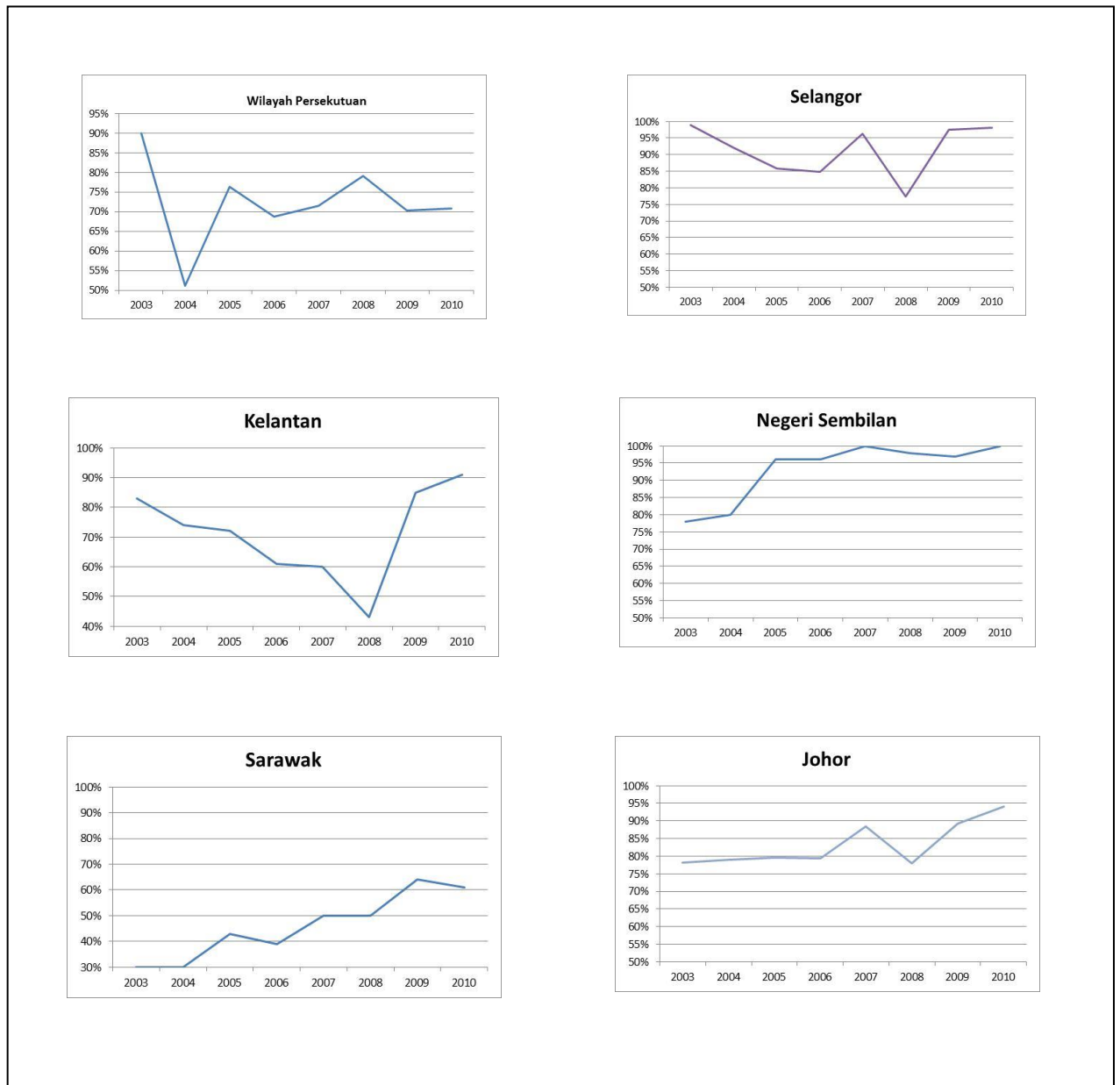


**Figure 2.3: Average Percentage of Zakat Fund Distributed, 2003-2010**

Source: Abd Halim et. al. (2011)

According to Figure 2.2, about 50 per cent of the states in Malaysia disbursed less than 80 per cent of their zakat fund, reflecting inconsistencies and inefficiencies in distribution. An inconsistent pattern in disbursing zakat fund was shown in the study by Muhammad Syukri (2006). Both studies concluded that a state might have registered a high percentage of disbursement the previous year, but similar patterns were not observed in the following year. The difference in the percentage disbursed could be as

high as 40 per cent compared to the previous year. Abd Halim et. al, (2011) illustrated this scenario clearly in Figure 2.4.



**Figure 2.4: Percentage of Zakat Fund Distributed in Selected States, 2003-2010**

Source: Abd Halim et. al. (2011)

Abd Halim et al (2011) also concluded that interestingly some states had distributed more than 100 per cent of fund collected. In principle, a zakat organization should not be able to distribute more than its collections. This could have arisen because the balance of the zakat fund was carried forward from the previous year or the zakat payers preferred to pay zakat at the end of the year to enjoy tax rebate.

Muhammad Syukri (2006) also agreed with Abd Halim et. al, (2011) that the persistent gap in zakat collection and distribution existed due to a weakness in the distribution process and mechanism. Indeed this is because it is difficult to recognize the potential asnafs in certain areas given the geographical and communication problems. They are categorized as the non-recipients of zakat fund (NRZF).

According to Azhana and Abd Halim (2012), the main factors giving rise to the issue of NRZF are: (1) Inaccurate data base on asnaf because the data base was not updated or the names of those asnaf who have been elevated from poverty were still in the list. This implies a weaknesses in identifying the poor; (2) Bureaucratic problems faced by the asnaf who apply for zakat funds. The asnafs have to fill up forms to apply for the zakat; (3) Problems in identification of potential asnaf, where many of them were denied the rights to qualify for zakat. There is a need to redefine asnaf, although the eight categories of asnafs should be still maintained; (4) Ignorance of the asnafs as they might be unaware of the application procedures. The publicity from the zakat center is not adequate to provide the required information or the asnafs have various personal reasons for not applying for the zakat; (5) Attitude of the amils; and (6) Geographical problems in terms of outreach difficulties which led to some potential zakat recipients being left out. Based on the above, as discussed by Muhammad Syukri (2006), Abd Halim et. al, (2011) and Azhana and Abd Halim (2012), this study believes that localization of zakat management should be proposed to all the states in Malaysia to address the issue of zakat collection-distribution gap, NRZF and more importantly the problem of zakat distribution.

#### **2.4.4 Factors that might Influence the Zakat Collection-Distribution Gap**

Muhammad Syukri (2006) states that one of the problems was the connection gap, especially in terms of information dissemination between the zakat institution and the zakat recipients. Zakat institutions have been blamed because they could not identify the exact zakat recipients or NRZF. For instance, Pusat Urus Zakat Penang (PUZ) could not accurately identify the needy and the poor who previously received zakat and probably should not receive any more as their economic status have risen above the poverty line. This came to light when PUZ discovered that the number of needy and poor kept increasing from year to year. For example in 2001, the total recipients in the list was 9,600 people but increased to 9,800 in June 2002 (Muhammad Syukri, 2006; p. 216)

Another problem was the increase in zakat application forms being sold illegally by certain irresponsible individuals to potential zakat recipients. Further, bureaucratic and geographical problems were also a hindrance in implementing the zakat application procedures. (Muhammad Syukri, 2006; p.214-219). For instance, in FT Kuala Lumpur, those who really needed the zakat have to follow certain procedures such as filling in the application forms, provide relevant documents and attend interviews by SIRC in a particular zone or place (Zainal Abidin, 2001; p.74). The issue is one of the dignity of the needy and poor. The SIRC or zakat institution should be careful not to create an impression of begging by the poor and the needy, as mentioned by Muhammad Syukri (2006). Furthermore, Kahf (1995a) believed that the zakat distribution systems have failed to effectively reduce the zakat application procedures. A further possible reason why the zakat institution is unable to disburse efficiently is the difficulty in identifying the entire eight categories of zakat recipients (Hairunnizam et. al, 2010).



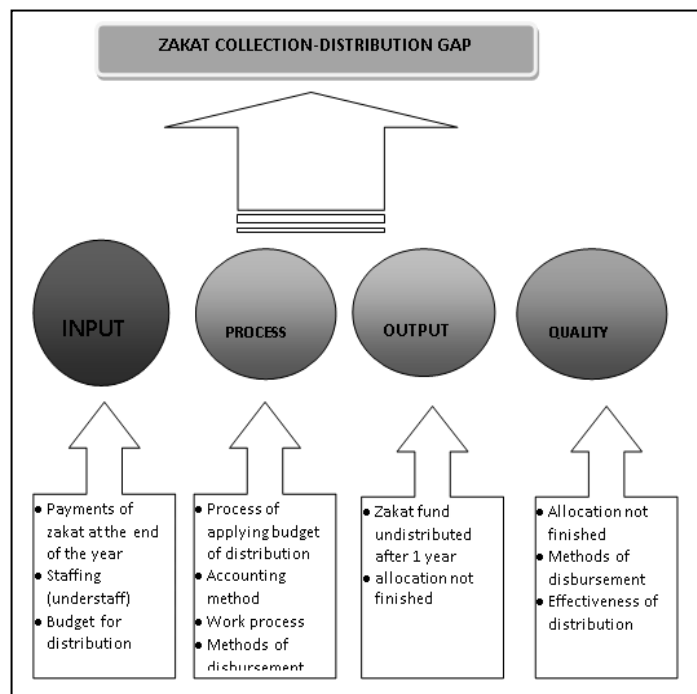
Muhammad Syukri (2006) also added that this could be because it is an arduous task to obtain detail information about the needy and poor, especially those who live in the interior. Lembaga Zakat Selangor (LZS) mentioned that in 2002, it distributed zakat to 7,834 needy and poor but believe that this figure only covered about 80 per cent of them. To solve this problem, it encourages those in need to give their names or provide relevant information directly to LZS. It should be pointed out that the zakat institutions have also to find other zakat recipients besides the poor and the needy, such as *al-gharimin*, *ibn-sabil* etc (Muhammad Syukri, 2006; p. 215).

Abd Halim et. al, (2011) further identified several factors contributing to the zakat collection-distribution gap from the perspective of accounting and staffing. Abd Halim et. al, (2011) mentioned that according to the zakat managers, zakat payers always pay their zakat towards the end of the year. The study found that approximately 50 per cent of zakat payments were made in the final weeks of the year. At the same time, most zakat institutions prepare a zakat distribution budget for the following year that is always lower than the collections. They tend to be conservative on the amount of the expected collections. There is therefore a real need for zakat institutions to improve the computation of yearly zakat collection projections Abd Halim et al (2011) also concluded that the gap shows the inability of some sections or zakat departments to fully utilize the allocated zakat fund. The zakat funds allocated were usually lower than the initial request by the department concerned and as a result unutilized funds would have to be returned to the bursary of the zakat institution.

Abd Halim et. al, (2011) also found that most of the zakat organizations are understaffed. Inadequate staffing leads to inefficient work and could affect the quantity and quality of zakat distribution. Currently zakat organizations are subject to

regulations and approval of the Malaysian Public Service Department to hire additional permanent staff members. Obtaining such approvals is apparently difficult despite the apparent necessity. Abd Halim et. al, (2011) had summarized the factors that contribute to zakat collection-gap from the perspective of Zakat Research Institute of Malaysia (IkaZ) and named it as the IkaZ Performance Model (see Figure 2.5).

As shown in Figure 2.5, the zakat collection-distribution gap arises due to four major factors namely input, process, output and quality. To reduce the gap, this study suggests that the solution has to be studied from the input-process-output-quality perspective. Muhammad Syukri (2006) looked at the problem of the process of zakat management while Abd Halim et. al. (2011) discussed the issue from the perspective of inputs. This study believes that to overcome the problem, there is a need to integrate all the four factors into the whole zakat system and this would be discussed in the next section.



**Figure 2.5: Summary of Factors Contributing to ZCD Gap**  
 Source: Abd Halim et. al, (2011)

**Table 2.3: Zakat distribution to zakat recipients by zakat institution in Malaysia year 2007<sup>a</sup>**

State	Zakat Recipient (RM Million)							Total Distribution (RM Mil)	Total Collection <sup>b</sup> (RM Mil)	Total Excess <sup>c</sup> (RM Mil)	Distribution ratio <sup>d</sup> (%)
	needy & poor	Amil	Muallaf	Alriqab	Al-Gharimin	Ibn Sabil	Fisabilillah				
Wilayah Persekutuan	40.04 (33.03)	16.25 (13.40)	3.80 (3.13)	0.00 (0.00)	1.40 (1.15)	0.38 (0.32)	59.36 (48.97)	121.22 (100)	173.82	27.67 [15.92]	86.31
Selangor	58.07 (33.27)	23.70 (13.58)	8.39 (4.81)	0.95 (0.55)	17.47 (10.01)	0.41 (0.23)	65.54 (37.55)	174.52 (100)	202.19	52.59 [26.01]	69.74
Johor	19.70 (30.40)	10.48 (16.16)	4.55 (7.02)	0.00 (0.00)	0.50 (0.77)	0.05 (0.07)	29.54 (45.57)	64.82 (100)	73.32	8.50 [11.59]	88.41
Terengganu	20.12 (63.34)	4.35 (13.69)	1.74 (5.47)	0.06 (0.18)	0.04 (0.11)	0.01 (0.03)	5.46 (17.18)	31.76 (100)	51.44	19.68 [38.26]	61.74
Perak	14.46 (46.85)	6.96 (22.55)	1.50 (4.85)	0.00 (0.00)	0.10 (0.31)	0.71 (2.29)	7.15 (23.15)	30.87 (100)	41.28	10.41 [25.22]	74.78
Pulau Pinang	15.13 (50.40)	3.24 (10.80)	0.58 (1.92)	0.00 (0.00)	0.81 (2.71)	0.15 (0.51)	10.10 (33.66)	30.01 (100)	37.09	7.07 [19.07]	80.93
Kelantan	14.34 (58.98)	3.54 (14.58)	0.71 (2.92)	0.00 (0.00)	0.01 (0.04)	0.00 (0.01)	5.71 (23.48)	24.31 (100)	40.20	15.89 [39.52]	60.48
Kedah	17.63 (48.88)	7.42 (20.59)	0.82 (2.28)	0.00 (0.00)	0.02 (0.05)	0.26 (0.73)	9.91 (27.48)	36.06 (100)	36.70	0.64 [1.74]	98.26
N Sembilan	10.70 (34.30)	3.34 (10.71)	2.00 (6.40)	8.26 (26.47)	1.07 (3.44)	0.24 (0.76)	5.59 (17.92)	31.19 (100)	36.69	-1.83 -	106.24
Melaka	4.84 (28.43)	4.14 (24.33)	1.00 (5.86)	0.00 (0.00)	0.00 (0.03)	0.00 (0.02)	7.04 (41.33)	17.03 (100)	22.07	5.04 [22.83]	77.17
Sarawak	5.58 (48.08)	3.02 (26.02)	0.08 (0.65)	0.00 (0.00)	0.01 (0.07)	0.00 (0.02)	2.92 (25.17)	11.61 (100)	23.13	11.52 [49.80]	50.20
Sabah	11.00 (58.42)	1.49 (7.91)	0.94 (5.01)	0.00 (0.00)	0.00 (0.00)	0.01 (0.03)	5.39 (28.63)	18.83 (100)	17.51	-1.31 -	107.49
Perlis	2.69 (23.18)	1.45 (12.50)	0.19 (1.60)	0.00 (0.00)	0.00 (0.00)	0.00 (0.03)	7.27 (62.69)	11.60 (100)	16.70	5.10 [30.55]	69.45
Total	234.29 (38.80)	89.39 (14.80)	26.27 (4.35)	9.27 (1.53)	21.42 (3.55)	2.22 (0.37)	220.97 (36.59)	603.84 (100)	772.14	160.96 [20.85]	78.20

**Source:** modified from Zakat Report 2007

Note : <sup>a</sup> Pahang is not included because no data    <sup>b</sup> including zakat *fitriah* collection    <sup>c</sup> total collection – total distribution    <sup>d</sup> distribution-collection ratio

Figure in ( ) is percentage from total collection

Figure in [ ] is percentage total excess zakat from total collection

**Table 2.4: Zakat distribution to zakat recipients by zakat institution in Malaysia year 2004<sup>a</sup>**

State	Zakat Recipient (RM Million)							Total Distribution (RM Mil)	Total Collection <sup>b</sup> (RM Mil)	Total Excess <sup>c</sup> (RM Mil)	Distribution ratio <sup>d</sup> (%)
	needy & poor	Amil	Muallaf	Alriqab	Al-Gharimin	Ibn Sabil	Fisabilillah				
Wilayah Persekutuan	23.03 (40.68)	15.72 (27.77)	1.81 (3.19)	0.00 (0.00)	0.51 (0.90)	0.14 (0.25)	15.40 (27.21)	56.61 (100)	110.63	54.02 [48.83]	51.17
Selangor	33.12 (33.04)	12.89 (12.86)	5.49 (5.47)	0.22 (0.22)	4.11 (4.10)	0.38 (0.38)	44.04 (43.93)	100.25 (100)	108.33	8.08 7.46	92.12
Johor	7.89 (28.65)	6.67 (24.20)	2.62 (9.50)	0.00 (0.00)	0.16 (0.59)	0.08 (0.28)	10.13 (36.77)	27.55 (100)	38.05	10.50 [27.59]	72.41
Terengganu	18.30 (48.03)	1.66 (4.37)	0.54 (1.41)	2.03 (5.33)	0.02 (0.06)	10.27 (26.95)	5.28 (13.85)	38.10 (100)	36.15	-1.95 -	105.39
Perak	7.70 (38.45)	3.21 (16.04)	1.17 (5.83)	0.00 (0.00)	0.54 (2.70)	0.26 (1.30)	7.14 (35.68)	20.02 (100)	25.72	5.70 [22.18]	77.82
Pulau Pinang	8.08 (39.28)	2.81 (13.63)	0.45 (2.19)	0.00 (0.00)	2.17 (10.56)	0.09 (0.45)	6.97 (33.88)	20.58 (100)	23.29	2.71 [11.64]	88.36
Kelantan	8.11 (48.98)	1.29 (7.76)	0.34 (2.05)	0.00 (0.00)	0.02 (0.12)	0.01 (0.03)	6.80 (41.05)	16.56 (100)	22.44	5.88 [26.19]	73.81
Kedah	11.24 (56.81)	2.23 (11.25)	0.57 (2.87)	0.00 (0.00)	0.01 (0.06)	0.31 (1.56)	5.43 (27.44)	19.78 (100)	22.21	2.42 [10.90]	89.10
N Sembilan	3.71 (24.28)	1.59 (10.41)	1.36 (8.88)	4.42 (28.96)	0.28 (1.85)	0.19 (1.23)	3.73 (24.40)	15.27 (100)	19.04	3.76 [19.77]	80.23
Melaka	3.37 (26.49)	2.37 (18.65)	0.69 (5.43)	0.00 (0.00)	0.00 (0.00)	0.00 (0.02)	6.28 (49.40)	12.71 (100)	14.24	1.52 [10.71]	89.29
Sarawak	1.82 (39.30)	2.17 (46.88)	0.06 (1.35)	0.00 (0.00)	0.00 (0.00)	0.00 (0.08)	0.57 (12.39)	4.63 (100)	15.57	10.94 [70.29]	29.71
Sabah	3.15 (64.30)	0.62 (12.61)	0.08 (1.57)	0.00 (0.00)	0.01 (0.20)	0.00 (0.02)	1.04 (21.30)	4.90 (100)	7.78	2.88 [37.06]	62.94
Perlis	1.33 (24.78)	0.93 (17.42)	0.16 (3.04)	0.00 (0.00)	0.00 (0.00)	0.00 (0.03)	2.93 (54.73)	5.36 (100)	6.41	1.05 [16.39]	83.61
Jumlah Keseluruhan	130.84 (38.22)	54.15 (15.82)	15.33 (4.47)	6.67 (1.94)	7.84 (2.29)	11.73 (3.43)	115.76 (33.82)	342.32 (100)	449.85	107.53 [23.90]	76.10

**Source:** modified from Zakat Report 2004

Note: <sup>a</sup> Pahang is not included because no data <sup>b</sup> including zakat *fitriah* collection <sup>c</sup> total collection – total distribution <sup>d</sup> distribution-collection ratio

Figure in ( ) is percentage from total collection

Figure in [ ] is percentage total excess zakat from total collection

#### 2.4.5 Distribution of Zakat to Eight Asnafs

Zakat surplus continue to exist in several states in Malaysia because the zakat fund are distributed mainly to the traditional asnafs, such as the poor and needy as well as *fi sabilillah* and not to the others. Table 2.3 shows the distribution of zakat according to the states in Malaysia in 2007. As can be seen, total distribution of zakat was RM 603.84 million in 2007. The highest amount of zakat distributed was in Selangor (RM 174.52 million), followed by FT Kuala Lumpur (RM 121.2 million) and Johor (RM 73.3 million). On the other hand, the lowest amounts of zakat distributed were in the states of Perlis and Sarawak (RM 11.6 million each) in 2007. The surplus undistributed zakat for the year 2007 in Malaysia was RM 160.96 million. This represents 20.85 per cent of total zakat collections.

Besides the factors discussed by Muhammad Syukri (2006) and Abd Halim et al (2011), the excess zakat fund also reflects the difficulties encountered in identifying the asnafs, apart from the poor and needy, such as *al-riqab*, *al-Gharimin*, and *ibn sabil*. For instance, based on Table 2.3, the ratio of the three asnafs to total distribution of zakat is very small. The percentage of distribution of *al-riqab* does not exceed 1 per cent in all the states except FT Kuala Lumpur, while in other states; this category of asnaf does not exist at all. Hence, from Table 2.3, it could be noted that the overall average for this particular asnaf in the all states is only 1.53 per cent. Similarity, for asnaf *ibn-sabil*, the overall average is only 0.37 per cent and *al-Gharimin*, 3.55 per cent. Ironically, the scenario is also similar in the states that have corporatized the zakat institutions such as Selangor, FT Kuala Lumpur, Negeri Sembilan, Malacca, Penang and Pahang. A comparative annual performance analysis would indicate whether there is any significant improvement in performance.

Table 2.4 shows the performance of zakat collection and distribution in 2004. In general, the distribution performance of all zakat institutions is indicated by the ratio of total zakat distribution to total zakat collection. The table shows that in 2004, the ratio was 76.1 per cent and it increased by 2.1 per cent to 78.2 per cent in 2007. This shows total zakat collection in Malaysia has increased by RM 332.29 million, which is from RM 449.85 million in 2004 to RM 772.14 million in 2007, a growth of 71.6 per cent. However, total excess zakat declined from 23.9 per cent in 2004 to 20.85 per cent in 2007, reflecting efficient management of zakat distribution. However, in terms of the issue of distribution to the eight asnafs, especially to asnaf *al-riqab*, *al-gharimin*, and *ibn sabil*, the percentage is still low, that is 1.94 per cent, 2.29 per cent and 3:43 per cent, respectively. This figure also indicates that there is no significant change in the distribution of zakat to these particular asnafs.

As seen above, the performance of zakat distribution, particularly to the eight asnafs, has not changed much even though some states have corporatized their zakat institutions. Although there are some views that the individual amil should distribute the zakat to the eight asnafs or at least to three groups namely, the destitute, the poor and *fi sabilillah* (Mohamad Uda, 2005; Wahbah, 1997), this study is of the view that the zakat institution, as the institutional amil, should take greater responsibility in distributing the zakat. This study follows the views of Qardawi (2000), who mentioned that the zakat institution has an important role in ensuring that the zakat is distributed to all eight asnafs. This is because the zakat institution, being a formal organization, has a lot of information about the asnaf, especially asnaf *fi-sabilillah*, *al-muallaf*, and *ibn sabil* compared to the individual amil. Majeed (1993) also agreed that the zakat institutions could undertake their functions more systematically and efficiently and distribute the zakat to the eight asnafs throughout the year and not focus only on a

particular month. The zakat institution should utilize all the excess zakat by distributing to the other three asnaf groups mentioned earlier. The perceptions of the zakat payer should also be given due consideration because if they are not satisfied with the institution, they would tend to pay zakat directly to the zakat recipients (see Sanep et.al, 2006).

**Table 2.5: Reasons the zakat payers were not satisfied with zakat Institution from the perspective of zakat distribution**

	Amount of Zakat is not sufficient	Method of distribution is not clear	Not covered to all asnaf	Part of zakat excess to be kept in financial institution	Information of distribution is not comprehensive	Other reasons	Total
Selangor & FT Kuala Lumpur	21	73	31	9	56	120	310
Penang	4	16	11	3	16	21	71
Kedah	1	18	4	2	15	25	65
Perlis	4	22	7	0	13	26	72
Perak	2	34	19	5	26	54	140
Johor	2	11	9	1	13	23	59
Malacca	0	16	4	3	10	24	57
N Sembilan	0	5	4	0	8	5	22
Pahang	1	13	3	4	12	19	52
Terengganu	7	18	15	5	21	22	88
Kelantan	3	32	31	3	34	35	138
<b>Total</b>	<b>45</b>	<b>258</b>	<b>138</b>	<b>35</b>	<b>224</b>	<b>374</b>	<b>1074</b>
	<b>(4.18)</b>	<b>(24.02)</b>	<b>(12.85)</b>	<b>(3.26)</b>	<b>(20.85)</b>	<b>(34.82)</b>	<b>(100)</b>

Note: figure in ( ) shows the percentage from the total  
Pearson Chi square test is significant at 10% level

Source: Hairunnizam et. al. (2010)

Table 2.5 shows the reasons why the Muslim communities, especially the zakat payers, were not satisfied with the zakat institution, particularly with respect to zakat distribution. The study by Hairunnizam et. al, (2010) shows that a total of 1,074 respondents or almost 41.5 per cent were not satisfied with the zakat institution. The results showed that a majority of respondents (24%) were not satisfied due to the unclear method of zakat distribution. This was followed by other reasons such as information distribution that were not comprehensive (20.8%) and not covering all asnafs (12.8%).

The zakat payers have given a clear signal that they expect and rely on the zakat institution to distribute zakat not only to the traditional zakat recipients, such as the poor and the needy as well as *fi sabilillah*, but also to the other asnaf such as *al-muallaf*, *al-gharimun*, *al-riqab* and *ibn sabil*. As discussed earlier, even though in terms of *fiqh*, the zakat institutions have met the basic mode of distributing zakat, the Muslim community wants the zakat distribution to be extended to the other asnaf as well. If this matter is not addressed quickly, the Muslim community might not pay zakat because of their negative perceptions about zakat institutions (Sanep et. al, 2006).

Another issue that arises is that those who still pay zakat have an alternative channel that is, either to a formal institution or through an informal channel by paying directly to the asnaf. There are studies that show that many zakat payers are more interested to pay zakat directly to the asnaf (Sanep et. al, 2006). Despite the existence of various *sharia* enactments which prohibit such actions, many zakat payers are more likely to pay directly to the asnaf (Aidit, 1989). This action would indirectly reduce the amount of zakat collections, which would eventually reduce the amount of zakat distributed to the asnaf. Thus the localization of zakat distribution is necessary to overcome the weaknesses of zakat management in Malaysia. The next part discusses the literature on localization based on the concept of fiscal decentralization.

## **2.5 OVERVIEW OF THE CONCEPT OF FISCAL DECENTRALIZATION AND LOCALIZATION**

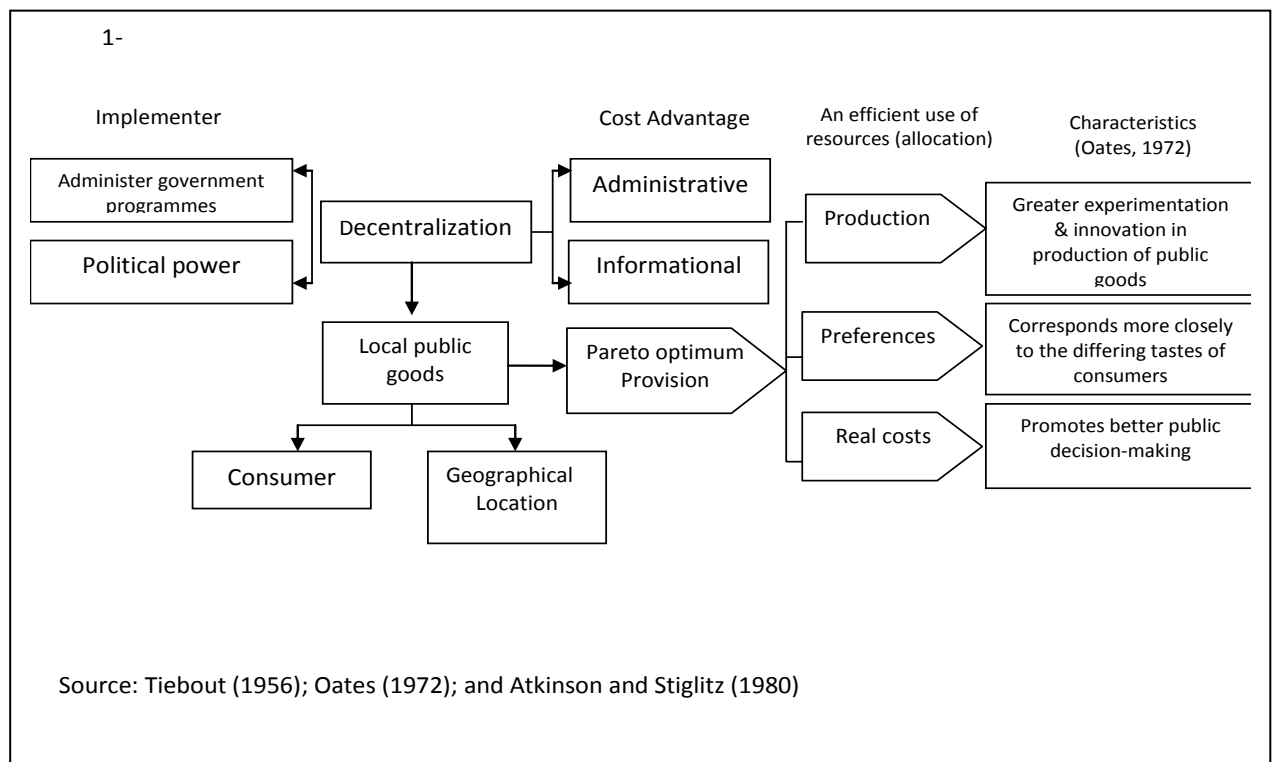
This part presents the literature review that supports the theoretical background of the study. This part begins with the theoretical foundation of the concept of fiscal federalism and fiscal decentralization via the theory of local public goods.



### **2.5.1 Fiscal Federalism and Decentralization**

The concept of fiscal federalism is first discussed as it has a significant relationship with the concept of fiscal decentralization (Musgrave, 1959; Oates, 1972; Musgrave, 1997). This is explained within the framework of location-based theory of fiscal federalism by Tiebout (1956), which discussed the term “localization” in terms of structure of institution and governance. The fiscal federalism theory initially had a strong association with decentralization that mainly focused on maximizing social welfare in a locality. Fiscal federalism, either in the structure of centralized government or decentralized government, is aimed at achieving three main objectives namely, maintain the economy (economic stability), efficient use of resources (allocative efficiency) and finally equitable income distribution (distributive equity) (Oates, 1972). However the question of whether the form of the government should be centralized or decentralized is still being debated (Rosen, 1988). These debates center on the level of government, that is federal, state, district or municipal that would make efficient decisions, reduce bureaucracies, lower the high costs of coordination and finally formulate appropriate policies (Erk, 2006).

The concept of localization is derived from the concept of fiscal decentralization. It is important because in many countries, complicated relationships exists between the local and higher level authorities (Atkinson & Stiglitz, 1980). It is learnt that the idea of the form of government was originally discussed by Musgrave (1959) who argued that any relative economic advantages significantly depend on whether the government implemented the concept of centralization or decentralization of power. On the other hand, Rosen (1988) argued that irrespective of whether the form of public sector is centralized or decentralized, it must be set within the framework of welfare economics and should maximize social welfare.



**Figure 2.6: Decentralization, local public goods and optimum characteristic of decentralization**

Atkinson and Stiglitz (1980) extended Musgrave's (1959) idea and argued that the main motivation for having decentralized governments is for some departments to take responsibility for specific activities or functions in different localities. However, this idea was not discussed widely by Musgrave (1959). Most subsequent literature also did not clarify which levels or branches of government should work independently from one another and at the same time ensure optimization of services (Tiebout, 1956). Optimal federalism is important besides focusing on economic efficiency (Tiebout, 1956; Oates, 1972; Atkinson & Stiglitz, 1980). However, added to this is reallocating income distribution in the society (Rosen, 1988).

As mentioned earlier, the basic idea behind the successful implementation of decentralization is that different levels of government should take responsibility and gain informational cost advantage to implement the concept. As suggested by Atkinson and Stiglitz (1980), one way to implement the concept of decentralization is through the

provision of local public good and services to the particular individual or consumer by targeting the specific location or geographical area. This could lead to Pareto optimum provision of public goods as put forth by Tiebout (1956). This ensures that decentralization is the best way to achieve economic goals compared to centralization. The idea of local public goods implicitly indicates that the public goods should be localized based on specific location and geographical area (Atkinson & Stiglitz, 1980). This is a new dimension of studying fiscal federalism which discusses traditionally the concept of local public goods (Tiebout, 1956; Musgrave, 1959), to a new extended concept of public goods (Atkinson & Stiglitz, 1980). As discussed earlier, the basic idea of fiscal federalism is the same, that is, the efficient use of resources, and this could be discussed in three broad economic dimensions namely production, preferences and real costs.

In addition, three main characteristics could be derived (Oates, 1972), such as greater innovation in production of public goods, which correspond more closely to the different tastes of consumers and finally better public decision-making. Rosen (1988) argued that the advantage of decentralization is tailoring outputs to local tastes. This means that individuals with similar tastes for public goods group together and the communities would provide the types and quantities of public goods as required by their inhabitants. It could be concluded that the characteristic of public goods is actually an advantage in implementing the concept of decentralization as argued by Rosen (1988). The word “local” as mentioned by Atkinson and Stiglitz (1980) implies localization because it relates to the geographical location of consumer or individual person in that particular area to achieve Pareto optimum. Rosen (1988) believed that localization as a policy also has to be related to local jurisdictions to achieve economic efficiency or to correct externalities. Rosen (1988) mentioned that a community could

be considered as a club that relates to the Tiebout model introduced by Tiebout (1956). However, before pursuing decentralization policies, the concept of decentralization should be defined clearly because it embraces a variety of concepts (Rondinelli et.al, 1989).

Decentralization refers to the transfer of authority and power in the hierarchy, from central to local government or lower levels of government. It is further defined as the transfer of authority and responsibility for public functions from central government to subordinate semi-autonomous agencies or the private sector (Rondinelli, 1999 quoted by Lameck, 2011). It is also defined as the transfer of power and resources to lower levels of local authorities which are largely or wholly independent of higher levels and which are democratic in some ways. Decentralization also means getting people to be more involved in politics, holding accountable government leaders and creating citizens' oversight and control (Valderrama & Gaventa, 1999). In developing countries, decentralization reforms are centered on human development and are pursued to address the problems of inefficient government, macro-economic instability and ineffective resource allocation (Robertson, 2002).

Decentralization in fact alters the structure of governance by shifting the structure of local accountability from central to local constituents. According to Schnider (2003), it involves changing the geographical boundaries of political contestation, altering the relative power of different actors and changing the location of government interaction with society. In other words, decentralization is the devolution by central (i.e. national) government of specific functions, administrative, political and economic, to democratic local (i.e. municipal) governments, which are independent of the centre, within a legally delineated geographical and functional domain. The

challenge of decentralization is essentially to locate resources at the level of government that optimizes social welfare (Musgrave, 1959). It is also important to determine the degree of fiscal impact of each government (Oates, 1972). Revenues and expenditures are the two main variables that have become the focus of discussion on the concept of decentralization. Therefore many current studies have hypothesized that the best indicator for the level of fiscal centralization or decentralization is the share of sub-national expenditures and revenues (Schneider, 2003). However, this conceptualization only focused on the degree of centralization or decentralization of the fiscal impact and does not evaluate the autonomy of local units.

Rodden (2004) argued that decentralization is often viewed as a shift of authority towards local governments and away from central governments, with total government authority over the society and economy imagined as fixed. However, Rodden added that it is necessary to make a clear distinction between fiscal decentralization, policy decentralization and political decentralization. In fact he found that many researchers endeavor to define and measure decentralization, yet only focus on fiscal issues and less on policy and political authority. This study believes that it is good to study and give more focus on decentralization policy as suggested by Rodden (2004). The issue of autonomy is also an important focus of decentralization which draws on the theories of public administration (Schneider, 2003).

### **2.5.2 Public Administration and Administrative Decentralization**

Public administration theories dealing with decentralization broadly focus on modern bureaucracies to achieve efficiency (Weber, 1968; p.926-939; 956-989). Schnider (2003) stressed that administrative arguments focus on administrative effects of granting local jurisdictions autonomy from central control. This has been discussed

in length by many scholars (Rondinelli & Cheema, 1983; Rondinelli et. al, 1989). A good definition was provided by Rondinelli and Nellis (1986, p.5) who defined administrative decentralization as:

*'the transfer of responsibility for planning, management and the raising and allocation of resources from the central government and its agencies to field units of government agencies, subordinate units or level of government, semi-autonomous public authorities or corporations, area-wide, regional or functional authorities, or non-government private or voluntary organizations'* (Rondinelli & Nellis, 1986).

Indeed, Schnider (2003) mentioned that the amount of administrative decentralization ranges in a continuum across systems, from those characterized by a low degree of autonomy to those with a high degree of autonomy. Thus, it has been referred to as either deconcentration, delegation or devolution (see Rondinelli & Cheema, 1983; Rondinelli et. al, 1989). Deconcentration refers to a central government that disperses responsibility for a policy to its field offices. This transfer changes the spatial and geographical distribution of authority. However it does not significantly change the autonomy of the entity. The central government retains authority over the field office and exercises that authority through the hierarchical channels of central government bureaucracy (Schnider, 2003; p.38). Rondinelli and Cheema (1983; p.19) also assert that a greater degree of deconcentration could be attained through field administration created by central government offices. It involves transfer of some decision-making discretion to field staff, allowing some latitude to plan, make routine decisions and adjust the implementation of central directives to local conditions, within guidelines set by the central authorities. Indeed, field staffs are employees of the central government and remain under its direction and control.

On the other hand, delegation refers to transfer of policy responsibility to local government or semi-autonomous organizations that are not controlled by the central government but remain accountable to it. The main difference between deconcentration and delegation is that the central government exercises its control through a contractual relation that enforces accountability of local government. Delegation has slightly higher level of administrative autonomy compared to deconcentration (Schnider, 2003; p.38). In addition, devolution is a situation in which the central government allows quasi-autonomous local unit of government to exercise power and control over the transferred policy. Hence, devolution provides the greatest degree of autonomy for local unit compared to deconcentration and delegation (Schnider, 2003; p.38).

### **2.5.3 The New Public Management and Neighborhood Decentralization**

The aim of decentralization is to empower people in decision making and resource allocation through increasing citizens' participation and development at grass root level (Lameck, 2011). However according to Burns et.al, (1994), there are two aspects of decentralization; (1) Decentralization refer to the physical dispersal of operations to local offices (Litvack et. al, 1998; Schnider, 2003) and (2) Decentralization refers to the delegation, or devolution or a greater degree of decision making authority to lower levels of administration or government (Rondinelli & Cheema, 1983; Rondinelli et. al, 1989; Schnider, 2003). Hence, Burns et. al. (1994) explored both aspects in depth and came out with four dimensions of decentralization namely localization, flexibility, devolved management and organizational culture change.

Burns et. al. (1994) promoted a concept of 'neighborhood decentralization', a new approach in public management. This study highlights the potential of

decentralization as a vehicle for ‘empowering the people in the neighborhood’. ‘Empowering’ means enhancing the degree of decision-making authority and ‘neighborhood’ refers to sub-areas within the geographical area of the authority, small districts within cities or villages or small towns in a country. ‘The people’ refers to local authority staff working in the neighborhood, the locally elected counselors, and the people living in the area (Burns et. al, 1994; p.6). Consequently, this type of decentralization as presented by Burns et. al. (1994) is associated with democracy, popular participation and empowerment. The term ‘democratic decentralization’ emphasizes the linkage between the state and the people, and consequently between decentralization and participation. It refers to the transfer of powers and resources to authorities’ representative accountable to the local population, and could be considered as an institutionalized form of participatory development (Vedeld, 2003; p.160).

Burns et. al. (1994) in their study believed that the neighborhood approach provides a promising route towards democratization and generates a number of useful insights on the potential for non-market approaches to public service reform. Neighborhood decentralization in practice could strengthen relationships between members, officers and citizens. In fact there is evidence from experience with public policy in several other countries, that neighborhood-based programmes are accepted and have been successful (Burns et.al, 1994; p.7). It is believed that this concept would continue to be a significant trend in local government. Actually successful decentralization requires some degree of local participation to ensure the responsiveness of local government to local needs. The process of decentralization could enhance the opportunities for participation by placing more power and resources at a level of government that is closer to the people (Bergh, 2004).



Burns et. al. (1994) has drawn a conceptual framework for neighborhood decentralization which has four components namely localization, flexibility, devolution management and organization culture change. Localization refers to the physical relocation of services from a centralized area to a neighborhood; flexibility means the promotion of more flexible forms of management and work organization through multidisciplinary team working, multi skilling, local, general and corporate management. On the other hand, devolved management refers to the devolution of decision-making power to service delivery managers and staff. Finally organizational culture change means the reorientation of management and staff values to promote quality of services and local democracy through greater empowerment of users (Burns et.al, 1994; p.88).

This study also recognizes an ideal model of decentralization by Bergh (2010) and Lameck (2011). Their framework was in fact based on the study done by Burns et. al. (1994). According to them, localization is one of the major variables for evaluating the effectiveness of neighborhood decentralization. It is measured based on easy accessibility of service to the locals, openness where the public has access to all the staff and could clarify doubts, comprehensiveness whereby decentralized services are relevant to the people. It also includes the need for new skills due to closeness of staff to citizens such as communication, presentation and negotiation skills. Other criteria for evaluating neighborhood decentralization include:

1. Flexibility which refers to flexible form of management and multi-disciplinary team working and multi skilling, local, general or corporate sector;
2. Devolution which refers to decentralization of service delivery decision making and power to service delivery managers in defined boundaries and financial expenditure rules, service standards and policy guidelines;

3. Organizational culture change which involves promotion of quality of service and local democracy through reorientation of management and staff values and norms of service delivery and empowerment of users;

4. Localization as mentioned by Bergh (2004). This criterion is important and becomes a basis of this study. Next, this study will elaborate the meaning of localization in detail.

#### **2.5.4 Localization**

The word localization is used interchangeably with the word decentralization (Shah and Thompson, 2004; p.2). The issues of fiscal federalism and decentralization that had earlier received little thought became the theme of international professional attention by the 1990's and continued to draw the attention of specialists and policy makers. There is a worldwide trend towards increasing transfer of power, resources and responsibilities to the sub national levels of government. This study found that Goetz and Clarke (1993) first used the word "localism" or specifically the term 'new localism'. Then Burns et. al, (1994) used the word "localization" that became part of the component of neighborhood decentralization. However, the word "localization" or "localism" has been used interchangeably with the word decentralization (see Shah and Thompson, 2004; p.2). In a global era of economic change, a new localism is important in the process of democratic reforms (Clarke, 1993). The word localization is also widely used in various terms in decentralization such as the local government (Faguet, 2004; Ajwad & Wodon, 2007) local officials (Clarke, 1993; Alderman, 2002) as well as local elected officials (Vogelsang-Choombs & Miller, 1999).

Thus, this study will focus on the study done by Burns et. al. (1994) that elaborates the concept of localization more extensively compared to other studies.

Localization according to Burns et. al. (1994) is the physical relocation of services, which shifts services from centrally-located offices to sites within local communities. It could be evaluated by the degree to which it is able to meet three objectives namely (1) physical accessibility, (2) openness, and (3) comprehensiveness (Burns et.al, 1994; p.89);

1. Physical accessibility: It should be small enough to have a real ‘neighborhood’ identity and its offices should be designed to be easily accessible to local and disabled people.
2. Openness: The office should be well organized and have an open-concept. This arrangement applies to everyone, including the staff and office manager. The public should be able to walk in and talk to whoever they want. However, there is instances s where staff faces potential violent incidents and it is important to be aware of such potential danger. It is also vital to be flexible in the response because each local office faces different circumstances.
3. Comprehensiveness: All services which involve direct contact with the public should be decentralized, including professional and specialist services. It could be done by offering a ‘one-stop’ information or large central information center and advice points, which form the first line of service. It is also wise to have trained generic receptionists to assist the public in the central information center.

The objectives of decentralization as stated by Burns et. al, (1994) and discussed in detail by Lameck, (2011) are confined to improving service delivery, strengthening local accountability, attaining distributional objectives and creating political awareness, staff development and cost control, reducing distance with inhabitants, tapping local knowledge by increasing responsiveness, allocating decision

making authority to the most suitable level, increasing efficiency and effectiveness, and protecting local identity. According to Bergh, (2004), the reasons for decentralization are to create proximity between the political representatives and citizens and facilitate better mobilization and allocation of resources, more creative, innovative and responsive programmes which allow local experimentation and provide better opportunities for local residence to participate in decision making. The next part will look at zakat localization from the perception of the amils and zakat recipients.

## **2.6 RESEARCH GAP**

Many studies have discussed the advantages of fiscal decentralization and localization, but none had examined the perceptions or the acceptance of the implementer and the end user of the service. In Malaysia, though the zakat systems in most states have decentralized the structure of zakat governance, known as corporatization, none have localized their management at the local level to improve the services. The perceptions and acceptance of amils and zakat recipients towards the concept of localization are important because both parties are the agents and grass roots in the zakat management system and the consent of both agents is essential to ensure that localized management is sustainable in the long run (Williamson, 2000). Indeed, several studies suggested the participatory poverty assessment (PPA) method to obtain as much information as possible to address poverty issues in the long run, especially from the perspective of the poor and needy (Narayan et. al, 2000; Laderchi et. al, 2003). Muhammad Syukri (1997) also added that the voice of the zakat recipient, especially the poor and the needy, should be heard by the government in order to formulate effective policy prescriptions.

Most studies thus far concentrated on the perspective of the tax system that mainly focuses on tax payers and how to maximize their preferences and provision of local public goods based on the taxes paid (Musgrave & Musgrave, 1989). However this study is different because it focuses on the preference of the zakat receiver who does not pay zakat, especially zakat on wealth. Moreover, this study also gathers information from the implementer via the amils whose views have not been studied empirically. The question is to what extent localization of zakat distribution is acceptable to the amil as zakat implementer and zakat recipient? Is there any difference in the perceptions between the two groups of respondents, or among the states? The zakat recipients and amil implicitly prefer the potential zakat services if zakat management is localized.

The next issue is what is the appropriate method to create the construct of localization and the issue of how to look for the determinants of localization? The characteristics of decentralization and localization could be viewed as the basis to build the constructs of localization (Oates, 1972). This study believes that CFA is a good method to construct a variable (Sureshchandar et. al, 2002). It is necessary to use CFA to analyze the various categories of variables including the observed variable and the latent variable. Although there are many studies that used the EFA approach, Bentler (1995) is of the view that the CFA is a better approach. This is also supported by several studies (Joreskog, 1969; Anderson & Gerbing, 1988). There is also a CFA second order approach (see Benson & Bandalos, 1992) to confirm particular variables specifically, which makes the CFA a better approach than the EFA. However, Gerbing and Hamilton (1996) for instance suggested that EFA and CFA approaches should be applied simultaneously to get better and concrete results. Hence, this study will use both approaches to construct the variable of localization based on the characteristics and advantages of localization (Oates, 1972).

The proposal on localization of zakat management could be viewed from the political economy perspectives in the Islamic believe system model via the variable of religiosity. This study tries to examine the concept of localization as the solution and as a final component in performance measurement model. This study believes that the quality of an output begins with the quality of input and the quality of process (Abd Halim et. al, 2011) and religiosity would positively change zakat recipient's attitude and quality of life. Hence, this study aims to analyze the relationship between all the components in a comprehensive management system, including the proposed localization of zakat distribution. This study would use structural equation modeling (SEM) to analyze various hypotheses, providing theoretical and managerial implications for research and industry.

Finally, another question or research gap is whether the strategy of increasing the levels of religiosity of the poor and the needy as zakat recipients could solve the problem of poverty. This study raises this issue after considering the impact of zakat distribution which should be viewed as the long term target. The attitude of the zakat recipients should be changed first to ensure that every strategy or policy, whether to raise the levels of income or quality of life, could be achieved. Moreover, it is believed that fundamental change in individual's attitude is basically related to the level of religiosity. There is also an assumption saying that the poor are not only poor in terms of income but also poor of mind and in the religious aspect. Do these poor people have low level of religiosity, faith to Allah s.w.t or morals? Have the zakat institutions educated the poor and the needy in terms of giving religious or any educational programmes to overcome the problems of poverty? This study will examine this issue of religiosity of zakat recipients as the basic factor of policy achievement, including policy

to eradicate poverty and it should be given serious consideration by policy makers, especially the zakat institution.

The willingness of the amils to be the zakat implementers is also important. The role of the implementer has not been discussed in detail in past literature of fiscal decentralization except listing their position, task and the characteristics they should have in performing their duties. However, this study is different in that it is not only getting the amil's perception on localization of zakat management, but also to study their willingness and readiness to implement, and become professional amils<sup>35</sup>. The possible factors affecting their agreement to implement also have to be studied to make sure the zakat institution selects the best amil to be the professional amil. This method should make the implementation of localization of zakat management more robust.

Finally, this study believes that any effort to overcome the zakat management problem should start from the grass root Islamic institution, which is the mosque. As referred to in the study done by Atkinson and Stiglitz (1980), the geographical factor is important and a branch of the zakat institution has to be set up in the locality. Consequently, the officer is close to the society and is able to identify the society's need. In Islam, the mosque is important as it is the closest institution to the Muslim society and could be used as the potential institution to solve any social problem. As mentioned before, the Muslim society needs to educate on the Islamic teachings to prevent them from becoming *kufur* to Allah s.w.t. The role of this specific institution to manage localized services via zakat has not discussed in any literature on fiscal federalism. Hence, the next part is to develop the theoretical and conceptual framework based on the research gap discussed before.

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<sup>35</sup> See Mujaini (2011). He has defined professional amil as a proactive and an innovative amil (*Mujtahid*)

## **2.7 POLICY DESIGN: SHOULD ZAKAT MANAGEMENT BE LOCALIZED? EXPERIENCE FROM OTHER COUNTRIES.**

Could the concept of localization be implemented in zakat management in Malaysia? Kahf (1995b) revealed that the model of local committees was implemented in Pakistan where more than 250,000 persons were involved in the process (Kahf, 1995a; p.226). The model which exerts an effective role of zakat collection and distribution has several significant impacts. Firstly, awareness of the importance and religious rules of zakat could be spread quickly at the local level. Secondly, this model could solve the problem in zakat distribution to recipients because local committees could find out the conditions of deserving recipients and could therefore disburse zakat to the eligible recipients. This model could also alleviate the perception of begging as mentioned by Muhammad Syukri (2006). Kahf (1995a) believed that the existing zakat distribution system failed to effectively reduce the procedures for zakat application because the applicants have to fill in many forms that in some aspects might degrade the personal dignity of the poor. Local committees, on the other hand, could identify families who do not seek zakat or show signs of need in spite of their poverty.

Localization of zakat distribution could improve the life of the poor and the needy because the amil knows what this group deserves. Kahf (1995a) also added that localization could spur local economic activities according to the preferences in particular villages. Muhammad Syukri (2006) was of the view that the current zakat distribution system could not alleviate poverty among the poor and the needy as well as lighten their burden in life. The amount of zakat given by the zakat institution is relatively small. Actually the zakat institution should not limit the amount given to the poor and the needy. Instead the amount given out should be enough to meet the needs of the recipients and they should be satisfied after receiving the zakat. This has been



practiced during the time of Umar Al-Khattab, for instance, who directed his amil to deliver the zakat. Umar was once asked what to do with the zakat collected from Bedouin Arabs and he answered,

*‘..by Allah, I shall render sadaqa to them until each of them becomes the owner of a hundred camels, male and female’ (Qardawi, 1999; p. 512).*

This concept is also supported by Ajeel (1995) in his study on Kuwait through the Kuwait Zakat House (KZH). In Kuwait, public zakat committees were formed to address the needs of the poor, through the mosque as the socio-cultural and religious institution (Ajeel, 1995; p. 260). The first zakat committee was formed as a voluntary body in 1973 at the Othman Mosque which served about 7.5 per cent of the total population of Kuwait. These committees have grown and reached 25 units by 1995 and were distributed throughout Kuwait owing to good public response and also its great success in making people aware of the duty of zakat (Ajeel, 1995; p. 260). Kahf (1999) believes that this chronicle supports the concept of localization implemented successfully by the Islamic state. Government revenue was spent and distributed in an efficient zakat and taxation system. At that time, the Islamic state was small, and it was possible for zakat to be distributed efficiently, quickly and rapidly. The state government had the right to take charge of zakat collection and distribution once the government decreed that payment of zakat must be made to the *Baitul Mal*. Indeed the majority of *fuqaha* emphasized that individuals must pay their zakat through the government. The main reason behind that argument was supported by many other scholars who agreed that the *Baitul Mal* could disburse zakat to its proper recipients as mentioned in the Quran.

In Malaysia, there are studies that urge the zakat institutions to put into practice the concept of fiscal decentralization in zakat management (Abdul Aziz, 1993; Abdul Ghafar & Nur Azura, 2006) as well as localization of zakat distribution to resolve the problems (Kahf, 1995; Sirageldin, 2000; Muhammad Syukri, 2006; Suhaib, 2009). For instance, a study by Muhamad Syukri (2006) suggested that zakat management should be localized in terms of collection and distribution of zakat. However his study is only a concept paper and has not been tested empirically. Muhammad Syukri's (2006) argument was based on several statements and facts as mentioned in Qardawi (1999; p. 511-513). For example,

*'Abu Juhayfa says, The zakat officer of the Messenger of Allah (p) came and collected zakat from the rich among us and distributed it to our poor. I was then a minor orphan, so he gave me a she-camel'. (Qardawi, 1999)*

Another example,

*It is correctly reported that a Bedouin Arab asked the Messenger of Allah (p) several questions. Among them was, "By Allah who sent you, is it Allah who commanded you to take sadaqa from our rich and distribute it to our poor?" The Prophet (pbuh) answered, "Yes" (Qardawi, 1999)*

From all the Hadiths mentioned, it is recommended that the concept of localization be implemented in Malaysia to solve the zakat management problem. Muhammad Aziz (1993) mentioned that historically, prior to the colonial period, zakat in Malaysia was generally collected and distributed at the village level. He also argued that decentralization of zakat administration was not only consistent with the requirement of *sharia* but under the existing political arrangements in Malaysia, it was

a feasible alternative that would protect the interests of the poor and the needy and other rightful beneficiaries of zakat (Abdul Aziz, 1993; p. 179).

Is it possible to implement localization of zakat management in this modern era where ICT and technology are fully used in all activities? If we agree that zakat management should be localized, which institution should take the responsibility? Some studies suggested that zakat centers should be established in all villages, town and cities within the Muslim provinces. The mosque could be considered as a natural entity to take this responsibility (Zayas, 2003; Kahf, 1995). However, Muhammad Syukri (2006) proposed that the process of localization should be done by local committees according to the hierarchy of existing administration such as district office, *penghulu*, chief of village, *Jawatankuasa Kemajuan dan Keselamatan Kampung* (JKKK) or Village Development and Security Committee, the mosque committees and others. Historically, zakat payments in Malaysia during the pre-colonial era were not administrated formally and it used to be guided more by the village tradition of contributing zakat to religious teachers. Abdul Aziz (1993) clearly mentioned about the party in charge of the process of localization. He said ideally the management should be managed by the JKKK, provided the JKKK has gained the confidence and support of the majority of the villagers in the locality. Conversely, if the JKKK is found to be unsuitable, the second best alternative would be the formation of a separate Village Zakat Committee and this committee should have all the privileges as the amils and work closely with the JKKK.

According to Abdul Wahab (1995), such form of zakat payments arose from the high esteem the peasants held for their religious teachers and this tradition still continues in some states today. This shows that the zakat payers are confident of the

religious teacher who they believe could disburse the zakat fairly. In other Muslim countries like Pakistan and Kuwait, committee-based models exist where religious leaders or the committee members are in the best position to reach the poor members of the community (Kahf, 1995; Ajeel, 1995). Furthermore, the positive side of localization is that the members of the community could have a positive voice and will participate and be actively involved in the village activities (Alatas et. al, 2003).

This study also found that the main problems that arise in zakat management are information on zakat recipients. If the zakat institution could overcome the problem of getting the information, the process of zakat distribution could become easy and it will thus ensure that distribution of zakat is more efficient (Sirageldin, 2000). Zakat collection and distribution could be implemented by Islamic institutions at various levels including the village, city or state in accordance with size of the Muslim population. During the Prophet's (pbuh) time, the management of zakat started from the mosque in Medina, especially in the large mosques (*jami'*) where all Muslims gathered. Based on this practice, this study believes that the proposed institution that should be established to manage zakat is the mosque (Zayas, 2003). The establishment of zakat centers in the mosque in a particular village, district or state, must be linked to the main mosque (*jami'*) as a branch of the zakat center. This is known as localization of zakat (Abdul Aziz, 1993; Kahf, 1995; Zayas, 2003; Muhammad Syukri, 2006).

This practice is based on Surah 9 verse 60 of the Quran which implicitly explains that the zakat fund should be kept in the mosque, an important zakat institution. This practice would satisfy the Muslim community in a particular area, especially the zakat payers (Zayas, 2003; p.337). If there is excess zakat in that particular area, it could be distributed to other areas having scarce zakat funds. This is

based on the opinion of the Hanafi school of thought that allows it to reduce the sufferings of Muslims and is in line with Islamic values that emphasize unity and solidarity. It also could be implemented where zakat recipients fully received zakat and are satisfied with zakat distribution in their areas. Distribution of excess zakat should be done in the area that is closest to the neighborhood (Zayas, 2003; p.338-340). However, this also requires the coordination and collation of full information and a complete record of zakat recipients at the village, district, state and the country level.

## **2.8 CONCLUSION**

To conclude, it is learnt from the verses of Al-Quran that the distribution of zakat is an important task of the amil or zakat institution. They must ensure that the zakat fund reaches the zakat recipients, especially the poor and needy as well as the vulnerable poor, efficiently and fairly. During the era of the Prophet (pbuh), zakat management was handled at the local level, especially in terms of collection and distribution. It was found that this process made zakat management more efficient and there were no complaints from the Muslims at that time. In Malaysia, the dominant Muslim community mainly resided in the villages during the initial years. However, during the second phase, the local level was disenfranchised by the state institutions that monopolized and centralized zakat management. During the third phase, that is, in the post-colonial environment, the central epistemic communities began to implement the notion of corporate governance through corporatization of zakat institutions. This refocusing on the idea of corporatization of zakat management would not have been possible without the shift in discourse power from the rural villages to urban centralized centers. Although local communities partially lost their interpretive control over zakat, they remained influential participants in the discourse.

The current studies showed that the majority of Muslims in Malaysia are still not satisfied even though corporatization of zakat institution were undertaken in most of the states in Malaysia. This study would like to highlight the study by Abdul Aziz (1993) that recommended the concept of decentralization of zakat management. This was supported by the study by Muhammad Syukri (2006) that highlighted several problems in zakat management that arose following the implementation of corporatization of zakat management. This subsequently let him to suggest the concept of localization. Both studies proved that the local parties are influential and significant participants in the zakat discourse. However, no single study has empirically tested the issue of zakat management, especially the issue of localization (Sirageldin, 2000; Muhammad Syukri, 2006; Suhaib, 2009; Steiner, 2011).

This study suggests a new conceptual framework based on three significant studies (Abdul Aziz, 1993; Muhammad Syukri, 2006; Stainer, 2011), the so called new phase of zakat management. This study believes that the local communities must be partly involved with the zakat institution, not only in the states that have corporatized the zakat institution but also in the states that are yet to corporatize them. This concept is called localization of zakat management based on the framework of location-based theory of fiscal federalism by Tiebout (1956). It mainly focuses on the structure of institution and governance that ultimately aims to maximize social welfare in a certain locality. This study shows that the concept of localization is integrated with the idea of administrative decentralization and neighborhood decentralization that recognizes the role of local Islamic institution to implement this idea. This is discussed in the next chapter.

## CHAPTER 3

### THEORETICAL FRAMEWORK

#### 3.1 INTRODUCTION

This chapter discusses the concepts of decentralization and localization which is the main focus of the study. A specific conceptual framework based on the concept of localization will be built based on the four objectives of this study, as discussed in Chapter one. This chapter discusses a basic theoretical framework based on the framework of the political economy suggested by several scholars (Erk, 2006; Mikami & Inoguchi, 2008) to confirm that localization is the best solution to overcome the zakat management problem in Malaysia. Next this study will propose a basic framework of the amil, based on the study of compliance behavior of paying zakat (Sanep & Zulkifli, 2010; Sanep et. al, 2011; Muhammad Rahim et. al, 2011) to investigate the possible factors influencing the amils to perform their duties. Ultimately, this study would propose a basic framework to link the role of the mosque as a local mediating<sup>36</sup> institution with the concept of localization.

#### 3.2 TAX-BASED MODELING OF ZAKAT COMPLIANCE

Theoretically, attitude is a psychological tendency, expressed as some degree of favor or disfavor towards an entity that a person has had direct or indirect “learning” experiences (Sun & Wilson, 2008). Behavior is one’s attitude towards an object that influences his/her decision-making (Mueller 1986). In fact, the psychological measurement of attitude has been an important issue for many years (Thurstone, 1928). Sanep et. al. (2011) added that individual behavior is related to one’s personality, the combination from the stability of physical and mental characteristics which makes it as its personal identity. Among those characteristics are the attitude taken in relation to a

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<sup>36</sup> To be tested as a mediator variable that transmits some of the causal effects of prior variables onto subsequent variables (Kline, 2011)

particular subject and the way an individual thinks, acts and feels about a particular subject. Many studies have been conducted regarding individual behavior in relation to taxation. In fact several theories have been established to describe the various factors that influence individuals in decision-making processes regarding taxation, including whether or not to pay tax. A study by Becker (1993) used rational individual theory as a framework for the study. This study believes that the study on perceptions must be based on tax compliance framework as zakat compliance itself portrays the same attitude even though the philosophy is different. More interestingly, this study will focus on the perception of zakat recipients and the amils who perform their duties as zakat collectors. There is a need to modify the framework of tax compliance into the framework of zakat compliance and use some economic theory as the tool of analysis. However, some modifications are required to align the economic theory with the Islamic economic principles.

### **3.1.1 The Theory of Rational Choice and Rational Expectation**

It is noteworthy that this study mainly focuses on the behavior of humans involved directly or indirectly in the management of zakat. Based on earlier literature, the main players who are involved directly in the zakat system are the zakat payers (Kamil, 2006; Sanep & Zulkifli, 2010; Muhammad Rahim, 2011), zakat recipients (Mohd Ali et al, 2003; Hairunnizam et. al, 2004; Hairunnizam et. al, 2006) and amils who represent the zakat institution (Mohd Tamyas, 2008; Ruziah, 2011; Ram, 2011; Hairunnizam et. al, 2011). In discussing and proposing the concept of localization in zakat management, this study focuses on the behavior of zakat recipients and the amils and how they perceive localization. In studying the behavior of zakat agents, most of the studies focus on the issue of compliance behavior, especially from the zakat payers' perspective of paying zakat. However, zakat compliance is also mentioned in the



discussions on tax compliance<sup>37</sup>. For instance, Kamil (2006) explained that zakat compliance refers to the payment of zakat according to the fatwa and regulation gazetted by the zakat authority. Other studies, such as by Sanep and Zulkifli (2010), discussed zakat compliance that relates to payment of zakat either through official channels or unofficial channels.

A study by Muhammad Rahim et. al. (2011; p.4) stated that the concept of zakat compliance is mainly about human behavior, especially the Muslim community making a decision (to comply or not to comply) to pay zakat (official or unofficial channels) according to the enactments and laws to achieve satisfaction in the present life and the hereafter (*al-falah*). It also implies that payment of zakat is fulfilling and satisfying in the two life dimensions compared to compliance on tax which is more human law (one life dimension) to avoid punishment and penalties (Muhammad Rahim, 2011).

Thus, this study could conclude that the behavior of amils and zakat recipients are important. Any action taken by the zakat agent is influenced by their rationality<sup>38</sup> either to choose<sup>39</sup> or not, as well as the expected<sup>40</sup> action based on information to maximize their satisfaction in the present life and hereafter. In other words, zakat agents have the alternative to choose the goods and services delivered by the zakat institution at a specific time and place. Their decisions to choose and receive the zakat services are to maximize their satisfaction or utility based on relevant information available. It is also important that the rational action of the zakat agents comply with

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<sup>37</sup> The tax compliance model was based on an economic theory, known as the rational individual theory (Hite 1987). The model was introduced by Allingham & Sandmo (1972).

<sup>38</sup> In microeconomic perspective, rationality often relates to the terms rational choice, rational expectation and rational ignorance. This study will mainly focus on rational choice and rational expectation to discuss the behavior of amils and zakat recipients.

<sup>39</sup> Rational choice is defined as the choice that among all possible choices, best achieves the goals (Parkin, 1993)

<sup>40</sup> Rational expectation is defined as a forecast that uses all of the relevant information available about past and present events and that has the least possible error (Parkin, 1993).

the social institutional norms such as family norms, policies of schools and other formal organizations, such as governmental laws and religious commandments, including the mosque (Friedman & Hechter, 1988; Zey, 1998). In this study, it is important to examine the perception of zakat agents towards the role of the mosque as the main social institution that provides information either religious or community information, which could affect social outcomes.

In the Islamic perspective, the principle of rationality depends on the religiosity<sup>41</sup> or faith. Every decision of the Muslim revolves around the two life dimensions; the present life and hereafter (*al-falah*). The rational individual theory in the conventional economy is premised upon the rationalism principle or some set of axioms that apply purely to individual utility maximization. It became the most loosely used term in economics (Kahf, 1978). However Sanep et. al. (2011) proposed that this assumption should be redefined since zakat compliance does not solely depend upon fiscal aspects, such as benefits and costs. Zakat compliance could depend on a broader range of factors, such as physical and spiritual factors, because zakat originates in the religious belief that it was established by Allah the creator, unlike taxation that stems from governmental fiscal requirements. Based upon this argument, Sanep et. al. (2011) proposed that a study on zakat compliance should also include observations of psychological, religious and Islamic values. The rational principle should not only consider utility maximization in the economic sense, but also mental and spiritual satisfaction as discussed earlier.

Therefore, the principle of rationality from Islamic perspective is based not just on physical utility in this world (present life) but also includes utility in the hereafter

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<sup>41</sup> To be discussed in detail on how the level of religiosity of zakat recipients could become the exogenous factor in the belief system of the political economy framework.

(*al-falah*) (Sanep & Zulkifli, 2010). For instance, when Muslims take the decision to comply with the zakat payment obligation, they are willing to share their wealth with the community and at the same time release part of their personal consumption. The decision is considered as a rational action because the decision is to reach the highest level of satisfaction; physical utility (present life) and hereafter (*al-falah*) satisfaction. In order to apply the rational concept to Muslims, ‘satisfaction’ must be divided into two dimensions, namely the present life in this world and life in the hereafter. For that reason, an individual’s behavior in selecting an option will ensure that the selected option achieves the highest values of satisfaction in the present life and in the life here after<sup>42</sup> (Kahf 1978). From a basic theory to explain satisfaction, it becomes an effective theory to explain compliance, which is closely related to a person's action and making a decision to achieve their satisfaction. This is because the compliance in fulfilling the Islamic obligation, such as paying the zakat, is one of the satisfactions achieved not only in the present life but in the hereafter (*al-falah*) as well.

In psychology studies, exchange theory<sup>43</sup> is often used on compliance behavior (Sanep et. al, 2011). The theory is based upon human psychological consideration of the reward estimation, either short term or long term (Emerson, 1976), close relationship among the participants (Cropanzano & Mitchell, 2005), trust in relationships (Young-Ybarra & Wiersema, 1999), interest groups in politics (Salisbury, 1969) or benefits resulting from a decision. Most studies found that taxpayer behavior has a close relationship with reward estimation or compensation received from the government as a rebate from the tax payer’s income. The compensation arises in the form of public facilities established by the government from the tax collected, resulting

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<sup>42</sup> Surah Al-Baqarah verse 201: “And they pray: Our Almighty God, give us blessings in the present life and the hereafter and protect us from hell”

<sup>43</sup> Emerson (1976) defines exchange theory as a frame of reference that takes the movement of valued things (resources) through social process as its focus.

in the tax payer wanting the government to work effectively, efficiently, transparently, and wisely in allocating the funds (Sanep et. al, 2011). However this study is different because it mainly focuses on the zakat recipients as the service receivers who will evaluate the process and quality of zakat management even though they are not paying zakat. On the other hand, the exchange theory could be used to study the behavior of the amils as potential zakat implementers of zakat localization because there is no study that focuses on this issue. As a result, exchange theory could be applicable to a study on localization from the perspective of the amils and zakat recipients by looking into their decision making from the perspective of reward, close relationship, group politics and trust in relationships.

Attribution theory is another psychological theory that is relevant to tax compliance behavior. The theory argues that an individual would usually interpret and analyze an event rationally to understand its cause. The cause of the event plays an important role in determining the reaction and individual behavior towards an event (Arrington & Reckers, 1985). It probably depends on moral intensity that includes perceptions of the magnitude, concentration, probability, and timing of consequences of the action, proximity of effect, as well as social consensus, that is either the act is good or bad (Douglas & Wier, 2000). Studies undertaken concerning zakat have found some support for this theory. Studies conducted by Mohd. Ali et. al. (2003), Sanep et. al. (2005) and Hairunnizam et. al. (2006) suggests that the level of understanding and knowledge about zakat influences the decision to pay zakat. However this study explores several probable factors that might influence the behavior of the amils to perform their duties as a professional and on a full time basis in their own localities.

This could relate to situational factors affecting attribution theory of organizational behavior (Broedling, 1977<sup>44</sup>; Lord & Smith, 1983).

Several studies have linked attributions to internal factors and intrinsic motivation<sup>45</sup> (Sherman & Smith, 1984), including educational factors (Ryan & Deci, 2000) and tangible rewards or incentive systems (Cameron, 2001; Kivetz, 2003; Gagne & Deci, 2005). However the most important finding by Sherman & Smith (1984; p.884) was that greater decentralization of authority and decision making, with decreased emphasis on bureaucratic formalization and standardized procedures, should positively affect intrinsically motivated voluntary activity. In conclusion, zakat compliance could be analyzed in line with tax compliance behavior with some adaptations. On the other hand, zakat recipient's behavior is also important to be investigated, especially with respect to the possible factors that influence them to accept the concept of zakat localization.

A study on zakat behavior could use the rational individual theory; rational expectation theory or attribution theory, provided there are some modifications to the theories by incorporating for example, spiritual and religious factors alongside those factors already in the existing tax compliance behavior model.

### **3.3 THE PERCEPTIONS OF AMIL AND ZAKAT RECIPIENTS AND MAIN DETERMINANTS OF ZAKAT LOCALIZATION**

The first objective of this study is to examine the perceptions of amils and zakat recipients on the concept of zakat localization and identify the main determinants of

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<sup>44</sup> Studying the intrinsic-extrinsic in explaining organizational behavior

<sup>45</sup> Refers to doing something because it is inherently interesting or enjoyable (Ryan & Deci, 2000)

zakat localization from their viewpoint. For that reason, this study endeavors to design the construct of localization through two statistical approaches namely, EFA and CFA.

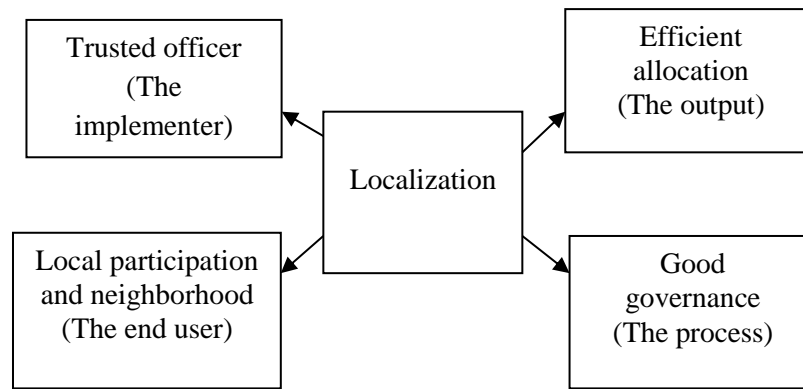
The first step is to list down the advantages of localization as a construct of localization. Based on previous literature discussed, this study found that there are about 20 factors that have to be analyzed using EFA approach (See Table 3.1). These factors could be categorized as follows: trusted officer, local participation and neighborhood, efficient allocation and good governance (see Figure 3.1).

### **3.3.1 The Advantages of Localization**

The advantages of localization were derived from the advantages of decentralization, as localization is a subset of decentralization (Burns et. al, 1994). The advantages of localization are as follows;

#### **(a) Trusted officer or amil.**

Braun and Grote (2002) argued that localization encourages positive incentives by increasing the democratic accountability of the state. The basic intuition here is that the government is more accountable when it is closer to the people and the people have their voices heard (Shah & Thompson, 2004; Sharma, 2009). The local government officials are in a better position to judge what citizens want if they represent smaller constituencies. Citizens could better oversee the behavior of public officials when they live in the same region than when the officials operate from a distant national capital.



**Figure 3.1: Main characteristics of localization**

Muhammad Syukri (2006) added that the local trusted amil would be able to foster closer relationship between zakat payers, zakat recipients and the amils, especially in the same place or village. The officer elected could take full responsibility of his designated role and increase responsiveness to local needs (Oates, 1972; Kahf, 1995a; Faguet, 2004). The trusted officers would be able to improve transparency and accountability as mentioned in many studies (Manor, 1999; Tugrul & Shah, 2002; Crook, 2003; Park & Wang, 2010). They also have the main responsibility of designing and implementing antipoverty policies due to information and transactional cost advantages (Rao, 2002).

**(b) Village Involvement, Local Participation and Strengthening Neighborhood**

Bergh (2010) argued that both the decentralization policies and participatory approaches to rural development are important to generate the good governance agenda. Very few studies have examined their interaction effects (Krishna, 2004). In fact, participation is crucial for successful and effective decentralization, as agreed by Krishna (2003), Bergh (2004), Helling et. al. (2005); and Bergh (2010). According to Lameck (2011), decentralizing policies and participatory approaches in fact relate to democratization that strengthens the relationships between local councils and citizens

and improves decision making at the lower level. This study believes that this advantage could be classified as a social advantage and forms the basic foundation of localization. Zakat is more related to social responsibility of the rich to the poor. It could be achieved through strong relationships or *ukhuwah* in the neighborhood. In Islam, this must involve the institution of the mosque.

Village involvement takes place when the local institution plays its role (Francis & James, 2003; Alatas et.al, 2003; Park & Wang, 2010). For instance, Alatas et. al. (2003) in their study in Indonesia collected data on a sample of households that participated in social activities. In that study, four distinct types of social activities were outlined: sociability, networks, social organizations and village government organizations. Respondents were asked questions about their village government. The findings revealed that there was positive participation when reporting about the village involvement. The engagement of village government organizations is generally negative, while the net effect of membership in social organizations is more often with good governance outcomes. The existing social organizations such as the mosque could have a potentially important role to play in enhancing the performance of institutions. Local participation in implementing programs planned by the local government could improve accountability to local citizens and to the higher levels of government (Rao, 2002).

**(c) Efficient Allocation**

Localization could create efficient distribution of zakat, especially among the poor and the needy and also other zakat recipients such as *al-riqab*, *al-gharimun* etc. The argument is that allocative efficiency could be achieved by devoting resources and power to the local government (Faguet, 2000; Hankla, 2008; Asfar, 2010) and being



cost efficient (Rao, 2002; Balaguer-Coll, et. al, 2010). Consequently, the process of zakat distribution could be done without any unwarranted delay (Nik Mustapha, 1991; Kahf, 1995a; Mujaini, 1995) as it has been practiced during the Prophet's (pbuh) life. Further, if the amil finds that in his region all the zakat recipients have received the zakat proceeds and there is surplus zakat in the *Baitul Mal*, he could transfer the zakat to another region that is facing deficit in zakat distribution. The general principle that should be followed is that zakat must be distributed in the area where it is collected and the poor and the needy in that land have priority over all others. The scholars however agree that all excess zakat funds could be transferred to neighboring areas or to the central government (Qardawi, 1999; p. 513-517). This would reduce inequalities between regions or states. Indeed, many studies agree that decentralization might reduce inequalities or disparities and separatism between regions and localities (Crook & Manor, 2000; Hankla, 2008).

**(d) Good Governance**

Local governance is said to have quality governance when it efficiently and reliably provides citizens the public goods and services that they desire. It is learnt that the amil or zakat officer is in a better position to recognize the local needs. Many scholars such as Tiebout (1956) and Oates (1972) assumed that the central governments are unable to target different bundles of public goods to different regions (Treisman, 2007). Decentralization of zakat distribution facilitates the matching of goods and services demanded by zakat recipients, according to particular areas, especially those who live in the rural areas (Abdul Ghafar & Nur Azura, 2006 p.97). Moreover, it is important that the local government has an incentive to provide public over specific goods (Breton, 2002) and it must adhere to local priorities (Sharma, 2005). They would be more sensitive to local needs (Faguet, 2004; p.887) because they have access to

sources of information that enables them to improve the targeting of social assistance to the poor (Alderman, 2002; p.399). The local authorities appear to have the right to use information that is not easily captured in household surveys, for the benefit of households under their jurisdictions (Alderman, 2002; p.399). Tiebout (1956) argued that local governments could improve the efficiency of provision of public goods by making it less uniform.

It is noteworthy that in this study, the features of localization are based on the characteristics of decentralization as discussed by Oates (1972). This study dwells with the potential advantages of implementation of localization by the zakat institution through the local amil as the local officer responsible for zakat distribution. It could be seen in Table 3.1.

**Table 3.1: List of construct attribute to advantages of localization**

No.	Item	Explanation	Literature
1	More familiar	Local amil more familiar with zakat recipients as compared to the state amil	Abdul Aziz (1993); Muhammad Syukri (2006)
2	close relationship	Local amil have a close relationship with zakat recipients as compared to the state amil.	Abdul Aziz (1993); Muhammad Syukri (2006)
3	More reliable	Local amil more reliable and trustworthy than the state amil	Braun & Grote (2002), Muhammad Syukri (2006)
4	dignity	Local amil will make sure that zakat recipients are not shy when applying zakat.	Kahf (1995a), Muhammad Syukri (2006)
5	Accessible	Local amil is easily accessible to apply zakat.	Sharma (2009), Shah & Thomson(2004)
6	Regular monitoring asnaf	Local amil could monitor the zakat recipients more often than the state amil.	Muhammad Syukri (2006), Faguet(2004)
7	easily identify potential asnaf	Easier for local amil to search the potential zakat recipients of the poor background.	Abdul Aziz (1993)
8	understand asnaf problem	Local amil clearly understand the problems faced by zakat recipients.	Abdul Aziz (1993); Muhammad Syukri (2006)
9	community participation	Easier for amil to encourage zakat recipients to participate in any community activities.	Bergh, (2004), Krishna (2004), Helling et. al. (2005)
10	Immediately solve problem	Local amil could solve the zakat recipient's problem quickly as compared to the state amil.	Abdul Aziz (1993); Muhammad Syukri (2006),
11	Efficient distribution	Local amil could distribute zakat more efficiently as compared to the state amil.	Lameck(2011) Tiebout, (1956); Oates (1972) Faguet (2000) Breton (2002),
12	Promoting local economy	Local amil could encouraged the zakat recipients to participate in any economics activities	Hankla (2008)
13	Low-cost applications	The cost of the application is cheaper as compared to if apply through the state amil	Bergh (2004), Bergh(2010) Rao (2002), Sirageldin (2000)
14	Identify economic	Local amil could recognize zakat recipient's	Bergh (2004), Krishna(2004),

15	potential quick distribution	economic potential and talents. Local amil could distribute zakat to zakat recipient faster than the state amil.	Helling et. al. (2005) Nik Mustapha (1991), Kahf (1995b), Muhammd Syukri (2006)
16	among the local community	Local amil is a preferable person compared to the state amil when dealing with zakat issue	Rao(2002), Alatas et al(2003)
17	Transparent distribution	Local amil will distribute the zakat fund transparently and honestly.	Park & Wang(2010)
18	bureaucracy process reduced	The bureaucratic problem could be reduced when local amil manage the zakat fund.	Manor (1999); Crook (2003)
19	no political bias	Local amil could not bias in selecting zakat recipients especially in term of political ideology.	Weber(1968)
20	institutional image	Localization could raise the image of zakat institutions and will attract more people to pay zakat	Weber(1968), Muhammad Syukri(2006) Abdul Aziz (1993)

### 3.3.2 The hypothesis of this objective

The hypotheses of this objective are as follows:

- (a) Amil and zakat recipients accept the concept of localization and their level of agreement<sup>46</sup> is equally the same. However the hypothesis of this study is that the level of agreement of the respondents across the states and the structure of zakat management, either corporatized or not corporatized, are different because of the geographical and communication factors, as discussed by Muhammad Syukri (2006) and Azhana & Abd Halim (2012).
- (b) The main determinants or attributing factors of localization significantly influence the amils and the zakat recipients to accept the concept of localization. Those factors that influence their perceptions are the close relationship among the participants (Cropanzano & Mitchell, 2005); trust in the relationship (Young-Ybarra & Wiersema, 1999), interest groups in politics (Salisbury, 1969) as well as bureaucratic issues (Sherman & Smith, 1984)

<sup>46</sup> This study uses Likert scale namely; 1: strongly not agree, 2; not agree, 3: moderate, 4; agree, 5: strongly agree.

### **3.4 THE INTERRELATION BETWEEN ZAKAT LOCALIZATION, PERCEIVED ZAKAT DISTRIBUTION, RELIGIOSITY, ATTITUDE TO CHANGE AND QUALITY OF LIFE AS PERCEIVED BY THE ZAKAT RECIPIENTS.**

This is the second objective of this study. Based on literature review, the concept of localization has a strong correlation to the notion of decentralization. However, with respect to the problems encountered on zakat distribution, this study is of the view that the solution lies in infusing the concept of localization into the belief system as propounded by Mikami & Innoguchi (2008) and Lucy et al (1977). This could be addressed by the political economy (Erk, 2006). This study would examine several variables that pervade zakat management especially, the belief system and the prevailing political economy, namely: (1) trust in institutions; (2) public satisfaction regarding zakat management; (3) the effects of zakat management on zakat recipients as reflected by their quality of life; and, (4) asnaf's attitude towards change. In fact, it has been suggested that zakat management should be examined from the beginning that is from the input, process, output and the quality stages, to overcome the problems (Abd Halim et. al, 2007; Abd Halim et. al, 2011; Azhana & Abd Halim, 2012) and this is known as the performance measurement model. The augmented performance measurement model based on that study is then applied with appropriate needs that are suited with the political economy model as suggested by Erk (2006) and Mikami & Innoguchi (2008).

The primary objective of this study is to highlight the importance of the concept of localization as an alternative solution that could be incorporated into the zakat management system. This study would explore the solution to the problems of localization of zakat distribution from the perspective of zakat recipients as they are the

main respondents in this study and the primary focus as zakat users in zakat management; and finally, this study would propose that zakat distribution through localization could be a mechanism to alleviate poverty. For this reason, this study would adopt the framework by Mikami & Inoguchi (2008) that studied the cause and effect in the political system as perceived by the people. It is relevant because this study is of the view that the implementation of localization of zakat management as a final solution should consider the macro perspectives. It is a process of management and related to many potential variables such as trust in institutions, the attitude of citizens, the effectiveness of service provided to the end users and so forth. Indeed, it must be viewed as a system that is inter-related to each other. Indeed, Lucy et al. (1977 p. 688) has stated,

*‘One helpful and popular analytical framework is that of systems. Words such as input, process, and output are in common, hence often vague, use. The terms this study propose to use are similar, but describe somewhat more directly referring to, and hopefully it will make the later discussion of specific measures clearer’ (Lucy et al. 1977)*

What is actually the system mentioned by Lucy et. al. (1977)? This study reckons that the system that needs to be explored specifically is the belief system that has certain internal relationships as proposed by Mikami and Inoguchi (2008). The system has to be verified as described by Lucy et. al. (1977) and simplified by Mikami & Inoguchi (2008) and other researchers such as Vigoda & Yuval (2003) who had employed a statistical technique<sup>47</sup> of analysis to test the system. Lucy et. al (1977; p.689) mentioned,

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<sup>47</sup> Specifically using Structural Equation Modelling (SEM) as a main tool of analysis.

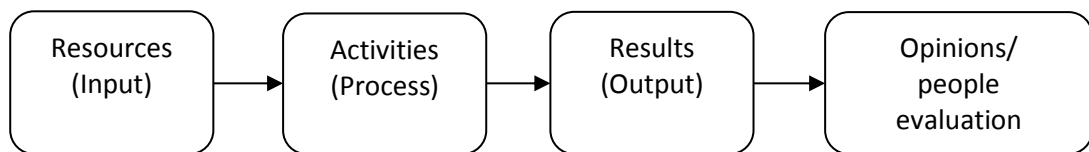
*'We will talk about resources (for inputs), activities (processes), results (outputs), and opinions (impacts). Resources (inputs) are personnel, expenditures, equipment and facilities. Indicators of these are the easiest to construct and data about them are the easiest to gather. Activities (processes) refer to ways in which resources are used. Results (outputs) are what happen as a direct consequence of the service delivery system. This study will measure the public perception whether service objectives are being achieved or not. The impact of a service is the difference between results of the service and the conditions that would exist without it. These relationships usually are not measurable. The closest measure that is obtainable (and it is not very close) is the opinions people have about how good a job are doing. Opinions, of course, are important, and they have political significance. Opinions are the practical, though inadequate, substitute for impact measures' (Lucy et al. 1977).*

This study would emulate this model even though it is not perfect because McCallum (2003; p.137) did mention the advantage of using certain models to analyze. He said,

*'Models can force us to pay more attention to what we are doing. Part of knowing what we are doing with models is to understand and acknowledge their limitations and to incorporate that understanding into how we think about models and how we use them' (McCallum, 2003)*

How to link localization of zakat distribution to the performance of the zakat institutions? This study adopts the framework by Mikami & Inoguchi (2008) and Lucy et. al. (1977) that studied the cause and effect in political system as perceived by the people. It is relevant to this study because the localization of zakat distribution as a final solution should be viewed from the macro perspective, taking into consideration

the opinion evaluation of the people on the management. It is imperative to understand that people actually evaluate the performance of any institution and if the performance is good, it would reflect in the output in terms of good and services and vice versa. Thus, localization is a management process which relates to potential variables such as trust in institutions, the attitude of zakat recipients, the effectiveness of service provided to the end users and so forth. Hence, these variables must be viewed as inter-related to each other in the localization system.



**Figure 3.2: The Basic flow of research design for second objective**  
Sources: Lucy et al (1977) and Mikami & Inoguchi (2008)

### 3.4.1 Performance Measurement Model in Zakat Management

The implementation of a performance measurement system provides a framework for creating an efficient organization and efficiency denotes the measure of efficacy of an organization in employing its resources to meet its objectives (Abd Halim et al, 2011; Azlina & Abdul Rahim, 2011a). In the context of zakat institutions, efficiency refers to the competence of the institutions in utilizing its resources (e.g. the staff, expenditure, etc.) to meet its objectives of socio-economic justice (e.g. reducing poverty). On the other hand, governance in zakat management refers to the process and structure in directing and managing the affairs of zakat institutions towards enhancing social welfare of the rightful zakat recipients as well as demonstrating accountability and responsibility to the zakat payers. The ultimate objective is to seek the pleasure of Allah, whilst taking into consideration the requirements of the *sharia* (Azlina & Abdul Rahim, 2011).

However, Abd Halim et. al. (2011) urged that payments and distributions of zakat have yet to reach full potentials and thus, the system of collection and distribution of zakat must be implemented efficiently to maximize benefits especially to the beneficiaries. In principle, distribution must be done in a manner to ensure the benefits are maximized and distributed equitably. It is vital that the distribution of zakat funds reach those who rightfully deserve while assuring zakat payers that it has been distributed equitably. The values of trust and responsibility of zakat institutions are paramount to ensure that the job is done effectively (Abd Halim et al, 2011).

It is acknowledged that IKaZ has developed a performance indicator to measure the effectiveness of zakat agencies in carrying out their duties. In general, formulation of performance indicators would have to consider various aspects or dimensions of zakat collection and distribution. The performance of zakat institutions are influenced by many factors, namely, output, input, process and quality issues of the organization (Abd Halim et al, 2008). The first dimension involves output or product that is received by the asnaf. Output or end product refers to the distribution of zakat. The end product is benefit/result obtained by the final recipient of the institution, in this case by the asnaf. Output as an indicator could be relied upon as an objective measurement. Output is the proxy as seen from various perspectives such as number of former asnafs who are paying instead of receiving zakat. This would indicate the success of the institution in the distribution of the zakat funds, which have enabled past recipients to increase their income. Other output proxies include level of fulfillment of basic necessities achieved through zakat payments, perception of the asnafs on the organization and satisfaction on the amount and type of zakat received by the asnafs. This includes not only zakat collection but also human resource and the office buildings.



The second dimension involves inputs or resources received. Inputs refer to the factors required to manage an organization. Data for input is derived from the asnafs, staff and the institutions. The items that could be considered to assess the level of inputs of an organization are the following, namely: the availability of infrastructure, number of staff, number of knowledgeable staff and the availability of data. The third dimension encompasses, among others, one of the important factors in distribution that is, the process of identifying those having the right to receive zakat. Processes within an organization are one of the components of performance measurement. There are many processes in distribution of zakat, for example, the budgeting process. Process here refers to preparation of annual budget, distribution procedures and mechanisms to obtain feedback from zakat payers. The fourth dimension is the aspect of quality and standards practised by the agencies involved. Quality is an important aspect of performance indicator. The variables used are status of distribution and collection, the accounting system and financial audit practised in the organization (Abd Halim et. al, 2011). Consequently, based on literature (Lucy et. al, 1977; Abd Halim, 2007; Mikami & Innoguchi, 2008; Abd Halim et. al, 2011), this study would construct a new framework that would link the proposed solution to the variable of localization that has been constructed in the first objective.

Any impression on any institution commences initially with the perception of trust towards the institution (Vigoda & Yuval, 2003; Vigoda, 2006; Mikami & Inoguchi, 2008). Institution in this case refers to a public institution which serves a community with the objective of achieving public objectives and the implementation of public policy (McGregor, 1982; p. 304). Vigoda-Gadot (2006) argued that the first variable to be tested in this context is trust in governance of any institution. The hypothesis of this study is based on previous studies that have demonstrated a positive

relationship between trust and the public's satisfaction on the provision of services from the government (Van de Walle & Bouckaert 2003; Vigoda & Yuval 2003; Welch, 2005). For instance, Vigoda and Yuval (2003) have confirmed the presence of good relationships where excellent performance lead towards building trust rather than trust contributing to higher evaluations of performance. Restoring trust in government cannot just be based on a managerial action-plan but requires social engineering. How could the government change these perceptions and evaluation criteria in a way that is acceptable in a democratic society? (Walle & Bouckaert, 2003).

Hence, the government's target of eradicating poverty is to ensure the income levels of poor households should exceed the income poverty line. However, if poverty eradication strategy is based solely on the poverty line income measure, this study thinks it is somehow too difficult to achieve the target. The number of poor households is continuously increasing from year to year due to external factors including the impact of economic downturn and the high cost of living. Thus, this study proposes an alternative economic measure based on the concept of relative poverty rather than absolute poverty. It involves the aspects of quality of life or household basic needs which could become an alternative strategy to eradicate poverty (Hairunnizam et. al, 2004; Mahyuddin & Abdullah, 2011; Nazirudin et. al, 2011). In accordance to the principle of zakat, the poor and needy should have the priority to receive the zakat fund as discussed before. The zakat institutions have the responsibility to ensure that the zakat recipients especially the poor and the needy are able to maintain a minimum quality of life from the zakat received. Therefore, zakat distribution should be proper and transparent to attain equitable distribution of wealth among the Muslim society (Mahyuddin & Abdullah, 2011).

On the other hand, the study by Naziruddin et. al. (2011) has crafted a new index, which has been applied specifically to the case of Pakistan. The index referred to as the Basic Needs Deficiency Index (BNDI) measures expenditure on basic needs, namely; food, shelter (rental), clothing, health care and education. The index ranks poverty in Pakistan more directly and zakat is incorporated in the model. This study proposes that these five household expenditures be incorporated in developing quality of life indicator for the zakat recipients. Some studies have measured poverty alleviation achievement based on the concept of *maqasid sharia*<sup>48</sup>. The government should focus on economic and non- economic objectives that are compliant to *sharia*. This would signify that the philosophy of Islam is a more important indicator than the economic theory. This measurement is clearly an alternative strategy to measure the changing socio-economic aspects of the individual and not solely focused on the economic aspects.

The effects of zakat are to eradicate poverty, improve economic growth and enhance the quality of life (Mannan; 2003, Wess; 2002; Hairunnizam et. al, 2004; Hassan & Khan, 2007). Some studies have claimed that the process of decentralization could alleviate poverty (Dreze, 1990; Rao, 2002; Booth, 2003; Asfar, 2010). Excellent management could bring about significant impact on zakat recipients. The effectiveness of the distribution of zakat could be visible in the eradication of poverty, improvement of economic growth and enhancement of the quality of life (Mannan, 2003; Wess, 2002; Hairunnizam et. al, 2004; Hassan & Khan, 2007; Mahyuddin & Abdullah, 2011; Naziruddin et. al, 2011). Quality of life was selected as an indicator in this study as it represented the output quality of life that involved people directly, yielded an accurate measurement of the effectiveness of poverty policy and was not solely dependent on

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<sup>48</sup> Known as the purity of religion (*al-din*), the protection of life (*al-nafs*), the importance of mind (*al-aql*), the protection of dignity (*al-nasb*) and the security of own property (*al-mal*)(see Rosbi & Sanep,2010 for further detail)

material aspects such as income and wealth. In fact, the definition of poverty need to be redefined taking into account the Islamic point of view as money-metric consumption (or income)-based approach is deemed inadequate (Sirageldin, 2000; p.5).

According to Mohd Parid (2001), there are various methods of zakat distribution. He reckoned that the zakat distribution would be deemed successful if it could provide a level of adequacy and comfort in the lives of the zakat recipients. He was of the view that an optimum level of distribution is necessary to achieve a certain quality of life among zakat recipients and it is called *had kifayah* in zakat management (Zainal Abidin, 2003). It specifies that the zakat recipients should achieve a certain standard of living at least to reach a level of adequacy of essential goods. In Malaysia, the quality of life can be viewed from various aspects, including personal development, healthy living, accessibility and freedom to acquire knowledge and to enjoy living standards that exceed the basic and the psychological needs to achieve a level of socio-economic welfare (Economic Planning Unit, 2002). This definition is congruent to the concept forwarded by Burnel and Galster (1992) that denoted the quality of life as the welfare of a person during his entire life that includes aspects of nutrition, education, health, housing, aesthetics, and so forth. If these aspects are satisfied, then the quality of life improves. Nevertheless, the existing studies only focus on the quality of the whole community disregarding the quality of life of the minority groups and the poor. A study is thus, required to examine the quality of life of the poor to ensure they are not marginalized from the mainstream of the economy.

As discussed earlier, this study would rely on six major quality of life indicators, namely shelter, food, clothing, medicine, education and transportation. There are several studies that focused on specific groups such as squatters in Kuala Lumpur and

participants of the Amanah Ikhtiar Malaysia project (Wan Zulaini, 1997; Rosmalini, 1998). These studies focused on causes and effects of government intervention to curb poverty. The study by Rosmalini (1998) established that the poor who participated in Amanah Ikhtiar Malaysia (AIM) project managed to improve their living standards. However, it was not based on socio-economic indicators. This study differs from the previous studies because the focus group is the poor and the needy who receive zakat assistance from the zakat institutions. This study would examine whether their quality of lives have improved, by employing socio-economic indicators such education, health, water and electricity and so on, which are considered as the prerequisites and catalysts for community development, particularly at the state level (Md Zhahir, 1996).

A new dimension that may not have received the full attention of the zakat institutions is the effectiveness of zakat distribution and its impact on the quality of life of the poor and the needy. The concept of multi-dimensional nature of poverty is very subjective and it involves the feelings of the poor due to the presence of abundance around (Cheong Kee Cheok & Federich, 1977). Although in terms of income levels, this group may still be categorized as poor, but they may not consider themselves as poor with their existing quality of life. On the other hand, some group could receive incomes beyond the poverty line, but they may feel that they are poor because their quality of life is still low. Thus, the quality of life of zakat recipients should be the primary consideration by the zakat institutions because zakat acts as an important tool in balancing the socio-economic development of the Muslims.

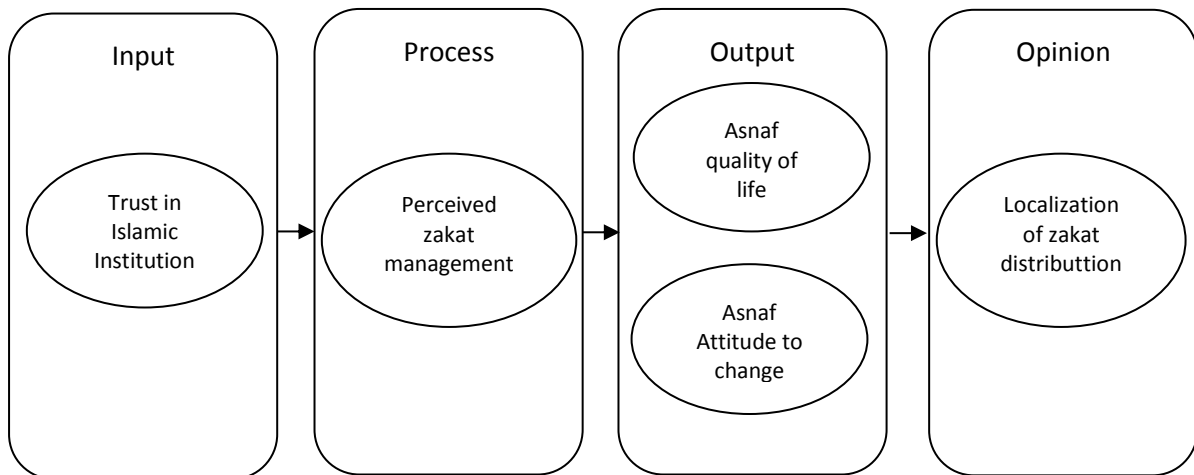
The question arises whether zakat assistance could improve the standard of living of zakat recipients in terms of economy or quality of life. A study done by Hairunnizam et. al. (2004) has demonstrated that zakat has a significant but small

impact on the quality of life. The study discovered that zakat distribution impacted the quality of life of the zakat recipients especially in education and social participation. It is clear that the zakat assistance in the form of money alone would not bring about a big impact on the lives of the poor and the needy. In fact, this study recommends that the zakat assistance should also include daily necessities such as rice, flour, sugar and so forth. It was evident that there are other factors that should be addressed by zakat institutions such as improving levels of education and encouraging participation in social activities. Thus, it is pertinent to consider these aspects in the analysis. Efforts to improve levels of education should include not only formal schooling but also religious education.

The attitude of recipients in this study was tested to determine the extent of concern of zakat institutions to change the attitude of the zakat recipients to become the zakat payers. This was to gauge the effectiveness of development programs created by the zakat institutions for asnaf to transform the zakat recipients into zakat payers (Sirageldin, 2000; Azhana & Abd Halim, 2012). It is an early attempt to deflect public's view in labeling this group as "poor-minded" who do not want to change. Syed Husin (1978) upholds that the poor Malays are not poor-minded if the government gave them land as an input to advance their economic wellbeing. He highlights that the poor are not really poor-minded, but they have no access to economic resources to progress, thus are trapped in poverty indefinitely.

**Table 3.2: Institutional trust, zakat perceived and output in zakat management**

Variable	Indicator	Literature/source	
1	Institutional Trust	SIRC or <i>Baitul mal</i> (The government Institution)  The State zakat institutions The Mosque in each village	Van de Walle & Bouckaert (2003), Vigoda & Yuval (2003), Welch (2005), Vigoda (2006) Mikami and Inoguchi (2008), Mohd Dahan (1998) Zayas (2003); Kahf (1991)
2	Zakat Perceived	Zakat collection Zakat Disbursement Zakat information Zakat application Bureaucracy Zakat amount Zakat monitoring Zakat enactment	Sanep et al (2006) Hairunnizam et al (2008; 2009) Abdul-Wahab, Mohamed et al., (1995) Muhammad Syukri (2006) Muhammad Syukri (2006) Hairunnizam et al (2004) Abdul-Wahab, Mohamed et al, (1995), Aidit (1989)
3	Output	Asnaf Quality of life  Asnaf desire to change  Asnaf Economy	Hairunnizam et al (2004), Mahyuddin & Abdullah (2011); Naziruddin et al (2011) Abdul Aziz (1993), Azhana & Abd Halim (2012) Mannan (2003); Wess (2002)



**Figure 3.3: A new framework of performance measurement model**

Sources: adapted from Abd Halim (2011), Lucy et al (1977) and Mikami & Inoguchi (2008)

This study would initially test the relationship among each variables using covariance and then, employ path analysis to evaluate and confirm the direction. Thus, the research design model would be evident and included under the section on research methodology

### **3.4.2 The hypothesis of this objective**

In this part, the hypotheses are as follow:

- (a) All variables, namely: trust in Islamic institutions (input factor); perceived zakat management (process factor); asnaf's attitude to change and asnaf's quality of life (output factor); and, proposed localization of zakat distribution (opinion factor) have a significant relationship amongst the variables in a political economy framework as adapted from Mikami & Inoguchi (2008) and suited to the performance measurement model in zakat management (Abd Halim, 2011)
- (b) The proposed localization of zakat distribution (opinion factor) is significantly affected by the output factor (Lucy et al, 1977; Mikami & Inoguchi, 2008). In this case, this study would focus on attitude and asnaf's quality of life. The proposed localization of zakat distribution could be a significant potential solution to overcome the problem in the zakat management.

### **3.4.3 Religiosity and the performance measurement model**

According to Greene & Yoon (2004), many economists have commenced to examine two basic aspects, namely, the economic dimension of religion and happiness and the relationship between them (Ellison, 1991; Iannaccone, 1998; Argyle, 1999; Frey & Stutzer, 2002). This means that happiness could be considered as an important output measure of achievement in the distribution of zakat. Interestingly, the religious aspect has been recognized in studies by non-Muslim economists especially in Christianity. Studies have indicated that religiosity has many advantages including reducing human neglect and criminal activities (Freeman, 1986, Hull, 2000). According to Greene and

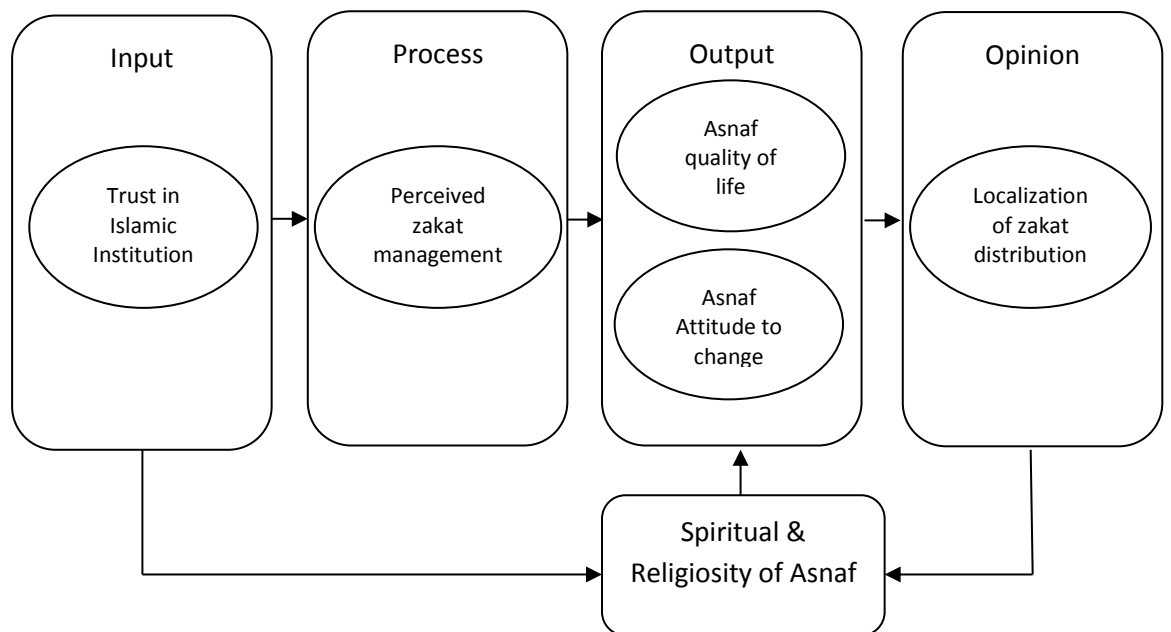


Yoon (2004), Adam Smith upheld religiosity aspects as initiator of good life as it had a positive impact on individual's psychology and happiness.

The question is whether the strategy of increasing the religiosity of the poor and the needy by zakat institutions could possibly solve their poverty problems. This study raises this issue as the impact of zakat distribution should be viewed as a long term target. In addition, the first strategy to be initiated by zakat institutions must focus on the attitude of zakat recipients. The attitude of the zakat recipients should be improved so that every strategy or policy, whether to raise the levels of income or quality of life, could be achieved. Moreover, it is believed that the foundation of change in an individual's attitude is his level of religiosity. There are assumptions that the poor are not only deficient in income but are also weak in mind and religion.

There are several studies, for instance Ellison et.al (1989) and Ellison (1991) who examined the relationship between religious commitment and life satisfaction of individuals. Ellison (1991) conducted a study on a small group of people in the United States (U.S.) where he examined the behavior of individuals who were directly involved in religious organizations, the frequency of attendance at places of worship (church), the level of religious belief and so forth. In the study, he observed that the people who were involved in religious organizations and had high frequency of attendance indicated an increase in their level of religiosity and their satisfaction on the quality of life. Thus, this study would examine the aspects of spirituality and its relationship with satisfaction on the quality of life especially with regards to the psychological aspects of the individual.

The study also concluded that an important aspect of religiosity involved the frequency of participation in religious activities which brought a positive impact on their level of satisfaction. Thus, another question arises, whether religiosity has a direct effect on the quality of life? Ellison et. al. (1989) have stressed that religiosity naturally increases an individual's participation in community and social activities especially in the religious activities. Thus, the participation in social activities would improve relationships among the members of the society which would have a positive impact on mental health leading to an improvement in the individual's level of satisfaction.



**Figure 3.4: The framework of religiosity as a foundation of the performance measurement model**

Sources: adapted from Abd Halim (2011), Lucy et. al. (1977) and Mikami & Inoguchi (2008)

On the other hand, the study done by Schieman et. al. (2003) differs slightly from Ellison et. al. (1989) as his study emphasize on the skills and knowledge (Mastery). He was of the view that religiosity in each individual could control their lives and was able to achieve their hopes and dreams without blaming their fate alone. These skills could be fostered through the impact of religiosity. In fact, many psychologists concur individual skills that are practised based on religious values would not grind down their real life but rather could overcome the difficulties of life

leading to an increase in the level of satisfaction. The study also emphasized the importance of religiosity and its positive impact on mental health of individuals that would ultimately improve the level of satisfaction and bring about a change in the asnaf's attitude.

#### **3.4.4 The hypothesis of this objective**

In this part, the hypotheses are as follows:

- (a) This study hypothesizes that religiosity (belief factor) has a significant direct effect on attitude and quality of life of asnaf (output factor).
- (b) Religiosity is significantly affected by other variables, namely; trust in Islamic institutions (input factor) and localization (opinion factor). Religiosity is a core Islamic belief and an important factor from Islamic perspective to overcome the issue of poverty.
- (c) The effect of religiosity on quality of life is mediated by attitude which has a significant indirect effect on religiosity and quality of life.

### **3.5 THE DETERMINANTS OF AGREEMENT OF AMIL TO IMPLEMENT LOCALIZATION**

This is the third objective of this study. Although many studies have discussed the advantages of fiscal decentralization but none of the studies focused on perception and reaction or any feedback from the officer as the executor or in this case, amil himself who is responsible for zakat collection and distribution. Several studies only discussed the concept and general characteristics of a person to become amil in zakat institutions (Mujaini, 2011; Ram, 2011). The profession as amil historically dates back to the era of Prophet (pbuh) when the Prophet (pbuh) appointed Umar Ibnul-Lutaybah, Ali Ibn Abi Talib, Abu Musa al-Ashaari and also Muadz Ibn Jabal as amil (Mujaini, 2011) to

several towns. The Prophet (pbuh) stated that the position of amil is as equal as the Muslim fighter<sup>49</sup>. History reveals that the profession of amil was very important at that time until the era of Islamic Khalifah. As mentioned before, the concept of localization has been implemented since the era of Prophet (pbuh) (Kahf, 1999).

Ruziah (2011) discussed the roles of amils, namely, initiating change, facilitating assistance to the zakat recipients by identifying potential zakat recipients, verifying zakat application forms in their own villages, organizing programmes for zakat recipients, solving problems and finally, intermediating between the zakat institutions and society. Hence, the role of amil is important in advancing the concerns of humanity and balancing between material and spiritual aspects of zakat management.

This study is of the view that it is imperative to obtain the consent and willingness of amil to implement the localization of zakat especially in zakat distribution and this has a high correlation to the behavior of zakat agents especially the zakat payers (Kamil, 2006; Sanep & Zulkifli, 2010; Muhammad Rahim et. al, 2011). This consent or agreement is crucial because amil is a significant agent in zakat management and his agreement is necessary to ensure that any proposed implementation of localization could be sustained in the long run especially support from the grassroots (Williamson, 2000). This study intends to identify and explore possible factors that may affect the compliance behavior of zakat payers towards the amil to collect the zakat instead of studying the behavior of paying zakat as discussed by previous researchers (Kamil, 2006; Sanep & Zulkifli, 2010; Muhammad Rahim et. al, 2011). The study would test several variables to determine the willingness,<sup>50</sup> interest and readiness of amil to take on the responsibility if the concept is implemented in the

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<sup>49</sup> Based on a Hadith pbuh. (please refer to Mujaini, 2011; p.167)

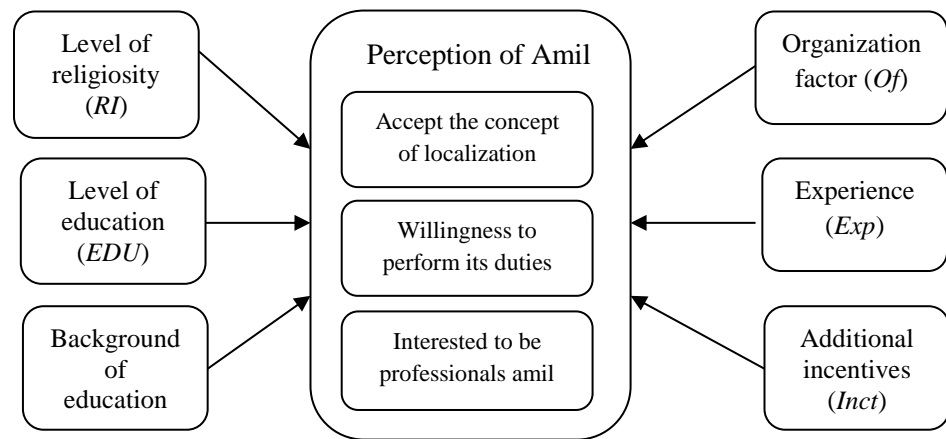
<sup>50</sup> Mujaini (2011) has labeled this kind of amil as proactive and inovatif (*mujtahid*) as an important character and becoming a condition to optimize the distribution of zakat fund

near future. In fact, Mujaini (2011) asserts that the duty of amil in managing the zakat fund could not be considered as voluntary work because all amils should be professional and possess a good character imbued with values such as honesty, accountability, loyalty and *mujtahid*.

Existing literature have not explored the behavior of amils and the important variables influencing amils' actions while on duty. However, this study would rely on research that has explored the behavior of zakat payers and recipients. Three main variables have been identified to be examined that probably could influence the amil's willingness to implement the concept of localization, namely; amil's background, economic considerations and structure of zakat institutions or organizations. For instance, the amil's background especially in terms of Islamic knowledge (Mohd Tamyas, 2008; Mohd Ali et al, 2003; Mujaini, 2011; Ram, 2011) with specific emphasis on zakat as it is important to make sure the implementation of zakat management is excellent and optimum (Mujaini 2011; Ram, 2011). On the other hand, the level of faith is also important to be analyzed because as discussed before, it is a basic foundation of a Muslim (Muhammad Muda et. al, 2006) and a significant factor influencing the payment of zakat (Sanep & Zulkifli, 2010). This study would take into account the frequency of attending mosque for congregational prayer as a proxy to determine the level of faith of amil, emulating several studies that used that variable even though most of the studies were focusing on zakat payer and the asnaf (Mohd Ali et. al, 2003; Raudha et. al, 2011). It is only natural that amil should attend mosque every time not only to perform their duty but also to get as much information about their local community especially the asnafs. The organizational aspect was highlighted in Muhammad Muda et al (2006) and Muhammad Rahim et. al. (2011) who tried to link it to the participation of individual to pay zakat. This study will adopt the

framework of zakat compliance of zakat payment<sup>51</sup> (Sanep & Zulkifli, 2010; Muhammad Rahim et al, 2011) and would modify it with the framework of zakat compliance of amils performing their job as amils.

Thus, the dependent variable is probability of amil comply in performing their duty as amil in order to maximize utility, while ( $Lor + EDU + Boe + Of + Exp + Inct$ ) become the main factors (independent variables) determining the compliance of amil performing their job as amil in Malaysia. Consequently, the following factors have become the basis for the theoretical framework for this study.



**Figure 3.5: Factor determinant perception of amil towards localization**

### 3.5.1 The Hypothesis of this objective

There are six important independent variables that are identified in previous studies that need to be examined and the hypotheses are as follows;

1. Level of religiosity (*RI*) (Sanep & Zulkifli, 2010; Muhammad Muda et. al, 2006; Mohd Ali et. al, 2003). Mohd Tamyas (1998) has recognized two important characteristics that amil should have as true Muslims, namely, friendliness (*ar-rifq*) and trustworthiness (*thiqah*).

<sup>51</sup>  $\frac{\rho U'(Z^c)}{1 - \rho U'(Z^{nc})} = (X_1 + X_2 + X_3 + X_4 + X_5 + \dots X_n)$ ; Where  $X_n$  are an independent variables

2. Level of education (*EDU*). It is important to associate the level of education with the performance as highlighted in studies by Clark & Oswald (1996), Brown & McIntoh (1998), Hartog & Oosterbek (1998), Gazioglu & Tansel, (2006); and Verhofstadt, et. al, (2007).
3. Background of education (*Boe*) (Hairunnizam et. al, 2006; Mohd Tamyez, 2008)
4. Organization factor (*Of*) (Muhammad Muda et al, 2006; and Abdul Rahim et. al, 2011). This study would examine the structure of zakat institutions whether corporatized or not corporatized.
5. Experience (*Exp*) (Abdul Aziz, 1993; Ram, 2011).
6. Additional incentives (*Inct*) (Abdul Aziz, 1993; Muhammad, 1995).

Thus, this study hypothesizes that all independent variables listed above are significantly influence the behavior of amil (dependent variable), in terms of: (1) willingness to accept the responsibility becoming a local amil; (2) ability to perform the duty as a professional and full time amil; and, (3) agreement at least in thought on the concept of localization in zakat distribution.

### **3.6 THE CONNECTION BETWEEN THE ROLE OF THE MOSQUE AND THE CONCEPT OF LOCALIZATION**

This is the fourth objective of the study. The mosque has been a very important institution in the history of Islam. It is not just a place for Muslims to perform special rituals such as the prayers, reading the Qur'an and *Zikr*, but it has become a center of human development in the Muslim community. Historically, the first effort by the Prophet (pbuh) to form a Muslim society and an Islamic state in Medina was to build a mosque. Even at that time, according to Ibn Hisham, the mosque expanded to 18 units and continued to spread after that (Mokhtar, 2003). The Nabawi Mosque in Medina was

the pulse of all important events during the time of the Prophet (pbuh), where he taught people to organize their lives and religion, beginning from the individual to the family, community and country. Thus, the mosque has played its role extensively covering all aspects of worship, science, politics, economy, military, administration, establishment of national policy, relations between countries and so forth (Lokman & Musa, 1996.)

In order to ensure a good mosque management, the mosque organization team comprises a committee headed by the chairman (*nazir*). This committee organizes various activities ranging from religious, social and economic undertakings such as establishing cooperatives, providing shops, leasing accommodations and so forth. All these activities would create human and social capital in that particular area and promote Islamic civilization. However, many mosques have yet to explore the full potentials (Roslan, 2003). Among the weaknesses identified are the limited activities organized and the weak financial position of the mosque. As a result, most mosques are only able serve as places of worship for Friday and congregational prayers. Of course, such an atmosphere is very different from the role of the mosque that was founded by the Prophet (pbuh) as described above. However, efforts are undertaken currently to revive comprehensively the role of mosques in many Muslim countries. In Malaysia, forums, workshops and seminars on the management of the mosques have been held since the last two decades and it was widely agreed that mosques throughout the country should develop and expand the roles and activities of their mosques as well as improve the quality of management (Jaafar et. al, 2001).

One of the roles that the mosque could undertake is the management of zakat distribution at the local level. However, it is necessary to ascertain whether the mosque could perform this task efficiently. Hence, the objective of this study is to examine



empirically the perception of the zakat receivers (the poor and the needy) and the zakat distributors (amilis) on whether zakat distribution at the local level could be managed by the mosque as an alternative to other channels of distributions. This study is significant because no study has been done to examine the possibility of implementing the concept of localization of zakat management and to relate it to the mosque. It is pertinent to understand the preference of the amil and the asnaf to enable policy makers to design the most effective method of zakat delivery at the local level to ensure poverty alleviation efforts amongst the zakat receivers could be achieved effectively.

The word mosque (*masjid*) is based on the three Arabic words: *misjad* means to prostrate; *masjad* refers to a man who touched his forehead during prostration and *misjid* denotes a small mat. However, Al-Zarkasyi believes the word *masjid* or mosque is chosen because the mosque connotes an act of prostration in prayer practices which is the noblest act of bowing to be close as a slave to Allah s.w.t (Mokhtar, 2003). While the word zakat is literally taken from the Arabic word that means purification and expanded (Mannan, 1986). It also carries other connotations such as *increase*, *welfare* and also *to give*.

The word zakat is stated in the Quran together with other words such as *sadaqa* (charity) and *solat* (prayers). Al-Quran itself mentions zakat as much as 82 times with the duty of prayer to denote the importance placed on the practice of zakat as the fourth pillar of Islam. Prayer and zakat are stated together in the Quran, highlighting that both words are very special and significant acts of worship associated with the institution of mosque as mentioned in Surah At-Tawba (Chapter 9: 18) to the effect:

*‘The mosques of Allah shall be visited and maintained by such as believe in Allah and the Last Day, establish regular prayers, and practise regular charity,*

*and fear none (at all) except Allah. It is they who are expected to be on true guidance' (Abdullah Yusof Ali Translation 1987; p.85)*

The implication of this verse is that the sign of a Muslim's faith in Allah and the Last Day lies in attending the mosque regularly and frequently. It also emphasizes that attending a mosque is an effort or exertion and faith is the effect of effort or work (Nasoha, 2001; p.19). The outcome of faith will lead to continuous religious acts of prayer and zakat, which are amongst the five pillars of Islam. While according to Qutb (2000), the word "the fear of God" has been mentioned after the conditions of internal faith and religious practices that eventually shall be rewarded by Allah through His guidance, achievement and success in this world and the Hereafter. This also explains that fear of Allah s.w.t is the result of firm faith, steadfast in performing prayers and strong obligation to pay g zakat after enlivening the mosque. This is because a person cannot be steadfast in performing his prayers or become a zakat payer if that person does not attend regular prayers at the mosque (Hamka, 1984, p. 128).

Ibn Kathir (2005) on the other hand, stated that Allah would be a witness of faith to those who enliven the mosque. In fact, he added that any village or community that conducted congregation prayers at the mosque would be spared from punishment by Allah s.w.t for that particular village (Al-Hafiz Al-Bahai in the book *Al-Mustaqsa*) and protected from litigants among the Muslims (Al-Hadith narrated by Imam Ahmad). Hamka (1984) also believed that frequent and regular visits to the mosque also meant to enliven and revive the mosque activities including the congregation prayers. Only those who attend the mosque regularly believe in Allah s.w.t, the existence of Allah s.w.t and the Hereafter. They perform congregation prayers and pay the zakat at the mosque: praying in congregation together in the straight rows behind the *imam* in the ranks

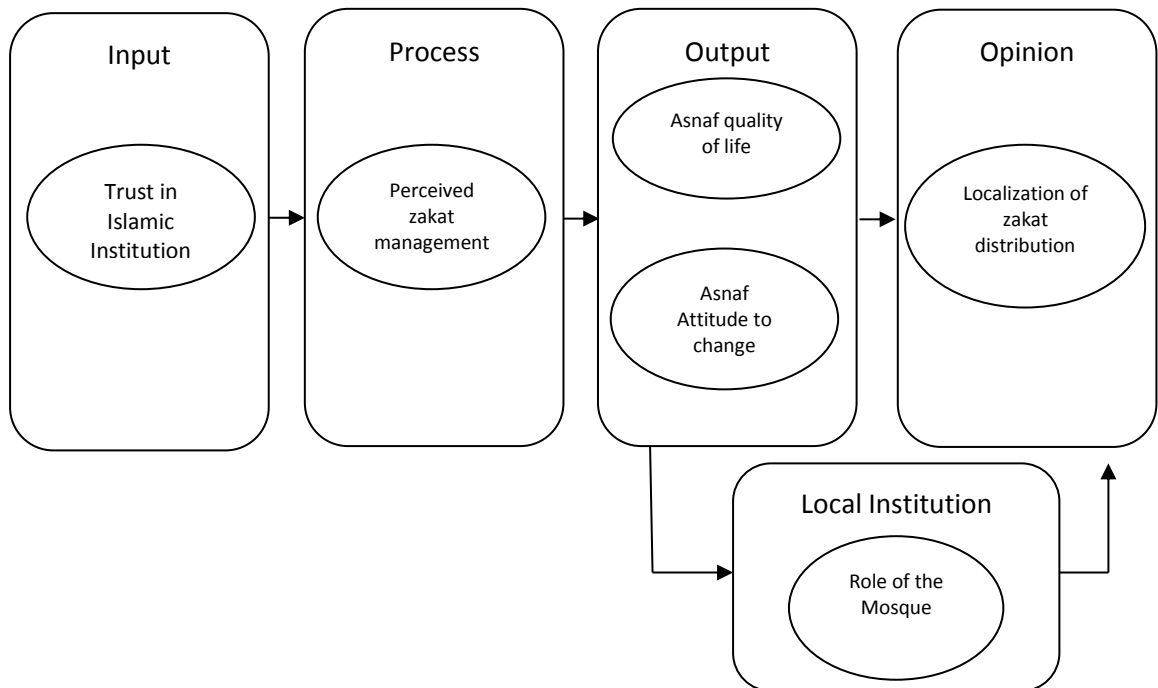
along with the rich and the poor, and after performing the prayers, the people have the opportunity to give zakat to the asnaf or those who are entitled to receive it. This event displays the possibility that public events or activities including economic, political and social activities could be carried out if the people enliven the entire mosque.

Previous discussions on the role of the mosque clearly indicated that the mosque played a major role in the lives of individuals and communities. Historical records at the time of the Prophet (pbuh) and *Khulafa 'Al-Rashidin* highlight the great role of the mosque as a place of business and a venue for other activities such as conducting a *shura* council of war, finalizing any contract or agreements, declaring agreements of peace, holding devotion or *bai'ah* to the Muslim leaders, spreading knowledge, educating the public on their responsibilities including paying zakat as well as the duty of the amil to distribute zakat to the rightful zakat receivers (Mokhtar, 2003, p. 73). This also reveals the significant role of the mosques in zakat management which has been practiced since the days of the Prophet (pbuh). The distribution of zakat historically began during the era of the Prophet (pbuh). At that time, the collection and distribution of zakat were localized, which means what was collected in an area was also distributed in the same area and none of it was passed to the central government. There were no reports that any surplus of zakat funds that existed in any area or that any zakat funds were transferred from one area to another during the life of the Prophet (Kahf, 1999; p. 17). Since that time the Prophet (pbuh), as the head of the state used to send the amil to collect and distribute the zakat to the zakat recipients. It should also be noted that Medina at that time, had a small government whose functions were carried out by a continuous supply of voluntary manpower and financial contributions.

### 3.6.1 The hypothesis of this objective

In this part, the hypotheses are as follows:

- (a) The role of the mosque as a mediating variable has a significant indirect effect on localization based on the perception of zakat recipients.
- (b) The role of the mosque as a direct variable has a significant relationship with the proposed localization of zakat distribution from the perceptions of amils and zakat recipients. The role of the mosque has a strong direct effect on proposed localization compared to the proposed localization on the role of the mosque because any proposal or change in any strategy in Islam must emanate from Islamic institution namely, the mosque.



**Figure 3.6: Role of the mosque and localization**

### 3.7 CONCLUSION

This chapter discussed the concept of localization that is conceptually derived from the concept of fiscal federalism, decentralization and neighborhood decentralization and imposed on the framework of zakat-based compliance. This study

also incorporates the theory of rational choice, rational expectation as well as attribution theory and exchange theory to link perceptions of amil and zakat to the concept of localization which relates to the study of behavior. Thus, all models have been developed according to the main objectives based on selected literature. The next chapter would discuss in depth the research methodology of the study.

## **CHAPTER 4**

### **RESEARCH METHODOLOGY**

#### **4.1 INTRODUCTION**

This chapter discusses the methodology employed in this study. It involves several techniques of analysis, including structural equation model (SEM), logistic regression and analysis of variance (ANOVA). However, SEM is commonly used in this study because the main focus of this study is to analyze the latent variable via the variable of localization. This chapter commences with the methodology of sampling and data collection followed by measurement design, the specification model and hypotheses.

#### **4.2 SELECTION OF RESPONDENTS**

This study represents a cross sectional research. The target population is the zakat recipients at various community (village) levels and the amils in the same neighborhood. Therefore, this study would apply purposive random sampling as a method of sampling. The amil to be interviewed could be permanent or a temporary officer, who is entrusted to collect zakat during the month of Ramadan<sup>52</sup>. On the other hand, the zakat recipients comprise the poor and the needy who receive monthly zakat assistance, including those who receive zakat in the form of food supplies. This category of recipients were chosen because they represented the largest group of recipients of zakat, nearly 50 per cent compared to recipients of other forms of zakat (Hairunnizam et.al, 2010). Names of amils and zakat recipients were received from the state zakat officers. As for the zakat recipients, the data base was not up-to-date in some states, for instance, the addresses have changed and the respondents dropped as zakat

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<sup>52</sup> Almost 90% of them collect the zakat at the local mosque.

recipients. Therefore, the number of respondents does not correspond to the respondent's list due to these problems.

This study focuses on the states of Selangor, Penang, FT Kuala Lumpur, Malacca, Kedah and Terengganu. Perhaps it should be mentioned that this study is centered on the states in Peninsular Malaysia because of time and budget constraints. Each state is represented by two districts, categorized as urban district (normally nearly to town and capital of the state) and rural district, based on the suggestion from the senior zakat officer in each state. However, it is important that the zakat recipients and amil interviewed are from the same district. The districts selected by the researcher and proposed by the state zakat officer are (1) Selangor: Petaling and Hulu Langat; (2) Penang: Penang Island and Seberang Prai; (3) Federal Territory of Kuala Lumpur: Batu and Bandar; (4) Malacca: Melaka Tengah and Jasin; (5) Kedah: Kota Setar and Pendang; (6) Terengganu: Kuala Terengganu and Hulu Terengganu. Selangor and Penang have corporatized zakat collection and distribution, whilst FT Kuala Lumpur and Malacca have corporatized only zakat collection but not zakat distribution. Kedah and Terengganu are yet to corporatize their zakat management (Zakat Report, 2008).

**Table 4.1: Survey Respondents**

States	Respondent		Total
	Amil	Asnaf	
Selangor	112 (27.5)	69 (10.0)	181 (16.5)
Penang	51 (12.5)	101 (14.7)	152 (13.9)
FT Kuala Lumpur	68 (16.7)	130 (18.9)	198 (18.1)
Malacca	37 (9.1)	113 (16.4)	150 (13.7)
Terengganu	88 (21.6)	171 (24.9)	259 (23.7)
Kedah	51 (12.5)	103 (15.0)	154 (14.1)
Total	407 (100.00)	687 (100.00)	1094 (100.00)

Note: Figures in parentheses are the per centage of the total  
 Pearson  $\chi^2$  test is significant at 1% level

The different zakat management structures yield a variation in the findings and provide interesting analysis. The sample size of the study is 1094 respondents, involving 407 amils and 687 zakat recipients from six states (refer Table 4.1 and Table 4.2). The nature of the study was in-depth and required qualitative data, thus a few respondents listed by each state zakat institution, who represented different categories of population, were selected. The researcher conducted in-depth interviews with the local amils and zakat recipients from the same neighborhood and district. In-depth qualitative as well as quantitative data on the feelings and motivation of respondents on localization at the neighborhood level were obtained. The researcher arranged with the amil a convenient time and place for the interview, for example, at the local mosque where he performs his duty as amil.

### **4.3 SAMPLING PROCEDURES**

The process of this study was built around the purpose of the study, that is, to examine the perceptions of amils and zakat recipients towards localization of zakat management. After discussing the study with several zakat officers from Lembaga Zakat Selangor (LZS-MAIS), Pusat Urus Zakat Pulau Pinang (PUZ), Puzat Pungutan Zakat (PPZ-MAWIP), Puzat Zakat Melaka (PZM), Majlis Agama Islam dan Adat Melayu Terengganu (MAIDAM) and Jabatan Zakat Negeri Kedah, it was recommended to include attitude and customer satisfaction towards zakat distribution within this research. In fact, the zakat officers also suggested conducting the research both in the urban and rural areas.



**Table 4.2: Categorization of Zakat Institution**

Category of zakat institution	Respondent		Total
	Amil	Asnaf	
Fully corporatized <sup>1</sup>	163 (40.0)	170 (24.7)	333 (30.4)
Partially corporatized <sup>2</sup>	105 (25.8)	243 (35.4)	348 (31.8)
Not corporatized at all <sup>3</sup>	139 (34.2)	274 (39.9)	413 (37.8)
Total	407 (100.00)	687 (100.00)	1094 (100.00)

Note: Figures in parentheses are the percentage of the total

<sup>1</sup> Selangor & Penang

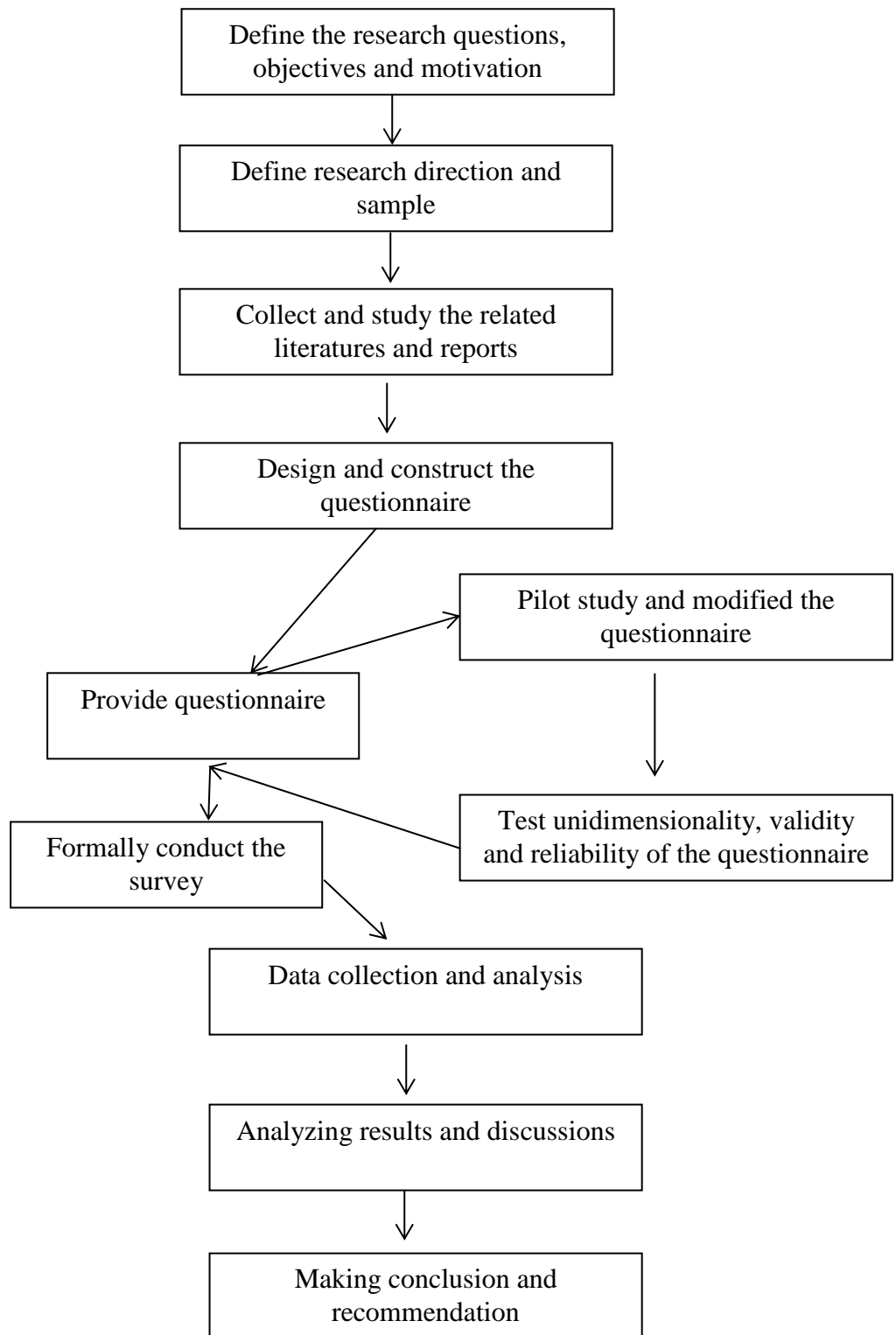
<sup>2</sup> FT Kuala Lumpur & Malacca

<sup>3</sup> Terengganu & Kedah

Pearson  $\chi^2$  test is significant at 1% level

After this study defined the research questions and studied the related literatures, the survey questionnaires were modified. A pilot study was conducted in FT Kuala Lumpur in August 2010. Three areas participated in the pilot study namely; Bandar Kuala Lumpur, Batu and Cheras. A total of 100 questionnaires were sent out to respondents, and 85 questionnaires were returned. The purpose of the pilot study was to test for unidimensionality, reliability, validity and objectivity of the survey questionnaire. After the data is collected, an analyzes was done to test the reliability and validity of the data. Finally, the results were used to modify the initial survey questionnaire, where necessary.

After the survey questionnaires were modified and assessed for unidimensionality, reliability and validity, the survey was officially conducted. Six states were pre-selected and about 1200 questionnaires were sent to the respondents, including amils and zakat recipients. This study also sought the assistance of the zakat officers to administer the survey. A total number of 1100 questionnaires were returned. After eliminating some erroneous questionnaires 1094 questionnaires were found valid.



**Figure 4.1: A Chart of Study Procedures**

#### 4.4 DATA SCREENING

Prior to analyzing the data by applying the SEM, the original data file is screened for potential issues (Kline, 2011). Several problems were investigated and tests conducted such as collinearity<sup>53</sup>, outliers<sup>54</sup> and normality. This study concluded that such problems did not exist, except that the data was considered as multivariate non-normality. However, Bryne (2001; p.268-269) mentioned that in practice, most data failed to meet the assumption of multivariate normality. He suggested another procedure, for instance, the bootstrapping<sup>55</sup> approach to handle the presence of non-normal data and investigate the variability of parameter estimates and indexes of fit. Therefore, this study confirms that all the results of estimates are reliable based on the bootstrapping analysis, as suggested by Bryne (2001). The bootstrapping procedure was carried out following Bollen and Stine (1993) for testing the hypothesis, to ensure that the specified model is correct. Nevertheless, Schermelleh-Engel et al. (2003) suggested using the maximum likelihood estimator approach to analyze data encountering problem of non-normal data.

#### 4.5 CONSTRUCTING VARIABLE OF LOCALIZATION

This proposal was discussed at length in the previous section where it was proposed theoretically by Muhammad Syukri (2006). In this study, all questions on the advantages of localizing zakat distribution were analyzed. The questions required the respondents to give their answers based on five Likert scales. Respondents were asked to provide their attitudes on a five-point scale from 1 (strongly disagree) to 5 (strongly

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<sup>53</sup> If  $r_{xy} = 0.95$ , for example, then the variables X and Y are redundant despite their different labels (Kline, 2011).

<sup>54</sup> Outliers are scores that are different from the rest. This study uses Mahalanobis distance (D) statistic method to examine the data (see Kline, 2011).

<sup>55</sup> Bootstrapping serves as a resampling procedure by which the original sample is considered to represent the population. Multiple subsamples of the same size as the parent sample are then drawn randomly, with replacement from the population and provide the data for empirical investigation (see Bryne, 2001).

agree). All the 20 questions related to the concept of localization are listed in Table 4.3 and are based on previous studies.

**Table 4.3: List of indicator variable for latent variable localization**

<b>Var.</b>	<b>Item</b>
X <sub>1</sub>	I'm probably more familiar with zakat recipients as compared to the state amil
X <sub>2</sub>	I have a close relationship with zakat recipients as compared to the state amil
X <sub>3</sub>	I am more reliable and trustworthy than the state amil
X <sub>4</sub>	I'll make sure that zakat recipients are not shy when applying zakat
X <sub>5</sub>	I am easily accessible and easy to apply zakat
X <sub>6</sub>	I could monitor the zakat recipients more often than the state amil
X <sub>7</sub>	I am more familiar with the potential zakat recipients of poor background
X <sub>8</sub>	I clearly understand the problems faced by zakat recipients
X <sub>9</sub>	I can encourage zakat recipients to participate in any community activities easily
X <sub>10</sub>	I react more quickly to solve the zakat recipient's problem as compared to the state amil
X <sub>11</sub>	I could distribute zakat more efficiently as compared to the state amil
X <sub>12</sub>	I can encourage the zakat recipients to participate in any economic activities easily
X <sub>13</sub>	The cost of the application is cheaper as compared to if applied through the state amil
X <sub>14</sub>	I could recognize zakat recipient's economic potential and talents
X <sub>15</sub>	I could distribute zakat to zakat recipient faster than the state amil
X <sub>16</sub>	I am a preferable person when dealing with because I am the local
X <sub>17</sub>	I will distribute zakat to zakat recipient transparently and honestly
X <sub>18</sub>	I believe the bureaucratic problem can be reduced when I manage the zakat
X <sub>19</sub>	I will not be bias in selecting zakat recipients based on political ideology
X <sub>20</sub>	I believe that the image of zakat institutions could be raised and attract more people to pay zakat

Note: <sup>1</sup>The scale is: 1 = strongly disagree, 2: disagree, 3: moderate, 4: agree, 5: strongly agree  
<sup>2</sup> all items are in a form of statement. For zakat recipients, the question has been changed suitably for them to answer

#### **4.6 CONSTRUCTING THE OTHER VARIABLES**

This study attempts to estimate the probability of the existence of statistical relationships between a number of concepts involving the behavior and perceptions of amils and zakat recipients. The zakat system to be proposed in this study is a system that is generally broad, abstract and macro in nature. Any problem could be solved with different approaches at the micro and macro level. Each variable in the model is a latent variable and is tested using SEM model as proposed by Bryne (2001). The definitions of each latent variable are as follows:

#### **4.6.1 Trust in the institutions (INS)**

Perceptions of management begin with trust in the institutions (Vigoda, 2006; and Mikami & Inoguchi, 2008). In fact, Vigoda (2006) suggested that this variable be examined at the commencement of any study, including its relationship with the aspect of governance in institutions. Several studies highlighted a positive relationship between trust and public perception of services from the government institutions (Van de Walle & Bouckaert, 2003; Vigoda & Yuval, 2003; and Welch, 2005). In this study, trust in the institutions focuses on Islamic institutions in Malaysia, namely, the Department of Islamic Development Malaysia (JAKIM) and the *Baitul Mal* and other zakat institutions that manage the zakat. Initially, the CFA approach was used to determine the validity of institutions in representing Islamic institution variable (refer to Table 5.19).

Two groups of institutions are identified to represent the Islamic institutions, based on respondents' perception of their roles and achievements to the development of Islam in Malaysia, namely (1) Federal and the State Islamic Institutions, that is JAKIM and SIRC and (2) zakat institutions, that is, the state zakat institutions and *Baitul Mal*. Owing to the sensitivity of this study with regards to examining the perception towards institution's responsibilities towards Islamic affairs, this study used a scale of “1 –does not believe” to “3 – strongly believe”

#### **4.6.2 The Quality of life for the poor and needy (QOL)**

In zakat management system, the outcome of any zakat distribution would affect the zakat recipients. The outcome of zakat distribution is mainly eradicating poverty, improving economic well-being and the quality of life (Mannan, 2003; Wess, 2002; Hairunnizam et. al, 2004; Hassan & Khan, 2007; Mahyuddin & Abdullah, 2011; Naziruddin et al, 2011). This study chose the objective of improving the quality of life

of the zakat recipients based on the research by Hairunnizam et.al (2004) and recognized as *had kifayah* by Zainal Abidin (2003). This study employs several quality of life indicators as highlighted in the Quality of Life Report (2002). Indicators such as the quality of food and clothing, education, transportation and communications, health and medical care, housing and shelter and social participation are examined in this study. Three Likert scales are utilized to measure the degree of satisfaction, ranging from a scale of “1 –not satisfied” to “3 – very satisfied”. Finally, the overall quality of life of respondents is measured by calculating the mean average of the scale for each item of quality.

#### **4.6.3 The attitude of zakat recipients to change their life (ATD)**

This variable is selected to evaluate the impact of zakat distribution in changing their attitude to become zakat payers. This study is of the view that it was an early effort to deflect public perception that labeled the poor and needy as "poor-minded", which indicates that they did not want to change their lives (Azhana & Abd Halim, 2012). Syed Husin (1978) in his study defended the Malay group who are poor. He believes that this group would not be really poor minded if the authorities gave them land as an economic input to improve their economic well-being. This signifies that the poor are not poor minded but actually lack economic resources to develop their lives and are trapped in the poverty cycle. This study employs two factors that represent attitude, namely (1) desire to change their status to become zakat payers and, (2) desire to apply zakat capital to become an entrepreneur. Two- scale response is used in this variable to represent attitude of zakat recipient namely; “1 –Yes” to “2 – No”

#### **4.6.4 The role of the mosque**

This study recognizes two variables that determine the role of the mosque as the zakat delivery channel, specifically (1) the activities and programs of the mosque, and (2) the mosque management and the impact of attending the activities of a mosque's on the ethical values of the amils and zakat recipients (refer to Table 5.26 and Table 5.27).

#### **4.6.5 Religiosity Index (RI)**

This is an interesting variable to be discussed. Many studies have attempted to estimate the level of religiosity and faith of an individual. However, the debate is still open for further discussion. In reality, it is a personal matter between the individual and God and no one could measure it accurately. However, this variable probably could be estimated based on an individual's action within the laws of *sharia*. This means that if an individual obeys Allah's commands consistently and expects His good pleasure, then the individual is considered as having a better level of religiosity than those who are not obedient to the order of Allah (Siti Adilah, 1999; Naziruddin & Shabri, 2003, p. 40).

Thus, in measuring the level of religiosity, this study adapts the study done by Naziruddin & Shabri (2003) as it has a comprehensive measure of religiosity compared to other studies that only measure the individual's faith (for example, a study by Mohd Ali et. al, 2004). A study conducted by Naziruddin and M. Shabri (2003) analyzed religiosity factors comprehensively and divided this variable into three main components, namely compulsory (*fard*), illegal (*haram*) and *Sunnah* (*mandub*). Each component has its own weightage with the compulsory aspect given higher weightage than the illegal and *Sunnah* components (Naziruddin & M. Shabri, 2003; p. 41).

Measurement of the compulsory component (KW) is divided into two parts, the pillars of Islam and *Iman* (PISIM). A total of six questions were tabulated to represent these components and the weightage is equal to 100. Components of the illegal component (KH), comprise 5 questions (FASAD) and the weightage is 55. Finally, the component of *Sunnah* (KS) shows items that are not listed in PISIM and FASAD, but could increase the level of religiosity, to be rewarded by Allah to those who do it (SPIRIT), and vice versa. Thus, the weightage value of KS is equal to 2 (Naziruddin & M. Shabri, 2003; p.41). All components are measured as follows:

1. The component of Compulsory deed (KW), is measured<sup>56</sup> as follows;

$$KW_i = 100 \sum_{j=1}^6 PISIM_{ij} \quad (4.1)$$

Where:

KW = component of compulsory deed.

PISIM = item of Islam and *Iman* deed

i = respondent.

j = number of questions involved.

2. The components of illegal deed (KH), is measured<sup>57</sup> as follows;

$$KH_i = 55 \sum_{k=7}^{11} FASAD_{ik} \quad (4.2)$$

Where:

KH = components of illegal deed.

*Fasad* = item the illegal deed

i = respondent.

k = number of questions involved.

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<sup>56</sup> The study divided the compulsory component items (KW) into two categories, namely Islam and *Iman* (question D1 - D43 in questionnaire), is called as PISIM. Points are given to the question of D1, D41, D42 and D45 in ascending order of -2 is not important to very important + 2, whereas D 2 and D 3, points given is the value of -5, -4, -3, -2, -1 and 5. The way to give points based on the questions and answers of the respondents is different. Example in terms of performing prayers, if fulfilling all prayer time, the respondent will get 5 points. In addition the practice of compulsory component is the highest priority in the hierarchy of deed, hence should be given a maximum of 100 points for the entire item in the two categories of the deed. The highest score possibly attainable by a person is + 1800 [(2 points × 100 × 4 deeds) + (5 points × 100 × 2 deeds) = (800) + (1000)], the lowest -1800 [(-2 points × 100 × 4 deeds) + (-5 points × 100 × 2 deeds) = [(-800) + (-1000)].

<sup>57</sup> All points are given in an ascending order of -2 (not important at all) to 2 (very important) to each practice that is prohibited, which consists of questions D44 to question D47. However, only 55 points maximum points given for illegal deeds. Therefore, the highest score attainable by person who do not commit any illegal deed is + 440 (2 points × 55 × 4 deeds) and the lowest score is - 440 (-2 points × 55 × 4 deeds).



3. Components of the *Sunnah* deed (KS), is measured<sup>58</sup> as follows;

$$KS_i = 2 \sum_{l=12}^{18} SPIRIT_{il} \quad (4.3)$$

Where:

KS = components of *Sunnah* deed.

Spirit = item of *Sunnah* deed

i = respondent.

l = number of questions involved.

The religious index (RI) to be tested includes all the components as measured by the following formula:

$$RI_i = [(KW_i + KS_i + KH_i / 2292) \times 100] \quad (4.4)$$

All notations used are similar to equation (4.1), (4.2) and (4.3). RI is measured from the addition of KW, KH and KS by the number of questions where (1800 + 440 + 52 = 2292) divided by the maximum value accessible to all respondents and multiplied by 100.

## 4.7 TOOLS OF ANALYSIS

### 4.7.1 Analysis of Variance (ANOVA)

This study employs ANOVA as a tool because it could determine the probabilities of differences in means across several groups which are solely due to sampling error. It is more flexible in testing group differences than the *t*-test (Hair et. al, 2006; p.390) and provides the researcher with much greater flexibility in designing experiments and interpreting results (Gravetter & Wallnau, 2011). In addition, this study uses one-way ANOVA because it could compare groups<sup>59</sup> which differ in terms of one dependent variable (or factor) at two or more levels (Shavelson, 1988; p.342).

<sup>58</sup> All points are given based on two categories. (1) the value of a maximum score of +2 for the questions of D48 to D410; and (2) scores from the value of 0 (strongly not important) to the value of 5 (strongly important) for the questions of D5 to D8. Therefore, the highest score attainable by any person is +52 [(2 points × 2 × 3 deeds) + (2 points × 5 × 4 deeds)] and the lowest score is 0 (0 points × 5 × 4 deeds).

<sup>59</sup> Testing their mean differences.

ANOVA utilizes sample data as the basis for drawing general conclusions about population and test the hypotheses on population means (Gravetter & Wallnau, 2011; p.366). This study uses ANOVA test to test for the group of amils and zakat recipients mean differences. However, the sample sizes in this study are not equal across groups and Levene test is not statistically significant suggesting homogeneity of variance. If these assumptions are violated and depending on the violation, Bonferroni<sup>60</sup> and Games-Howell tests are recommended.

**(a) The Hypothesis**

The hypothesis of this study assumes that the majority of respondents agree with the concept of localization of zakat distribution in their localities, based on the mean value for each construct question that represents three main aspects, namely social, economic and politics. The study also hypothesizes that the zakat recipients as well as amils fully agree to this concept with insignificant differences in level of confidence between these groups (the null hypothesis<sup>61</sup>,  $H_0$ ). This is done through the ANOVA test to examine the differences between groups of respondents, including zakat recipients and amils and also between the states and different institutions of zakat management in Malaysia. This study also verifies the differences between states and also different types of zakat institutions. If the p-value  $< 0.05$ , then the null hypothesis could be rejected ( $H_0$ ) and the alternative hypothesis<sup>62</sup> ( $H_a$ ) could be accepted if there are significant differences between the groups discussed earlier and vice versa.

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<sup>60</sup> An approach for adjusting the selected *alpha* ( $\alpha$ ) level to control for the type I error rate when performing a series of separate tests. The procedure involves calculating a new critical value by dividing the proposed alpha rates by the number of statistical tests to be performed (Hair et. al, 2006, p.384). Thus, this study uses  $\alpha = 0.0125$  ( $\alpha = 0.05 / 4$  separate tests).

<sup>61</sup>  $H_0 : \mu_1 = \mu_2$  which states that the means of agreement between amil and zakat recipient; between respondent and state; and between respondent and category of zakat institution has no difference.

<sup>62</sup>  $H_0 : \mu_1 \neq \mu_2$  which states that the means of agreement between amil and zakat recipient; between respondent and state; and between respondent and category of zakat institution has a difference.

#### **4.7.2 EFA and CFA Approaches**

It is evident from studies related to this matter that there are several advantages in applying either the EFA or the CFA methodology or both approaches to analyze the problem. First, this study would like to highlight the advantages of using the EFA approach. In fact, up to the 1980s researchers regularly analyzed latent variables (factors) and measured the relationships among them by using factor analysis (Thurstone, 1931). Gerbing and Hamilton (1996) strongly supported the use of EFA to address the problem. They suggested that any study that does not have model specification (particularly for this study) or prior specified number of factors is exclusively exploratory (Anderson & Gerbing, 1988, p.412). EFA approach should be used at the commencement of the study.

Joreskog (1969) reckons that the EFA approach is superior because it could determine the appropriate number of factors to be used and provides a groundwork interpretation of the data. Hence, the present procedure could be used for a more defined analysis. The EFA approach is employed initially as localization's variable was not empirically constructed and not well understood. This phenomenon gives rise to a problem of determining the number of factors and EFA approach is a relatively good start (Gerbing & Hamilton, 1996; p. 63). The EFA approach is the best approach to identify and determine the correct number of factors in each model. It is a heuristic tool to construct measurement model as mentioned by Gerbing and Hamilton, (1996; p. 63). Further, the EFA approach has its own advantages with respect to the techniques for assessing the number of factors. This will be further analyzed in the study.

From the studies discussed it is noted that the EFA approach has many advantages, especially to begin any analysis of factors, whether to assess and explore,

or to identify and determine the correct number of factors. The EFA methodology is a good approach to start the research that does not have any empirical support or any particular specification model.

However, some researchers have suggested that CFA approach be used (Anderson & Gerbing, 1988; Joreskog, 1969) especially to make factor analysis more technically advanced than the EFA approach and to validate the factors. This study reveals that the most important consideration to confirm the validity of the variables is the measurement of goodness of fit of any model. This is only analyzed in the CFA approach through the technique of structural equation model (SEM), currently used in many fields, including social sciences. Millsap & Everson (1991) stated that SEM is a practical procedure that gives accurate estimation and standard errors with minimal distributional assumptions as mentioned by Anderson & Gerbing (1988; p.422). CFA approach as mentioned earlier is a great approach to validate and confirm the factors and the model built in any study. It appears that the EFA and CFA approaches complement each other. Could these two approaches be used simultaneously in this study? Gerbing & Hamilton (1996) stated that both approaches could be used together.

Previous studies have shown that both EFA and CFA approaches could be used in a study that does not have any empirical support or any model or theory basis. EFA approach is good to explore the possible number of variables that could be analyzed to build the model, while the CFA approach is good to confirm the model. Consequently, it is very useful to utilize these two approaches in this study, specifically to determine the factors of zakat localization.

### **(a) Data analysis**

In this study, especially for the EFA and CFA analysis, all the variables are analyzed sequentially by following a few steps. Firstly, factor analysis is done using the EFA approach to test the validity of each variable to form several large groups of new factors (Joreskog 1978; Anderson & Gerbing, 1988; Hair et.al, 2006). Hair et. al. (2006; p. 773) for instance, asserts that EFA explores the data and provides the researcher with information on the number of factors required to best represent the data by looking at the factor loading estimates. However, EFA does not provide an assessment of goodness of fit compared to CFA. Each variable that forms the constructs must be tested for reliability to meet the internal consistency. Coefficient alpha is often used for this measurement (Cronbach, 1951). Generally, the minimum value of 0.7 alpha coefficient is sufficient to be accepted (Hair et.al, 2006).

Further analysis to explore and identify the underlying factors of the main variables is undertaken. Latent root criteria would be applied as reflected by the eigenvalue and if its value exceeds 1.0 for each factor, it is considered significant. Meanwhile, the percentage of variance should be at a satisfactory level of at least 60 per cent (Hair et.al, 2006). Testing of the data matrix before factor analysis was also done to ensure it has sufficient correlation to justify the compatibility of use factor analysis. In this case, the size of the Kaiser-Meyer-Olkin (KMO) and Bartlett test of sphericity is used. KMO is a measure of sampling adequacy (MSA) in which the value of KMO is small, and these variables could not be explained by other variables without significant error. Thus, we ensured that the overall MSA value was above 0.5 (Hair et.al, 2006). The Bartlett test of sphericity was used to test whether the correlation matrix has a significant value of correlation among the variables tested. This means that if the value of  $\chi^2$  is large and the significance is at 5 per cent level, factor analysis could

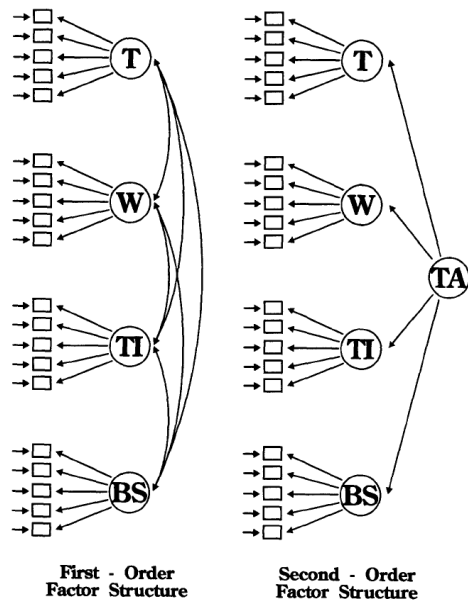
be continued and vice versa. Finally, each individual variable that has a loading factor greater than 0.5 would be analyzed further.

CFA is a special form of factor analysis. It is employed to test whether the measures of a construct are consistent with the researcher's understanding of the nature of that construct. The researchers also have to use CFA for any particular construct to assess the unidimensionality, validity and reliability of its measurement model before developing the structural model (Zainudin, 2013; p. 38-41). The requirement of unidimensionality, could be achieved through item-deletion (the factor loading for an item should be 0.5 or higher) or through setting the "free parameter estimate". Secondly, in terms of validity, this study has to carry out the process of (1) convergent validity, which could be verified through average variance extracted (AVE)<sup>63</sup> and the value of AVE should be greater or equal to 0.5 and (2) discriminant validity, which is the process of deleting redundant items that are highly correlated ( $\leq 0.85$ ). Thirdly, through CFA, this study has to test reliability. The requirements for this condition are as follows: (1) Internal reliability as reflected by Cronbach's Alpha value is 0.7 or higher; (2) Construct reliability<sup>64</sup> that requires a value of 0.6 and above and (3) the value of AVE should be greater or equal to 0.5 (Zainudin, 2013).

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<sup>63</sup>  $AVE = \sum K^2 / n$  where K = factor loading of each item; n = number of items in a model

<sup>64</sup>  $CR = (\sum K)^2 / [(\sum K)^2 + (\sum 1 - K^2)]$ ; where K = factor loading of each item



**Figure 4.2: Example of first order and second order factor structure**  
 Source: Benson & Bandalos, (1992)

Secondly, the two tiered approach would be applied using AMOS software (Arbuckle, 1997; Bryne, 2001). The two-step approach is based on that proposed by Bryne (2001) and applied for the purposes of data analysis (Benson & Bandalos, 1992). The measurement model using CFA, adopts the technique of SEM to verify and validate the instrument. The goodness of fit indices required to evaluate the model and several studies presented some measures of index often used as benchmarks in determining goodness of fit for a model. The indices are discussed in the section on structural equation model (SEM).

### 4.7.3 Correlation and Covariance

Kline (2011) stated that the basic statistic of SEM is covariance. It defined two continuous observed variables X and Y as follows:

$$COV_{xy} = r_{xy} SD_x SD_y \quad (4.5)$$

Where  $r_{xy}$  is the Pearson correlation and  $SD_x$  and  $SD_y$  are their standard deviations. A covariance represents the strength of the association between X and Y and their

abilities, albeit with a single number. Kline (2011) mentioned that analysis of covariance has two main goals, namely (1) to understand patterns of covariance among the set of observed variables, and (2) to explain their variance as much as possible with the researcher's model. The part of a SEM that represents the hypotheses about variance and covariance is the covariance structure.

#### **4.7.4 Structural Equation Model (SEM)**

This study uses SEM technique as a main tool and it is applicable for the researcher's purposes in this study, as suggested by Hoyle (2011) and Vigoda and Yuval (2003). They mentioned that the major advantage of SEM is that it provides a bridge between the theoretical and empirical aspects of behavioral research. In fact, in structural equation modeling, if properly employed it would offer great potential for theory development and construct validation in psychology and the social sciences (Anderson & Gerbing, 1988, p.422). However, this study begins by specifying a theoretical model on the basis of Ikaz zakat management model, as discussed in Chapter 2.

Gerbing and Hamilton (1996) also suggested SEM using CFA and EFA approaches as these are useful heuristic tools for constructing multiple-indicator measurement models. Through the process of CFA, the issues of validity and reliability of a measurement model could be addressed (Zainudin, 2013). Vigoda and Yuval (2003) mentioned that the main advantages of SEM are its interpretations of analysis that could assist in the understanding the social and behavioral phenomena if the following four conditions are met:

(1) A "good" initial model is conceptualized, based on a sound underlying substantive theory;



- (2) Appropriate data are collected to estimate the unknown population parameters;
- (3) The fit of those data to the a priori hypothesized model is assessed; and
- (4) If theoretically justified, the initial model is modified appropriately should evidence of lack-to-fit and model misspecification arise.

SEM is a statistical model that seeks to explain the relationships among variables, expressed in a series of equations (similar to series of multiple regression equations). These equations depict all the relationships among unobservable or latent variables (Hair et. al, 2006; p.711). It is noteworthy that these structural equations could be modeled pictorially to enable a clearer conceptualization of the theory under study. In addition, Hair et. al. (2006), notes that SEM has its advantages, namely estimation of multiple and interrelated dependence relationships, ability to represent unobserved concepts in these relationships and correct measurement error in the estimation process, and defining a model to explain the entire set of relationships. Further, Bryne (2001; p. 3) mentioned that SEM conveys two important aspects of the procedure, namely the causal process under study are represented by a series of structural equations, and these structural equation could be modeled pictorially to enable a clearer conceptualization of the theory under study. Bryne (2001) also urged that the hypothesized model be tested statistically in a simultaneous analysis of the whole system of variables. If the goodness of fit is adequate, the model is appropriate for the plausibility of suggested relations among variables and vice versa.

This study explores a new method on traditional SEM, as proposed by Kline (2011), through the application of the latest SEM, which is called fully latent structural regression (SR) model, to test all hypotheses discussed in Chapter 1. Each variable in the model is conceptualized as a latent or an unobserved construct, and this study

measures these constructs using multiple items in a set of questionnaires (please refers to APPENDIX B and APPENDIX C). These items are derived from literatures and customized to suit the present study. As suggested by Kline (2011), it is felt that the fully latent SR model is appropriate for this study because of several reasons, namely (1) each variable in its structural model is latent, (2) this model incorporates a measurement component that represents observed variables as indicators of underlying factors, just as in CFA (Kline, 2011; p.118-119), (3) all the observed variables have measurement error terms, (4) effects for the endogenous latent variables, such as direct effects and disturbance variances are all estimated controlling for measurement error in the observed variables and (5) the structural model is recursive<sup>65</sup>. This model is used in Model I, Model III and Model IV. However, this study partially uses latent SR model in Model II as the variable of religiosity is the only single indicator combined with other variables which are latent.

**(a) Methods for Parameter Estimation-Maximum Likelihood Estimation**

The term maximum likelihood (ML) describes the statistical principle that underlies the derivation of parameter estimates. The estimates are the ones that maximize the likelihood (the continuous generalization) that the data was drawn from this population (Kline, 2011). ML method is the most widely used fitting function for structural equation models and almost all of the major software programs use ML as the default estimator (Schermelleh-Engel et. al, 2003; Hoyle, 2011; Kline, 2011). ML estimators have several important properties<sup>66</sup>, for instance ML provides parameter estimates and standard errors that are asymptotically unbiased, efficient and consistent if all statistical requirements are met and the model is correctly specified (Schermelleh-

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<sup>65</sup> Recursive models are the most straightforward and have two basic features: (1) their disturbances are uncorrelated and, (2) all causal effects are unidirectional (Kline, 2011; p.106).

<sup>66</sup> If the observed data stem from a multivariate normal distribution, if the model is specified correctly, and if the sample size is sufficiently large.

Engel et. al, 2003; Kline, 2011). Indeed ML estimation is a full-information method and estimates in a large sample. Hoyle (2011) stated that the goal of ML estimation is to find a set of estimates for the free parameters that maximize the likelihood of the data, given the specified model. The likelihood is maximized when the value of the fitting function,  $F_{ML}$ , is minimized;

$$F_{ML} = \log |\Sigma(\theta)| + \text{tr}(S \Sigma^{-1}(\theta)) - \log|S| - p \quad (4.6)$$

Where;

Log is the natural logarithm,

$\Sigma(\theta)$  is the observed covariance matrix as a function of the parameters in the model gathered in  $\theta$

tr is the trace of a matrix

S is the observed covariance matrix

$\theta$  is the parameter vector

Schermelleh-Engel et. al. (2003; p.25-26) also argued that the ML estimator assumes that the variables in the model are multivariate normal, i.e., the joint distribution of the variables is a multivariate normal distribution. Nevertheless, ML seems to be quite robust against the violation of the normality assumption. A simulation study by Schermelleh-Engel et. al. (2003) suggested that under conditions of severe non-normality, ML parameter estimates are still consistent but not necessarily efficient.

Furthermore, with increasing sample size the distribution of the estimator approximates a normal distribution. Thus, the ratio of each estimated parameter to its standard error is approximately  $z$ -distributed in large samples. According to Schermelleh-Engel et al. (2003), another important advantage of ML is that it allows for a formal statistical test of overall model fit for over identified models. The

asymptotic distribution of  $(N - 1) F_{ML}$  is a  $\chi^2$  distribution with  $df = s - t$  degrees of freedom, where  $s$  is the number of non-redundant elements in  $\mathbf{S}$  and  $t$  is the number of free parameters. Another advantage of ML is that its estimates are in general scale invariant and scale free (Bollen, 1989, p. 109 quoted by Schermelleh-Engel et. al, 2003). As a consequence, the values of the fit function do not depend on whether correlation or covariance matrices are analyzed, irrespective of the original or transformed data.

Schermelleh-Engel et. al. (2003) also asserts that in studies to determine the robustness, the scaled  $\chi^2$  statistic outperformed the standard ML estimator and robust standard errors yielded the least biased standard errors, especially when the distributions of the observed variables were extremely non-normal. However, relatively large sample sizes of at least  $N > 400$  are necessary to obtain robust maximum likelihood estimation.

**(b) The measurement model of a construct**

SEM is a confirmatory method providing a comprehensive means for assessing and modifying measurement models as well as structural models (Zainudin, 2013; p.33). This method also has the ability to assess the unidimensionality, validity and reliability of a measurement model. Thus, several goodness of fit indices are used to evaluate the hypothesized model. Many studies reported that some measures of the index are often used as benchmarks in determining goodness of fit for a model, including root mean-square error of approximation (RMSEA)<sup>67</sup> (Bollen, 1989, Browne & Cudeck, 1993; Hair et al, 2006, Hu & Bentler, 1999), the Tucker-Lewis index (TLI), normed fit index

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<sup>67</sup> Descriptive measures of overall model fit. *RMSEA* is scaled as a badness-of-fit index where 0 indicates the best fit. Hypotheses for the model:  $\chi^2_m \leq df_m$ ,  $RMSEA=0$ ; otherwise or  $H_0: \epsilon_0 \leq 0.05$  or the close-fit hypothesis.

(NFI)<sup>68</sup> (Hair et al, 2006; Hu & Bentler, 1999) and comparative fit index (CFI)<sup>69</sup>. On the other hand, convergent validity<sup>70</sup>, construct validity, internal reliability, and average variance extracted (AVE) tests were conducted to confirm that the construct was good and valid. Construct reliability<sup>71</sup> (CR) is also conducted based on composite reliability (Cornbach & Meehl, 1955; Bonett, 2002; Zainudin, 2013).

Construct validity involves convergent validity based on the normed fit index (NFI): values approaching 0.9 and greater focus on the validity of the scale, indicating a good fit (Bentler & Bonett, 1980), Comparative fit index (CFI): values close to 0.90 and more shows the good scale of unidimensionality (Bentler, 1990); relative fit index (RFI): values close to 1 indicate a very good fit, (Bollen, 1986): The Tucker-Lewis index (TLI) is a structural analysis of the moment: The values close to 1 indicate a very good fit (Bentler & Bonett, 1980) and finally, root mean-square error of approximation (RMSEA): The RMSEA is bounded below by zero. Steiger (1990) as well as Browne and Cudeck (1993) define a "close fit" as a RMSEA value less than or equal to 0.05. According to Browne and Cudeck (1993), RMSEA values of 0.05 could be considered as a good fit, values between 0.05 and 0.08 as an adequate fit, and values between 0.08 and 0.10 as a mediocre fit, whereas values > 0.10 are not acceptable. Therefore, this study adopts the procedure which considers a value of about 0.08 or less for the RMSEA that would indicate a reasonable error of approximation and would steer away from a model with a RMSEA greater than 0.1 (Bollen, 1989, Browne & Cudeck, 1993, Hair et al. 2006; Hu & Bentler, 1999). This study employs the entire index, as the main indicators yield goodness of fit for SEM model.

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<sup>68</sup> Descriptive measures based on model comparison.

<sup>69</sup> Descriptive measures based on model comparison. It was an adjusted version of the Relative Non centrality Index (*RNI*) developed by McDonald and Marsh (1990), avoids the underestimation of fit often noted in small samples for Bentler and Bonett's (1980) normed fit index (*NFI*). Hypotheses for the model:  $\chi^2_m \leq df_m$ , CFI=1.0; otherwise.

<sup>70</sup> Could be verified through AVE, which the value of AVE  $\geq 0.5$ .

<sup>71</sup> The value of CR  $\geq 0.6$

Based on all the assumptions, this study constructed several models specifically using SEM, namely;

1. To construct the variable of localization through EFA and CFA model.
2. To test the CFA model (first objective).
3. To test the Model:

Model I: Fully latent SR model to test the relationship between zakat localization, asnaf's attitude to change, institutional trust, perceived zakat management and quality of life, as perceived by the zakat recipients (Second objective; Sample: zakat recipients).

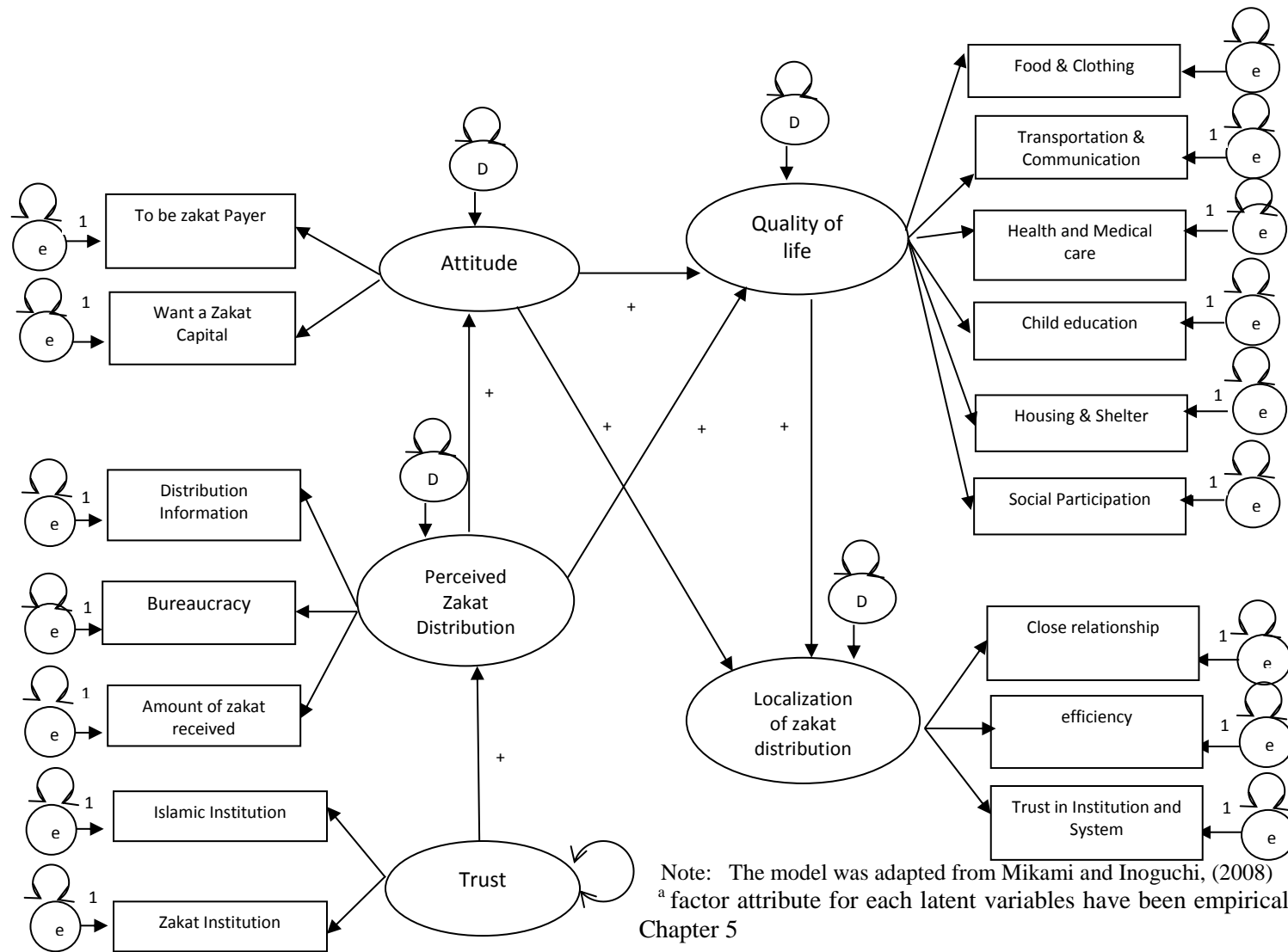
Model II: Partially latent SR model to test Model 1, which included religiosity factor (Second objective; Sample: zakat recipients).

Model III: Fully latent SR model to test Model II, which included the role of the mosque as a mediating variable (Fourth objective; Sample: zakat recipients).

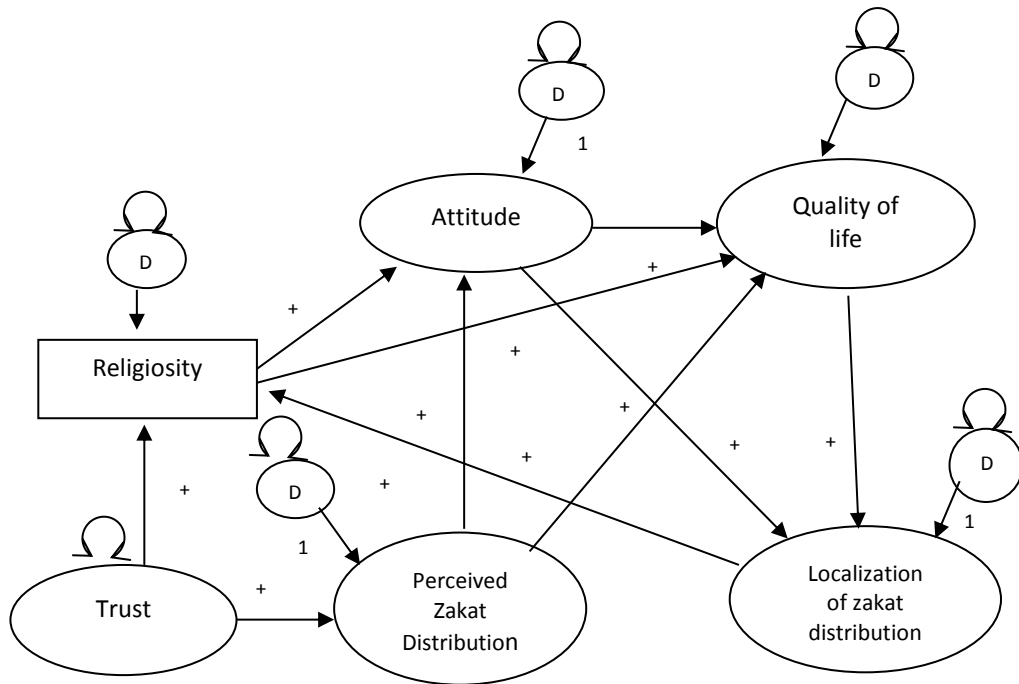
Model IV: Fully latent SR model to test the relationship between the roles of the mosque and zakat localization (Fourth objective; Sample: amils and zakat recipients).

### **(c) Model Specification and Hypotheses**

For many researchers, the path diagram is the most intuitive approach to express the specification of a model (Hoyle, 2011). The use of path diagrams is illustrated in Figure 4.3, Figure 4.4, Figure 4.5 and Figure 4.6. As mentioned earlier, this study analyzes the relationships between all variables, using fully latent SR model and partially latent SR model.

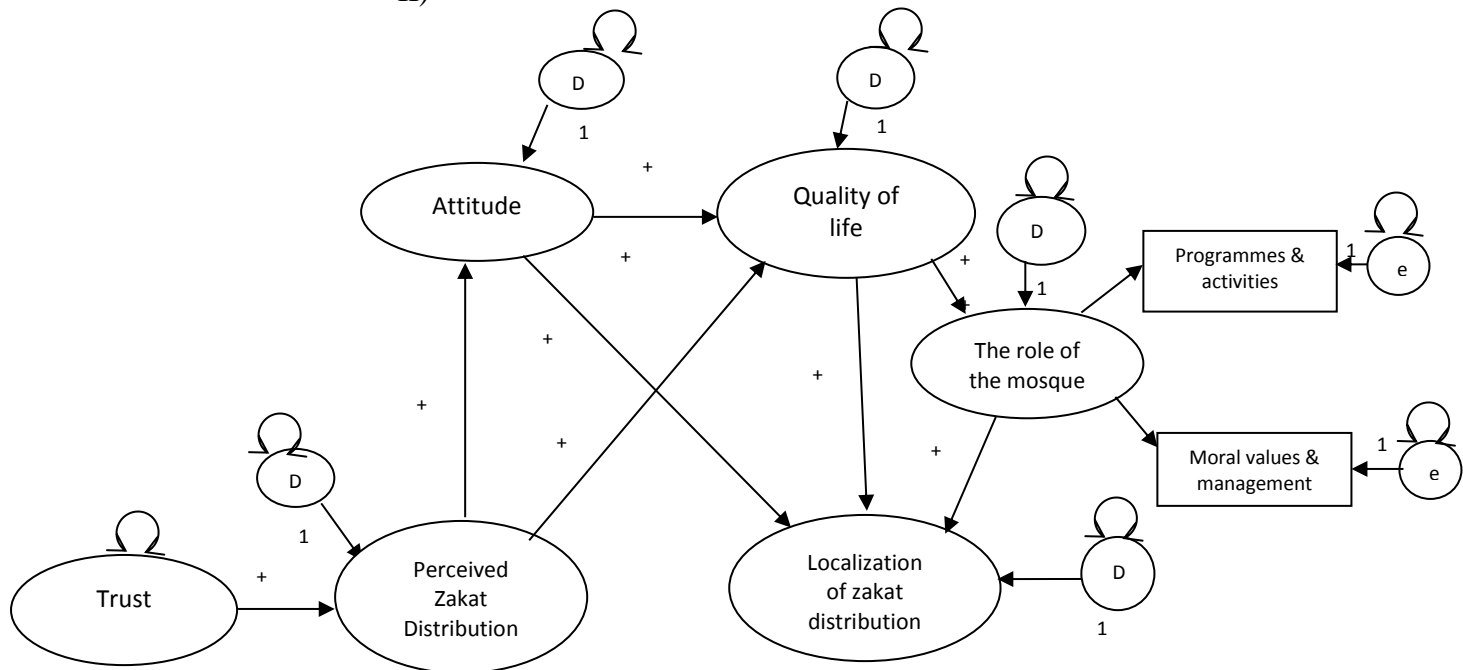


**Figure 4.3:** Initial theoretical framework and hypothesis for a fully latent SR model for zakat recipients in the zakat system to test localization and relationship with other variable (Model I)



Note: The model was adapted from Mikami and Inoguchi, (2008)  
<sup>a</sup> factor attribute for each latent variables as seen in Model I

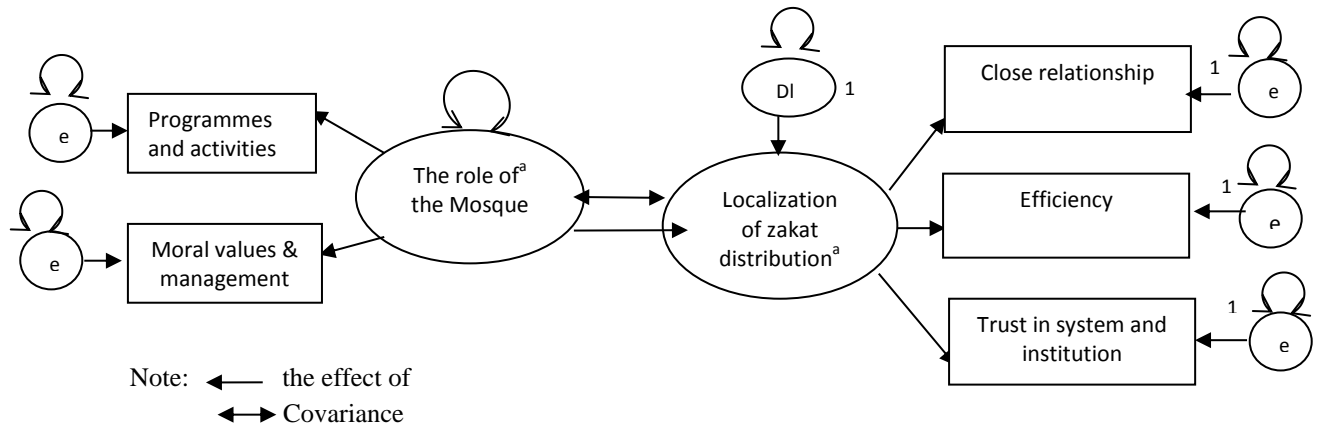
**Figure 4.4:** Theoretical framework and hypothesis for a partially latent SR model of structural behavior of zakat recipients in the zakat system to test relationship between religiosity index with other variable (Model II)



Note: The model was adapted from Mikami and Inoguchi, (2008)  
<sup>a</sup> factors attribute for each latent variable (except the role of the mosque) as seen in Model I

**Figure 4.5:** Theoretical framework and hypothesis for a fully latent SR model of structural behavior of zakat recipients in the zakat system to test the role of the mosque with other variable (Model III)





**Figure 4.6:** Theoretical framework and hypothesis for a fully latent SR model of structural behaviour of amil and zakat recipients in the zakat system to test the relationship between the role of the mosque and the proposed localization (Model IV)

As with the previous discussions, this study applies the research conducted by Vigoda and Yuval (2003) and Mikami and Inoguchi's (2008) as in Figure 4.3, Figure 4.4, Figure 4.5 and Figure 4.6. The hypotheses of the study also analyzed the relationships between all variables. It is noted that in Figure 4.3 the latent variables are labeled in the 5 big circles and their indicator variables are indicated d in the rectangles. The 16 smaller circles are the measurement errors in the variables. For instance, the path model of Figure 4.3 represents the hypothesis that quality of life is a cause of localization or quality of life affects localization. The line in the figure with the single arrowhead (  $\longrightarrow$  ) that points from quality of life to localization represents the corresponding direct effect. Statistical estimates of direct effects are path coefficients, which are interpreted as regression coefficients in multiple regressions (Kline, 2011).

All the variables namely, perceived zakat distribution; attitude, quality of life; religiosity and the role of the mosque in Figure 4.3, Figure 4.4, Figure 4.5 and Figure 4.6 are endogenous variables and are not free to vary. In contrast, trust is exogenous because its factors are not represented in the model. Thus, the symbol  $\Omega$  represents

the fact that the variable is free to vary. Each endogenous variable has a disturbance, which is an error (residual term), designated as  $D$ , that represents unexplained variance in all latent variables. For instance,  $D_z$ ,  $D_a$ ,  $D_q$ ,  $D_l$ ,  $D_r$  and  $D_m$  represent an unexplained variance in the variables of perceived zakat distribution, attitude, quality of life, localization, religiosity and the role of the mosque, respectively. Disturbance could be considered latent variables in their own right and are represented with the symbol  $\Omega$

The structural part of all these models represent the hypotheses, that (1) trust in institutions (input factor) has direct effect on perceived zakat distribution (process factor); (2) perceived zakat distribution has direct effect on attitude and quality of life (both are output factors); (3) attitude and quality of life each has direct effect on localization (opinion factor) and attitude has indirect effect on localization; (4) religiosity (belief factor) has direct effect on attitude and quality of life (output factor); (5) localization and trust each has direct effect on religiosity; (6) the effect of religiosity on quality of life is mediated by attitude; (7) the effect of quality of life on localization is mediated by the role of the mosque (institutional factor); and, finally, (8) the role of the mosque has direct effect on localization. The direct effects as well as indirect effects of all variables to each other are analyzed to determine the variable that strongly influences the others, based on the value coefficient and its significance level.

Mediating effect is effect of a third variable intervening between one and another related variable (Hair et. al, 2006) and indirect effects are estimated statistically as the product of direct effects, either standardized or unstandardized (Kline, 2011). Model III is a recursive structural equation; therefore, the indirect effects of an independent variable could be expressed as a linear combination of products of structural parameters (Sobel, 1982). In order to examine whether the role of the

mosque's variable is a mediating variable, this study focuses on unstandardized indirect effects with a single mediator, based on an approximate standard error by Sobel (1986), as suggested by (Kline, 2011).

Suppose that  $a$  is the unstandardized coefficient for the path quality of life .The role of the mosque and that  $SE_a$  is its standard error. Let  $b$  and  $SE_b$  respectively represent the path the role of the mosque  $\rightarrow$  and localization. The product  $ab$  estimates the unstandardized indirect effect of quality of life on localization through the role of the mosque, using Sobel's test<sup>72</sup> on an estimated standard error of  $ab$ . Kline (2011) also stressed that all its component unstandardized path coefficients are statistically significant at the same level of  $\alpha$  and the whole indirect effect are also statistically significant at the same level of  $\alpha$  too. All three of the component unstandardized coefficients of the path meet the requirement at the 0.01 level, therefore, the whole indirect effect could be considered statistically significant at the same level.

The measurement part of the SR model in Figure 4.3, Figure 4.4, Figure 4.5 and Figure 4.6 features two to six indicators per factor. All components tested are shown in the square circles that are conceptualized as latent variables, measured by the responses to several questions on attributes (factor attributes) indicated in rectangles. Due to the formulation of questions in the survey questionnaire, it is expected that the effect of all latent variables would be positive. Briefly, indicators of (1) trust in institutions includes measures of Islamic institutions and zakat institutions; (2) perceived zakat distribution includes measures of distribution information, bureaucracy and amount of zakat received; (3) attitude includes measures of desire to become zakat payers and wanting

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<sup>72</sup> To test whether a mediator carries the influence of an IV to a DV

zakat capital; (4) quality of life includes measures of basic needs namely, food and clothing; transportation and communication; health and medical care; child education; housing and shelter; and, social participation; (5) localization includes measures of close relationship; efficiency; and trust in institutions; and (6) the role of the mosque includes measures of the activities and programs of the mosque; moral values and mosque management.

It is noted that in all models the latent variables are labeled in the big circles while the indicator variables are in the rectangles. On the other hand, the smaller circles are the measurement errors in the variables. The straight line pointing from a latent variable to the indicator variable shows the causal effect of the latent variable on the indicator variable. The straight single-headed arrows between the latent variables indicate a hypothesized direct relationship between the latent variables. As a first step, the correlation and covariance of both latent variables are analyzed to determine the presence of any significant relationship between both variables. Then the effect of all variables to each other is examined to determine which variable strongly influences the other, based on the value coefficient and its significance level. The analysis is grouped into two categories namely, the perceptions of the amils and zakat recipients.

#### **4.7.5 LOGISTIC REGRESSION (LR)**

Logistic regression has rapidly become a widely used statistical method for many years (Hosmer & Lemeshow, 1989). The underlying theory is well established and relevant estimation algorithms are widely available (Brant, 1996). According to Hosmer & Lemeshow (1989;p.1), LR is important as it could assist to understand and find the best fitting and most parsimonious, yet biologically reasonable model to describe the relationship between an outcome (dependent variable) and a set of

independent (explanatory) variables. In other words, the LR model is usually formulated mathematically by relating the probability of some event occurring conditional on a vector of explanatory variables, to the vector through the functional form of a logistic (Press & Wilson, 1978).

**(a) Specifications Model**

LR analysis in this study would be employed to determine the probability factor of the amil's interest and willingness to take up the responsibility of implementing the concept of zakat localization. This study developed three models in which the dependent variables in the Model I and Model II were in the form of binary, either (1) amil is willing to implement the concept of localization and responsibility, and, (2) amil is interested in becoming professional and working full time. On the other hand, Model III is designed as the multinomial dependent variables model because there are three options that the amil need to respond namely, do not agree, agree and strongly agree on the concept of localization.

The factors that influence amil's behavior are simplified and demonstrated in Figure 3.6 (refer Chapter 3). Amil's behavior is expected to be influenced by, namely (1) level of faith or religiosity (*Lor*) (Sanep & Zulkifli, 2010; Muhammad Muda et al, 2006; Mohd Ali et. al, 2003); (2) level of education (*EDU*) (Clark & Oswald, 1996), Brown & McIntosh (1998), Hartog & Oosterbek (1998), Gazioglu & Tansel, 2006; Verhofstadt et. al, 2007); (3) educational background (*Boe*) (Hairunnizam et al, 2006; Mohd Tamyez, 2008); (4) organizational factor (*Of*) (Muhammad Muda et. al, 2006; Abdul Rahim et. al, 2011); (5) experience (*Exp*) (Abdul Aziz, 1993; Ram, 2011); and finally, (6) additional incentives (*Inct*) (Abdul Aziz, 1993; Muhammad, 1995).

**(b) Method of Estimation and Hypothesis**

The method of estimation of the LR model is maximum likelihood. Hosmer and Lemeshow (1989; p.8) highlight that in a very general sense, the method of maximum likelihood yields values for the unknown parameters which maximize the probability of obtaining the observed set of data. Therefore, likelihood function must first be constructed, which expresses the probability of the observed data as a function of the unknown parameters. The maximum likelihood estimators of these parameters are that value which maximizes this function. Thus, Hosmer and Lemeshow (1989) conclude that the resulting estimators are those which agree most closely with the observed data.

Since the dependent variable in the form of binary and multinomial and most of the independent variables are used in form of dummy variables, therefore it is appropriate to estimate all variables using logistic regression models. The model is generally estimated as follows:

$$\text{Log } Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \dots + \beta_n X_n \tag{4.7}$$

Which;

$$Y = \left[ \frac{\text{probability}(\text{choose})}{\text{probability}(\text{not to choose})} \right] = P_i / (1-P_i)$$

$\beta_0 = \text{constant}$

$\beta_1, \beta_2, \beta_3, \dots, \beta_n = \text{parameter of the variables}$

This means that the logistic coefficient could be described as a change in the form of the log 'odds' as a result of unit change in independent variables. Equation (4.7) above may be simplified to be restated as:

$$Y = \left[ \frac{\text{probability}(\text{choose})}{\text{probability}(\text{not} - \text{to} - \text{choose})} \right] = P_i / (1 - P_i) = e^{\beta_0 + \beta_1 X_1 + \beta_2 X_2 + \dots + \beta_n X_n} \quad (4.8)$$

If the value of  $\beta_i$  is positive then the odds ratio would increase if  $X_i$  increases. But if  $\beta_i$  is negative, the odds ratio would reduce if  $X_i$  declines. The Wald test or also known as the F test is used to test the significance of the estimated parameters at 10 per cent level. If the Wald test shows that the estimated parameters are not significant, then the determinant variables would be practically worthless to be used to describe the model. Efficient model gives a value of  $F^*$  which is greater than the critical value of  $F$  at  $\alpha$  significance level, degrees of freedom  $(k-1)$  and  $(nk)$  which  $n$  is the number of observations and  $k$  is the number of parameters in the model. It is shown in equation (4.9), namely:

$$\text{Wald test} = \frac{R^2 / k - 1}{1 - R^2 / n - k} \sim F_{k-1, n-k, \alpha} \quad \alpha = 5\% \quad (4.9)$$

In regression modeling, independent variables that are associated with the dependent variable in theory should be included as dependent variables in this study, either in the form binary or multinomial model and is generally estimated as follows:

$$P_i = E(Y = 1 / X) = 1 / (1 + e^{-z}) \quad (4.10)$$

Where:  $P_i$  is the probability of (1) amil willing to take on the responsibility to implement the concept of localization; and, (2) amil interested in becoming a full time officer and a professional; where  $Y = 1$ ; which indicates amil is willing and interested, and  $Y = 0$ ; indicates amil is not willing or interested and would be analyzed in the Model Va and Model Vb. On the other hand, in Model Vc, the  $P_i$  is the probability of amil's perception on localization whether the amil does not agree, agree and strongly agree. In addition, reference category in Model Vc is set to the answer of 'not agree'.

According to equation (4.10), this study examines the expected influence of several variables  $P_i$ :

$$Z_i = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \dots + \beta_i X_i \quad (4.11)$$

Where  $Z_i$  is a function of  $(X)$  where  $X$  is the independent variable related to age, education level, educational background, amil's experience, types of zakat management, the level of faith and religiosity and finally, additional allowances to local amils. All variables are examined based on several studies. All the variables in equation (4.11) are evaluated to determine which of the variables significantly influence the willingness to implement the concept of localization; interest in becoming a professional and full-time amil and their concurrence on the concept of localization.

Therefore, according to equation (4.10), the specific Model V is estimated in this study are:

$$L = \ln(P_i / (1 - P_i)) = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 \quad (4.12)$$

Where;

$L$  is the log ratio of 'odds' willingness and interested becoming professional and full-time amil (for Model Va and Model Vb). For Model Vc,  $L$  is the log ratio of odds agrees and strongly agrees towards the concept of localization

$X_1$  is age of amil

$X_2$  is the level of education; dummy = 1 for have STPM/diploma and above, 0 for SPM and below

$X_3$  is the background of education; dummy = 1 for Islamic studies, 0 for otherwise

$X_4$  is amil's experience

$X_5$  is additional allowances; dummy = 1 if amil agree, 0 for otherwise



$X_6$  is type of zakat institution involved; dummy = 1 if the zakat institution has been corporatized, 0 for otherwise

The hypothesis of this objective is that all dependent variables are significantly influence the probability of amil's willingness to implement the proposed localization as well as becoming a professional and full-time amil.

## **CHAPTER 5**

### **EMPIRICAL FINDINGS**

#### **5.1 INTRODUCTION**

This chapter deliberates on the findings, based on the objectives of the study stated in Chapter 1. All the results are discussed accordingly. The chapter commences with the exploratory factor analysis and confirmatory factor analysis to explore, confirm and finally, to construct the localization variables based on all the advantages as expounded in the literature. The chapter also examines the perceptions of amils and zakat recipients, the main determinants of the perceived localization, the relationship between institutional trust (input), perceived zakat distribution (process), quality of life and attitude (output), and finally, localization (opinion) as a solution to overcome the problem in zakat distribution. The religiosity factor as an important variable is analyzed and also its effects on the output factor, namely, attitude and quality of life of zakat recipients. This is based on the notion that increasing the level of religiosity of zakat recipients through localization could be an important tool to alleviate poverty among the poor and needy.

On the other hand, the response of the amils as zakat implementers is explored to determine whether they are able and desirous to take responsibility to implement this concept and to identify the main determinants that influence their ability and desirability. Finally, the significant role of the mosque as the main institution at the local level to implement the concept of localization is examined.

#### **5.2 THE PILOT STUDY**

The theoretic foundation for this analysis is the theory of fiscal federalism. As mentioned before, all questions that represent the construct of advantages in localization

of zakat distribution are analyzed based on five Likert scales. Respondents were asked to provide their response on a five-point scale from 1 (strongly disagree) to 5 (strongly agree). All 20 questions related to the concept of localization are listed and are based on previous studies. In this study, the reliability analysis is employed to confirm the reliability of the respondents on the answers from the questionnaire. Reliability analysis discloses the degree of consistency between multiple measurements of a variable. This analysis is conducted to ensure that responses do not differ across time periods. Thus, the indicators of the scale would be measuring the same construct and therefore, would be highly correlated. The threshold of acceptability for Cronbach alpha ( $\alpha$ ) is 0.7 although lower limits of 0.6 could be considered for exploratory research (Hair et al, 2006; p. 137). This study conducted a pilot study in FT Kuala Lumpur on 100 respondents, consisting of amils and zakat recipients.

Based on the responses, KMO of three groups of variables, namely (1) close relationship; (2) efficiency; and, (3) trust in system and institutions were analyzed. The Principal Component Analysis (PCA) explored the underlying dimensions of localization among the amils and the zakat recipients. First, the statistical assumptions of PCA were tested.

**Table 5.1: The results of pilot survey**

Variable group	Item	Zakat Recipient			Amil		
		MSA	Factor loadings	$\alpha$ Cronbach	MSA	Factor Loadings	$\alpha$ Cronbach
Close Relationship (9 items)							
close relationship	X <sub>2</sub>	.930	.740	.930	.883	.818	.959
Accessible	X <sub>5</sub>	.927	.726		.842	.665	
Regular monitoring	X <sub>6</sub>	.929	.635		.895	.723	
Encourage community participation	X <sub>9</sub>	.900	.811		.910	.788	
Immediately solve the problem	X <sub>10</sub>	.889	.710		.918	.851	
Low-cost applications	X <sub>13</sub>	.905	.648		.923	.846	
Identify the economic potential	X <sub>14</sub>	.909	.760		.945	.771	
Transparent distribution	X <sub>17</sub>	.913	.665		.920	.801	
bureaucracy process reduced	X <sub>18</sub>	.889	.703		.945	.809	
efficiency (6 items)							
Identify asnaf potential	X <sub>7</sub>	.939	.585	.896	.935	.862	.912
Efficient distribution	X <sub>11</sub>	.931	.605		.907	.836	
Promoting local economy	X <sub>12</sub>	.933	.578		.957	.751	
quick distribution	X <sub>15</sub>	.938	.626		.966	.791	
no political bias	X <sub>19</sub>	.904	.746		.853	.514	
Enhance institutional image	X <sub>20</sub>	.926	.615		.842	.630	
Trust in system and institutions (5 items)							
familiar with zakat recipients	X <sub>1</sub>	.939	.633	.892	.891	.785	.894
More reliable	X <sub>3</sub>	.956	.733		.942	.663	
not shy when applying zakat	X <sub>4</sub>	.898	.659		.882	.717	
understand asnaf problem	X <sub>8</sub>	.944	.748		.936	.785	
Amil among the local community	X <sub>16</sub>	.916	.630		.966	.728	
Kaiser-Meyer-Olkin Measure of Sampling Adequacy		.921			.915		
Overall $\alpha$ Cronbach				.968			.977

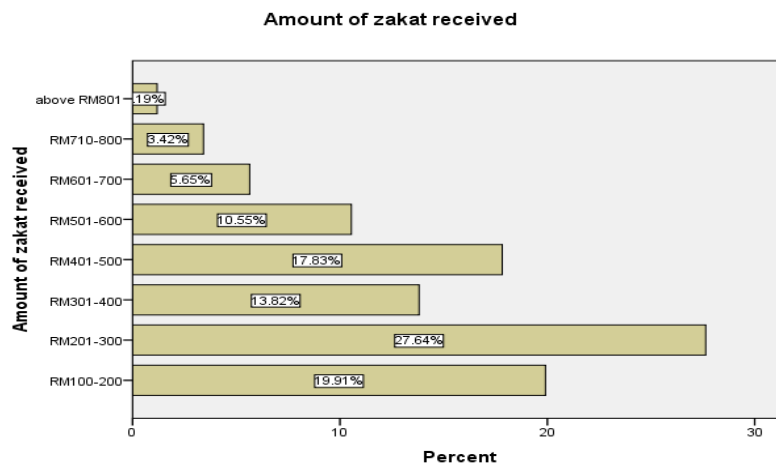
The pilot study revealed that a substantial number of variables were correlated ( $r \geq .30$ ). In addition, the two measures for inter-correlations among variables supported the use of PCA. Bartlett's Test of Sphericity for a sample of amils was statistically significant [ $\chi^2(190) = 1624, p=.001$ ] and a sample of zakat recipients was statistically significant [ $\chi^2(190) = 2445, p=.000$ ], while the Kaiser-Meyer-Olkin (KMO) measure of the sampling adequacy (MSA) was 0.921 and 0.925 respectively, which were higher than 0.8, indicating that the inter-correlations were sufficient for PCA. PCA with Varimax rotation was also performed on the data collected. Three latent factors were extracted with eigenvalues greater than one, explaining 80.61 per cent of total variance for the amils' sample and 72.0 per cent for the zakat recipients' sample. Thus, the results reveal that three latent localization factors were successfully extracted from 20 variables.

The internal consistency of all factors was obtained by computing the Cronbach's Alpha coefficient on the three extracted factors for localization that were retained by PCA. In view of the guidelines by researchers (Hair et al, 2006), Cronbach's Alpha was employed to estimate the reliability of the extracted factors of the localization. All three factors, namely close relationship, efficiency, and trust in system and institutions had good reliability indices of 0.930, 0.896, and 0.892, respectively. It demonstrates that the reliability among all extracted factors was good and in accordance with the internal factor.

### **5.3 DEMOGRAPHIC PROFILES**

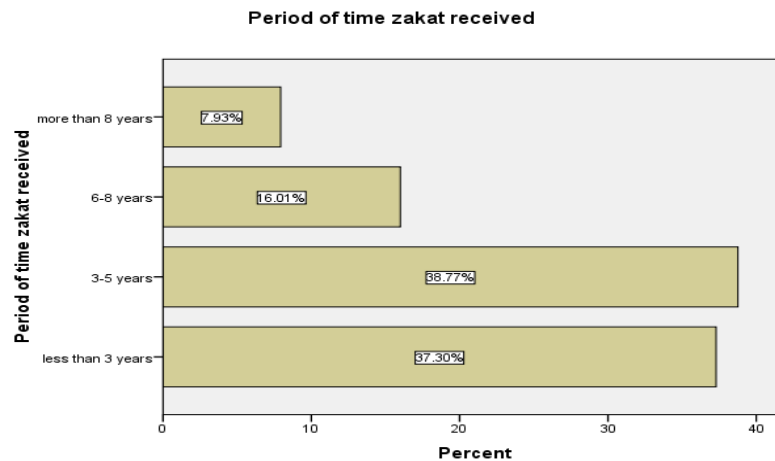
Table 5.2 presents the demographic distribution of zakat recipients. The distribution of respondents by gender indicates a fair composition where about 51 per cent were females and 49 per cent were males. The distribution of respondents by age

shows some sharp contrast. Among all respondents, those in age cohort of 25-35 years old were 8.2 per cent; age 36-45 years old were 28.9 per cent; age 46-55 years old were 35.3 per cent and age more than 56 years old were 26.2 per cent. About 46 per cent of zakat recipients had secondary school education while 37.7 per cent had primary school education. In terms of employment status, majority of zakat recipients (38.8 %) were self-employed; 26.1 per cent were government servants and 30.8 per cent were unemployed. Finally, in terms of number of household dependents, about 69.3 per cent of zakat recipients had 1-4 dependents; 18 per cent had 5-8 dependents and nearly 2.1 per cent had 9-11 dependents.



**Figure 5.1: Amount of zakat received by zakat recipient (RM/Month)**

Based on Table 5.3 and Figure 5.2, the zakat recipients, who received monthly zakat for less than 3 years, comprise 37.3 per cent, between 3 to 5 years constitute 38.8 per cent and more than 8 years is only 7.9 per cent of the respondents. It is observed that respondents receiving zakat for the last 5 years formed the majority, about 76.1 per cent of zakat recipients.



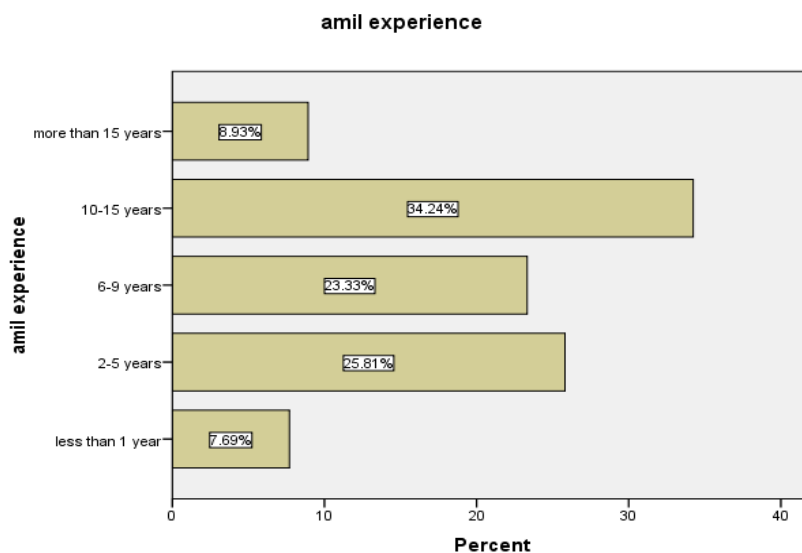
**Figure 5.2: Period of time zakat received by zakat recipient**

In terms of the total amount of monthly zakat received, majority (186 respondents or 27.6%), received between RM 201 and RM 300 per month, 134 respondents (19.9%) received between RM100 and RM 200 per month and only 4.6 per cent of respondents received zakat more than RM 700 per month. About 47.5 per cent of zakat recipients had monthly income below RM 416 which is below the poverty line and hence, were categorized as the poor while 29.7 per cent have monthly income of RM 416-RM 691; and almost 20.8 per cent between RM 692-RM 900. The actual amount of zakat provided by the institution is based on the number of people in a household or *had kifayah*. If many members of households involved are not working and there is a disabled person (OKU) in the household, it is possible for the household to receive a higher amount of zakat. Hence demographically, this study has covered all levels of monthly zakat payments received by the zakat recipients (refer Figure 5.1).

Table 5.4 shows the demographic distribution of amils. Among the respondents, those between the ages of 25-35 years old were 7.6 per cent; age 36-45 years old were 6.6 per cent; age 46-55 years old were 18.8 per cent; age 56-60 years old were 32.5 per cent and age more than 60 years old were 30.6 per cent. Thus, about 63.1 per cent of

amils were in the age cohort of 56 years and above. About 51.4 per cent of amils had diploma or higher school (*Sijil Tinggi Persekolahan Malaysia-STPM*) education, 42.1 per cent had secondary school education up to the *Sijil Pelajaran Malaysia* (SPM) level and almost 6.5 per cent of amils had bachelor degrees and above. In terms of working background, majority of amils (40 %) were retirees; 21.2 per cent were government servants and 29.6 per cent were self-employed. About 18.4 per cent of amils had monthly income of less than RM 1000, 35.5 per cent earned monthly income of RM 1001-RM 2000, and almost 44.4 per cent between RM 2001-RM 3000.

Figure 5.3 shows that in terms of experience (duration in the position of amil), a total number of 407 respondents (25.8%) had between 2 to 5 years of experience, 23.3 per cent had between 6 to 9 years and 34.2 per cent of respondents between 10 to 15 years while 8.9 per cent had more than 15 years of experience. Finally, in terms of number of dependents, about 59 per cent of amils had 1-4 people, 33.2 per cent had 5-8 people and 1 per cent had 9-11 people.



**Figure 5.3: Amil experience (Years)**



**Table 5.2: Zakat Recipients Profile**

Item		State						Total
		Selangor	Penang	FT Kuala Lumpur	Malacca	Terengganu	Kedah	
<b>Gender:</b>	Male	22 (31.9)	51 (50.5)	66 (50.8)	37 (33.0)	124 (72.5)	36 (35.0)	336 (49.0)
	Female	47 (68.1)	50 (49.5)	64 (49.2)	75 (67.0)	47 (27.5)	67 (65.0)	350 (51.0)
<b>Age:</b>	Less than 25 years	0 (0.0)	0 (0.0)	4 (3.1)	0 (0.0)	6 (3.5)	0 (0.0)	10 (1.5)
	25-35 years	0 (0.0)	6 (5.9)	43 (33.1)	2 (1.8)	5 (2.9)	0 (0.0)	56 (8.2)
	36-45 years	27 (39.1)	40 (39.6)	72 (55.4)	21 (18.8)	30 (17.5)	8 (7.8)	198 (28.9)
	46-55 years	39 (56.5)	43 (42.6)	8 (6.2)	34 (30.4)	38 (22.2)	80 (77.7)	242 (35.3)
	more than 56 years	3 (4.4)	12 (11.9)	3 (2.3)	55 (49.1)	92 (53.8)	15 (14.6)	180 (26.2)
<b>Marital status:</b>	single	0 (0.0)	0 (0.0)	7 (5.5)	2 (1.8)	6 (3.5)	1 (1.0)	16 (2.3)
	married	69 (100)	101(100)	90 (70.3)	40 (36.0)	99 (57.9)	102 (99.0)	501 (73.4)
	divorced	0 (0.0)	0 (0.0)	31 (24.2)	69 (62.2)	66 (38.6)	0 (0.0)	166 (24.3)
<b>Education level:</b>	no schooling completed	9 (13.0)	1 (1.0)	8 (6.3)	39 (34.5)	53(31.0)	2 (1.9)	112 (16.4)
	primary	42 (60.9)	41 (40.6)	26 (20.3)	48 (42.5)	72 (42.1)	29 (28.2)	258 (37.7)
	secondary	18 (26.1)	59 (58.4)	94 (73.4)	26 (23.0)	46 (26.9)	72 (69.9)	315 (46.0)
<b>Working status:</b>	unemployed	26 (37.7)	11 (11.0)	17 (13.2)	83 (73.5)	68 (39.8)	6 (5.8)	211 (30.8)
	self-employed	29 (42.0)	41 (41.0)	43 (33.3)	6 (5.3)	86 (50.3)	61 (59.2)	266 (38.8)
	government servant	11 (15.9)	44 (44.0)	67 (51.9)	24 (21.2)	7 (4.1)	26 (25.2)	179 (26.1)
	retiree	3 (4.4)	4 (4.0)	2 (1.6)	0 (0.0)	10 (5.8)	10 (9.7)	29 (4.2)
<b>Income level:</b>	no income	26 (37.7)	11 (10.9)	16 (12.4)	80 (72.1)	66 (38.6)	6 (5.8)	205 (30.0)
	below than RM415	13 (18.8)	5 (5.0)	14 (10.9)	6 (5.4)	80 (46.8)	2 (1.9)	120 (17.5)
	RM416-RM691	22 (31.9)	41 (40.6)	31 (24.0)	19 (17.1)	23 (13.5)	67 (65.0)	203 (29.7)
	RM692-RM900	8 (11.6)	44 (43.6)	55 (42.6)	5 (4.5)	2 (1.3)	28 (27.2)	142 (20.8)
	RM901 and above	0 (0.0)	0 (0.0)	13 (10.1)	1 (0.9)	0 (0.0)	0 (0.0)	14 (2.0)

<b>no. of household dependent</b>	no dependent	0 (0.0)	4 (4.0)	5 (3.9)	16 (14.8)	47 (27.8)	0 (0.0)	72 (10.6)
	1-4 people	58 (84.1)	92 (91.1)	88 (68.8)	63 (58.3)	72 (42.6)	97 (94.2)	470 (69.3)
	5-8 people	11 (15.9)	5 (5.0)	31 (24.2)	26 (24.1)	43 (25.4)	6 (5.8)	122 (18.0)
	9-11 people	0 (0.0)	0 (0.0)	4 (3.1)	3 (2.8)	7 (4.1)	0 (0.0)	14 (2.1)
<b>Total Respondent</b>		<b>69 (100)</b>	<b>101 (100)</b>	<b>130 (100)</b>	<b>112 (100)</b>	<b>171 (100)</b>	<b>103 (100)</b>	<b>686 (100)</b>

Note: ( ) percentage from total respondent

Source: survey results of this study

**Table 5.3: Period of time and amount of zakat received**

Item	State						Total	%
	Selangor	Penang	FT Kuala Lumpur	Malacca	Terengganu	Kedah		
<b>Duration:</b>								
Less than 3 years	28 (40.6)	0 (0.0)	61 (47.7)	70 (62.5)	75 (46.0)	15(14.6)	254	37.3
3-5 years	30 (43.5)	33 (33.7)	54 (42.2)	17 (15.2)	67 (41.1)	59 (57.3)	264	38.8
6-8 years	11 (15.9)	33 (33.7)	10 (7.8)	10 (8.9)	14 (8.6)	29 (28.2)	109	16.0
More than 8 years	0 (0.0)	35 (35.7)	2 (1.6)	5 (4.5)	10 (6.1)	0 (0.0)	54	7.9
<b>Amount of zakat:</b>								
RM100-RM200	0 (0.0)	2 (2.0)	15 (11.7)	107 (95.5)	10 (6.1)	0 (0.0)	134	19.9
RM201-RM300	3 (4.3)	2 (2.0)	26 (20.3)	3 (2.7)	152 (93.3)	0 (0.0)	186	27.6
RM301-RM400	17 (24.6)	39 (39.8)	14 (10.9)	1 (0.9)	1 (0.6)	21(20.4)	93	13.8
RM401-RM500	26 (37.7)	41 (41.8)	16 (12.5)	1 (0.9)	0 (0.0)	36 (35.0)	120	17.8
RM501-RM600	16 (23.2)	9 (9.2)	13 (10.2)	0 (0.0)	0 (0.0)	33 (32.0)	71	10.5
RM601-RM700	5 (7.2)	5 (5.1)	16 (12.5)	0 (0.0)	0 (0.0)	12 (11.7)	38	5.6
RM701-RM800	2 (2.9)	0 (0.0)	20 (15.6)	0 (0.0)	0 (0.0)	1 (1.0)	23	3.4
above RM801	0 (0.0)	0 (0.0)	8 (6.3)	0 (0.0)	0 (0.0)	0 (0.0)	8	1.2
<b>Total</b>	<b>69 (100)</b>	<b>98 (100)</b>	<b>128 (100)</b>	<b>112 (100)</b>	<b>163 (100)</b>	<b>103 (100)</b>	<b>673</b>	<b>100.0</b>

Note: ( ) percentage from total respondent

Source: survey results of this study

**Table 5.4: Amil's Profile**

Item		State					Total	
		Selangor	Penang	FT Kuala Lumpur	Malacca	Terengganu		Kedah
<b>Age:</b>	less than 25 years	0 (0.0)	0 (0.0)	6 (8.8)	7 (17.5)	3 (3.4)	0 (0.0)	16 (3.9)
	25-35 years	0 (0.0)	0 (0.0)	17 (25.0)	10 (25.0)	4 (4.6)	0 (0.0)	31 (7.6)
	36-45 years	10 (8.9)	0 (0.0)	6 (8.8)	7 (17.5)	4 (4.6)	0 (0.0)	27 (6.6)
	46-55 years	27 (24.1)	10 (19.6)	12 (17.6)	3 (7.5)	13 (14.9)	12 (23.5)	77 (18.8)
	56-60 years	34 (30.4)	31 (60.8)	23 (33.8)	2 (5.0)	19 (21.8)	24 (47.1)	133 (32.5)
	more than 60 years	41 (36.6)	10 (19.6)	4 (5.9)	11 (27.5)	44 (50.6)	15 (29.4)	125 (30.6)
<b>Marital status:</b>	single	2 (1.8)	0 (0.0)	9 (13.2)	8 (20.0)	5 (5.7)	0 (0.0)	24 (5.9)
	married	110 (98.2)	51 (100)	55 (80.9)	32 (80.0)	73 (83.9)	51 (100)	372 (90.7)
	divorced	0 (0.0)	0 (0.0)	4 (5.9)	0 (0.0)	10 (11.5)	0 (0.0)	14 (3.4)
<b>Educational Level:</b>	SPM and below	75 (67.6)	20 (39.2)	27 (39.7)	18 (45.0)	73 (85.9)	0 (0.0)	213 (42.1)
	Diploma/STPM	36 (32.4)	20 (39.2)	30 (44.1)	17 (42.5)	6 (7.1)	51 (100)	260 (51.4)
	Bachelor degree and above	0 (0.0)	11 (21.6)	11 (16.2)	5 (12.5)	6 (7.1)	0 (0.0)	33 (6.5)
<b>Educational Background</b>	Islamic	93 (83.0)	51(100)	45 (66.2)	11 (28.2)	29 (33.3)	51 (100)	280 (68.6)
	National	10 (8.9)	0 (0.0)	15 (22.1)	24 (61.5)	29 (33.3)	0 (0.0)	78 (19.1)
	Islamic traditional	8 (7.1)	0 (0.0)	5 (7.4)	4 (10.3)	9 (10.3)	0 (0.0)	22 (5.4)
	western	1 (0.9)	0 (0.0)	3 (4.4)	0 (0.0)	20 (23.0)	0 (0.0)	28 (6.9)
<b>Amil's experience</b>	Less than 1 year	0 (0.0)	0 (0.0)	8 (11.8)	10 (26.3)	13 (15.1)	0 (0.0)	31 (7.7)
	2-5 years	5 (4.6)	10 (19.6)	29 (42.6)	14 (36.8)	34 (39.5)	12 (23.5)	104 (25.8)
	6-9 years	46 (42.2)	10 (19.6)	3 (4.4)	3 (7.9)	21 (24.4)	11 (21.6)	94 (23.3)
	10-15 years	44 (40.4)	31 (60.8)	15 (22.1)	9 (23.7)	11 (12.8)	28 (54.9)	138 (34.2)
	more than 15 years	14 (12.8)	0 (0.0)	13 (19.1)	2 (5.3)	7 (8.1)	0 (0.0)	36 (8.9)

<b>Working background</b>	government	10 (8.9)	0 (0.0)	23 (33.8)	25 (69.4)	27 (31.0)	1 (2.0)	86 (21.2)
	private	0 (0.0)	21 (41.2)	6 (8.8)	1 (2.8)	4 (4.6)	0 (0.0)	32 (7.9)
	self-employed	25 (22.3)	30 (58.8)	12 (17.6)	3 (8.3)	36 (41.4)	14 (27.5)	120 (29.6)
	retiree	77 (68.8)	0 (0.0)	24 (35.3)	5 (13.9)	20 (23.0)	36 (70.6)	162 (40.0)
	others	0 (0.0)	0 (0.0)	3 (4.4)	2 (5.6)	0 (0.0)	0 (0.0)	5 (1.2)
<b>Income level:</b>	less than RM1000	0 (0.0)	0 (0.0)	9 (13.2)	12 (31.6)	54 (61.4)	35 (68.6)	75 (18.4)
	RM1001-RM2000	24 (21.6)	9 (17.6)	33 (48.5)	18 (47.4)	26 (29.5)	16 (31.4)	145 (35.5)
	RM2001-RM3000	87 (78.4)	42 (82.4)	22 (32.4)	7 (18.4)	7 (8.0)	0 (0.0)	181 (44.4)
	RM3001-RM4000	0 (0.0)	0 (0.0)	4 (5.9)	1 (2.6)	1 (1.1)		7 (1.7)
<b>no. of household dependent</b>	no dependent	1 (0.9)	0 (0.0)	8 (12.3)	8 (20.0)	11 (12.5)	0 (0.0)	28 (6.9)
	1-4 peoples	65 (58.0)	30 (58.8)	41 (63.1)	23 (57.5)	41 (46.6)	40 (78.4)	240 (59.0)
	5-8 peoples	46 (41.1)	21 (41.2)	16 (24.6)	9 (22.5)	32 (36.4)	11 (21.6)	135 (33.2)
	9-11 peoples	0 (0.0)	0 (0.0)	0 (0.0)	0 (0.0)	4 (4.5)	0 (0.0)	4 (1.0)

Note: ( ) percentage from total respondent

**Source: survey results of this study**

## 5.4 THE VARIABLE OF LOCALIZATION

Before proceeding with the analysis, this study constructed a variable of localization based on the perception of 1094 respondents. The variable is a latent variable, indicating that it is highly dependent on all attributive factors, which are based on the advantages of implementing zakat localization. This study explores all the possible factors that attribute to localization by using exploratory factor analysis and finally confirming those factors by using confirmatory factor analysis. After that, the localization variable is ready to be used in all analysis, especially that relating to the structural equation model.

Table 5.5 shows the EFA approach to determine the main factors influencing the zakat localization variable from the combination of perspectives of the amils and zakat recipients. This study found that Bartlett's Test of Sphericity was statistically significant [ $\chi^2(190) = 13330, p = .000$ ] while the Kaiser-Meyer-Olkin (KMO) measure of the sampling adequacy (MSA) was 0.931, indicating that the inter-correlations were sufficient for PCA. PCA with Varimax rotation was performed on the data collected. Three latent factors were extracted with eigenvalues greater than one, explaining 60.58 per cent of total variance. Thus, the results show that three latent localization factors were successfully extracted from 20 variables.

Based on the screen test criterion<sup>73</sup>, the latent roots (eigenvalue) criterion using PCA and varimax rotation method with Kaiser Normalization, the observed variables, with factor loadings between 0.488 and 0.781 were factored into three main factors. These were based on the common features shared by the items associated with each

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<sup>73</sup> The scree test is used to identify the optimum number of factors that could be extracted before the amount of unique variance dominate the common variance structure (Cattell, 1966)

factor, namely: (1) close relationship between the amils and zakat recipients, (2) efficient distribution of zakat recipients by amils and, (3) trust in the zakat institutions. This result which is supported by past studies, confirms close relationship among the participants, and trust in relationships and politics. These are among the significantly important factors that attract the attention and consideration of individuals in a society (Salisbury, 1969; Young-Ybarra & Wiersema, 1999; Cropanzano & Mitchell, 2005).

**Table 5.5: EFA approach to construct variables of localization**

Variable group <sup>2</sup>	Item	MSA <sup>1</sup>	Loading factor			Communities
			1	2	3	
<b>Close Relationship (9 items)</b>						
close relationship	X <sub>2</sub>	.935	.629			.626
Accessible	X <sub>5</sub>	.914	.674			.669
Regular monitoring	X <sub>6</sub>	.914	.683			.640
Encourage community participation	X <sub>9</sub>	.949	.603			.597
Immediately solve the problem	X <sub>10</sub>	.956	.734			.693
Low-cost applications	X <sub>13</sub>	.911	.601			.580
Identify the economic potential	X <sub>14</sub>	.927	.733			.627
Transparent distribution	X <sub>17</sub>	.924	.643			.547
bureaucracy process reduced	X <sub>18</sub>	.933	.718			.672
<b>Efficiency (6 items)</b>						
Identify potential asnaf	X <sub>7</sub>	.926		.553		.539
Efficient distribution	X <sub>11</sub>	.913		.781		.703
Promoting local economy	X <sub>12</sub>	.931		.650		.608
quick distribution	X <sub>15</sub>	.957		.640		.599
no political bias	X <sub>19</sub>	.946		.600		.535
Enhance institutional image	X <sub>20</sub>	.960		.488		.444
<b>Trust in system and institutions (5 items)</b>						
familiar with zakat recipients	X <sub>1</sub>	.936			.696	.639
More reliable	X <sub>3</sub>	.943			.603	.660
not shy when applying zakat	X <sub>4</sub>	.888			.725	.632
understand asnaf's problem	X <sub>8</sub>	.928			.514	.515
Amil among the local community	X <sub>16</sub>	.914			.571	.592
<b>The sum of squares (<i>eigenvalue</i>)</b>			4.990	3.724	3.403	12.12
<b>The per centage of variance</b>			24.95	18.62	17.01	60.58

Note: Method of extraction: Principal components analysis. Rotation Method: Varimax with Kaiser Normalization Rotation converged in 14 iterations

Kaiser-Meyer-Olkin Measure of Sampling Adequacy = 0.930

Bartlett's Test of Sphericity: significant at the 0.01 level

<sup>1</sup> (MSA) to measure the adequacy of sampling. Value = 0.50 and more is in the acceptable range.

<sup>2</sup> Cronbach Alpha ( $\alpha$ ) total value = 0.946; value of 0.70 and above testifies strong scale reliability

In fact, all three factors are reliable as indicated by the high Cronbach alpha value of 0.946, showing good validity of the sample. The Kaiser-Meyer-Olkin value is at high level of 0.930, maintaining that factor analysis is feasible for the data set whilst the Bartlett's Test of Sphericity yields a high reading. The items under each factor have large loadings, indicating high correlations with each other and the absence of criterion-related validity among the variables.

**Table 5.6: The first stage of CFA (CFA first order) of localization**

Variable group	Item	Factor Loading			AVE <sup>f</sup>	CR <sup>g</sup>
		1	2	3		
Close Relationship (3 items)						
	Immediately solve the problem	X <sub>10</sub>	.812		0.595	0.74
	Identify the economic potential	X <sub>14</sub>	.729			
	bureaucracy process reduced	X <sub>18</sub>	.771			
Efficiency (3 items)						
	Efficient distribution	X <sub>11</sub>		.758	0.528	0.87
	Promoting local economy	X <sub>12</sub>		.729		
	quick distribution	X <sub>15</sub>		.691		
Trust in system and institutions (3 items)						
	familiar with zakat recipients	X <sub>1</sub>			0.573	0.90
	More reliable	X <sub>3</sub>		.721		
	not shy when applying zakat	X <sub>4</sub>		.817		
				.729		
	Comparative fit index (CFI) <sup>a</sup>		.950			
	Bollen Relative fit index (RFI) <sup>b</sup>		.913			
	Bentler Bonett coefficient (NFI) <sup>c</sup>		.942			
	Tucker-Lewis coefficient (TLI) <sup>d</sup>		.926			
	Root Mean Square Error of approximation (RMSEA) <sup>e</sup>		.053			
	P-close		.165			

Note: <sup>a</sup> CFI values of 0.90 and above testifies strong scale unidimensionality

<sup>b</sup> RFI values close to 1 indicate a very good fit

<sup>c</sup> NFI values of 0.90 and above testifies strong scale convergent validity

<sup>d</sup> TLI analysis of moment structures. TLI values close to 1 indicate a very good fit.

<sup>e</sup> RAMSEA value of about 0.08 or less would indicate a reasonable error of approximation

<sup>f</sup> AVE  $\geq$  0.5 to achieve convergent validity

<sup>g</sup> CR  $\geq$  0.6 to achieve construct reliability

Table 5.6 shows the results of CFA analysis using SEM. This study runs the CFA procedure simultaneously for all latent constructs, and assesses the measurement model before modeling the structural model. It is found that the construct validity and convergent validity of the model reflect a good fitting model, given that the value of

CFI = 0.950; RFI = 0.913, NFI = 0.942; TLI = 0.926 and RMSEA = 0.053. In terms of validity, the value of all AVEs' constructs were 0.595, 0.528 and 0.573  $\geq$  0.5. Following the principle set by scholars (Byrne, 2001; Hair et al., 2006; Zainudin, 2013), CFI threshold of more than 0.92, RMSEA threshold of less than 0.07, CR threshold of more than 0.6 and AVE threshold of more than 0.5 reflect a good model fit.

Understandably, the number of variables for each construct was reduced to three factors and this study deleted any variable that has low factor loadings (lower than 0.6) in order to achieve unidimensionality (Zainudin, 2013; p.42). For instance, for the construct of close relationship, three variables are attributed to it, namely immediate solution to problems, ability in identifying economic potentials and, reduction in the bureaucratic process, whose standardized factor loadings were 0.812, 0.729 and 0.771, respectively. Hence, the highest standardized factor loading for each factor, namely (1) factor of close relationship, the highest factor loading is 'immediate solution of problems' which indicates 0.812, (2) efficiency, the highest factor loading is efficient distribution effect on 'efficiency' which indicates 0.758 and finally, (3) trust in system and institution, the highest factor loading is 0.817 which indicates high reliability in system and institution.

Thus, the findings indicate that the model is a good fit for the observed variables and hence, is reasonably acceptable to analyze and interpret the results of the SEM. Therefore, the proposed localization of zakat distribution (latent variable) is represented by these indicator variables.



## 5.5 PERCEPTIONS OF AMILS AND ZAKAT RECIPIENTS

Is there a significant difference of perception between amils and zakat recipients towards the concept of localization? Table 5.7 illustrates that a significant difference of mean does not exist between amils and zakat recipients in all constructs. Thus, this result accepts the null hypothesis that there is no mean difference between amils and zakat recipients. However, it is found that amils' overall mean average for each construct is higher than the mean for zakat recipients. For example, in the close relationship construct, the mean for amils is 4.27, higher than the mean for zakat recipients (4.20).

**Table 5.7: Mean differences between Respondents by constructs**

No.	Constructs	Respondent	N	Mean <sup>1</sup>	Std. Error
1.	Close relationship	Amil	404	4.27	.032
		Zakat	574	4.20	.023
		Recipients	<b>978</b>	4.23	.019
		<b>Total</b>			
2.	Efficiency	Amil	404	4.15	.031
		Zakat	574	4.12	.020
		Recipients	<b>978</b>	4.13	.017
		<b>Total</b>			
3.	Trust in system and institutions	Amil	404	4.03	.029
		Zakat	574	4.05	.021
		Recipients	<b>978</b>	4.04	.017
		<b>Total</b>			
4.	Overall	Amil	404	4.15	.026
		Zakat	574	4.12	.018
		Recipients	<b>978</b>	4.13	.015
		<b>Total</b>			

Note: <sup>1</sup> mean value based on Likert scale: 1: strongly disagree; 2: disagree; 3: moderate; 4: agree; 5: strongly agree  
<sup>a</sup> significant at the 0.0125 level

Table 5.8 presents the mean differences between respondents by states. It is found that all the means are significantly different at the 0.0125 level in all constructs by state. It also reveals that Selangor and Penang have greater means on average compared to the other states. Thus, it indicates that respondents in these states on the whole strongly accept this concept as compared to the other states.

**Table 5.8: Mean differences between respondents by construct and State**

No.	Constructs	States	N	Mean <sup>1</sup>	Std. Error
1.	Close relationship	Selangor	181	4.46 <sup>a</sup>	.033
		Penang	152	4.45 <sup>a</sup>	.035
		FT Kuala Lumpur	190	3.94 <sup>a</sup>	.045
		Malacca	72	3.61 <sup>a</sup>	.081
		Terengganu	229	4.08 <sup>a</sup>	.034
		Kedah	154	4.57 <sup>a</sup>	.027
		<b>Total</b>	<b>978</b>	<b>4.22<sup>a</sup></b>	<b>.019</b>
2.	Efficiency	Selangor	181	4.45 <sup>a</sup>	.034
		Penang	152	4.21 <sup>a</sup>	.019
		FT Kuala Lumpur	190	3.89 <sup>a</sup>	.046
		Malacca	72	3.63 <sup>a</sup>	.082
		Terengganu	229	4.08 <sup>a</sup>	.036
		Kedah	154	4.29 <sup>a</sup>	.024
		<b>Total</b>	<b>978</b>	<b>4.13<sup>a</sup></b>	<b>.017</b>
3.	Trust in system and institutions	Selangor	181	4.28 <sup>a</sup>	.027
		Penang	152	4.13 <sup>a</sup>	.014
		FT Kuala Lumpur	190	3.91 <sup>a</sup>	.047
		Malacca	72	3.73 <sup>a</sup>	.077
		Terengganu	229	3.97 <sup>a</sup>	.046
		Kedah	154	4.09 <sup>a</sup>	.018
		<b>Total</b>	<b>978</b>	<b>4.04<sup>a</sup></b>	<b>.017</b>
4.	Overall	Selangor	181	4.40 <sup>a</sup>	.021
		Penang	152	4.26 <sup>a</sup>	.011
		FT Kuala Lumpur	190	3.92 <sup>a</sup>	.043
		Malacca	72	3.65 <sup>a</sup>	.075
		Terengganu	229	4.05 <sup>a</sup>	.033
		Kedah	154	4.32 <sup>a</sup>	.014
		<b>Total</b>	<b>978</b>	<b>4.13<sup>a</sup></b>	<b>.015</b>

Note: <sup>1</sup> mean value based on Likert scale: 1: strongly disagree; 2: disagree; 3: moderate; 4: agree; 5: strongly agree  
<sup>a</sup> significant at the 0.0125 level

It is evident in Table 5.9 that there is a significant difference in means for the perception of respondents by categories of zakat institutions. This study found that all the means are significantly different at the 0.0125 level in all constructs. It also portrays that for states where the zakat institutions were fully corporatized, the means were greater on average compared to others. This reveals that respondents in those states fully support this concept as compared to others. This is partly due to the corporatization efforts which have simplified bureaucratic procedures in the management of zakat collection and distribution.

**Table 5.9: Mean differences between respondents by construct and category of zakat institution**

No.	Constructs	Category	N	Mean <sup>1</sup>	Std. Error
1.	Close relationship	Fully corporatized <sup>2</sup>	333	4.45 <sup>a</sup>	.024
		Partially corporatized <sup>3</sup>	262	3.85 <sup>a</sup>	.041
		Not corporatized at all <sup>4</sup>	383	4.28 <sup>a</sup>	.026
		<b>Total</b>	<b>978</b>	<b>4.22<sup>a</sup></b>	<b>.019</b>
2.	Efficiency	Fully corporatized <sup>2</sup>	333	4.34 <sup>a</sup>	.021
		Partially corporatized <sup>3</sup>	262	3.82 <sup>a</sup>	.041
		Not corporatized at all <sup>4</sup>	383	4.17 <sup>a</sup>	.024
		<b>Total</b>	<b>978</b>	<b>4.13<sup>a</sup></b>	<b>.017</b>
3.	Trust in system and institutions	Fully corporatized <sup>2</sup>	333	4.21 <sup>a</sup>	.017
		Partially corporatized <sup>3</sup>	262	3.86 <sup>a</sup>	.040
		Not corporatized at all <sup>4</sup>	383	4.02 <sup>a</sup>	.028
		<b>Total</b>	<b>978</b>	<b>4.04<sup>a</sup></b>	<b>.017</b>
4.	Overall	Fully corporatized <sup>2</sup>	333	4.34 <sup>a</sup>	.013
		Partially corporatized <sup>3</sup>	262	3.85 <sup>a</sup>	.038
		Not corporatized at all <sup>4</sup>	383	4.16 <sup>a</sup>	.022
		<b>Total</b>	<b>978</b>	<b>4.13<sup>a</sup></b>	<b>.015</b>

Note: <sup>1</sup> mean value based on Likert scale: 1: strongly disagree; 2: disagree; 3: moderate; 4: agree; 5: strongly agree  
<sup>2</sup> Selangor & Penang  
<sup>3</sup> FT Kuala Lumpur & Malacca  
<sup>4</sup> Terengganu & Kedah  
<sup>a</sup> significant at the 0.0125 level

Table 5.10 projects the mean differences by construct, state and respondents. This study uncovered that all the means are significantly different at the 0.0125 level for all constructs between respondents (including amils and zakat recipients) according to states. Selangor and Penang have a greater means on average compared to other states. Thus, respondents in these states showed a strong consensus to implement this concept.

**Table 5.10: Mean differences by construct, state and respondents**

No	Construct	State	Amil		Zakat Recipients	
			Mean <sup>1</sup>	Std. Error	Mean <sup>1</sup>	Std. Error
1.	Close relationship	Selangor	4.48 <sup>a</sup>	.048	4.42 <sup>a</sup>	.039
		Penang	4.45 <sup>a</sup>	.065	4.45 <sup>a</sup>	.042
		FT Kuala Lumpur	3.88 <sup>a</sup>	.085	3.98 <sup>a</sup>	.053
		Malacca	3.70 <sup>a</sup>	.120	3.52 <sup>a</sup>	.109
		Terengganu	4.09 <sup>a</sup>	.059	4.08 <sup>a</sup>	.042
		Kedah	4.80 <sup>a</sup>	.036	4.45 <sup>a</sup>	.031
		<b>Total</b>	<b>4.27<sup>a</sup></b>	<b>.031</b>	<b>4.20<sup>a</sup></b>	<b>.023</b>
2.	Efficiency	Selangor	4.43 <sup>a</sup>	.050	4.48 <sup>a</sup>	.039
		Penang	4.20 <sup>a</sup>	.025	4.21 <sup>a</sup>	.026
		FT Kuala Lumpur	3.89 <sup>a</sup>	.085	3.90 <sup>a</sup>	.053
		Malacca	3.61 <sup>a</sup>	.130	3.64 <sup>a</sup>	.104
		Terengganu	4.10 <sup>a</sup>	.068	4.08 <sup>a</sup>	.040
		Kedah	4.31 <sup>a</sup>	.048	4.28 <sup>a</sup>	.027
		<b>Total</b>	<b>4.15<sup>a</sup></b>	<b>.031</b>	<b>4.12<sup>a</sup></b>	<b>.020</b>
3.	Trust in system and institutions	Selangor	4.22 <sup>a</sup>	.038	4.38 <sup>a</sup>	.032
		Penang	4.13 <sup>a</sup>	.023	4.13 <sup>a</sup>	.018
		FT Kuala Lumpur	3.81 <sup>a</sup>	.070	3.97 <sup>a</sup>	.061
		Malacca	3.71 <sup>a</sup>	.122	3.74 <sup>a</sup>	.098
		Terengganu	3.98 <sup>a</sup>	.088	3.97 <sup>a</sup>	.050
		Kedah	4.12 <sup>a</sup>	.035	4.08 <sup>a</sup>	.020
		<b>Total</b>	<b>4.03<sup>a</sup></b>	<b>.029</b>	<b>4.05<sup>a</sup></b>	<b>.021</b>
4.	Overall	Selangor	4.38 <sup>a</sup>	.032	4.43 <sup>a</sup>	.019
		Penang	4.26 <sup>a</sup>	.026	4.26 <sup>a</sup>	.010
		FT Kuala Lumpur	3.86 <sup>a</sup>	.076	3.95 <sup>a</sup>	.051
		Malacca	3.68 <sup>a</sup>	.115	3.63 <sup>a</sup>	.099
		Terengganu	4.06 <sup>a</sup>	.062	4.04 <sup>a</sup>	.037
		Kedah	4.41 <sup>a</sup>	.023	4.27 <sup>a</sup>	.016
		<b>Total</b>	<b>4.15<sup>a</sup></b>	<b>.026</b>	<b>4.12<sup>a</sup></b>	<b>.018</b>

Note: <sup>1</sup> mean value based on Likert scale: 1: strongly disagree; 2: disagree; 3: moderate; 4: agree; 5: strongly agree  
<sup>a</sup> significant at the 0.0125 level

Table 5.11 illustrates presence of a significant difference means in perception by construct, categorization of zakat institution and respondent. This study observed that all the means are significantly different at the 0.0125 level for all constructs. It also portrays that the states where the zakat institutions were fully corporatized have a greater means on average compared to others. Thus, it could be concluded that respondents in these states strongly accept this concept.

**Table 5.11: Mean Differences by construct, categorization of zakat institution and respondents**

No	Construct	Category	Amil		Zakat recipient	
			Mean <sup>1</sup>	Std. Error	Mean <sup>1</sup>	Std. Error
1.	Close relationship	Fully corporatize	4.47 <sup>a</sup>	.039	4.44 <sup>a</sup>	.029
		Partially corporatize	3.82 <sup>a</sup>	.069	3.88 <sup>a</sup>	.050
		Not corporatize at all	4.35 <sup>a</sup>	.049	4.24 <sup>a</sup>	.030
		<b>Total</b>	<b>4.27<sup>a</sup></b>	<b>.032</b>	<b>4.20<sup>a</sup></b>	<b>.023</b>
2.	Efficiency	Fully corporatize	4.36 <sup>a</sup>	.036	4.32 <sup>a</sup>	.024
		Partially corporatize	3.79 <sup>a</sup>	.073	3.84 <sup>a</sup>	.048
		Not corporatize at all	4.18 <sup>a</sup>	.047	4.16 <sup>a</sup>	.027
		<b>Total</b>	<b>4.15<sup>a</sup></b>	<b>.030</b>	<b>4.12<sup>a</sup></b>	<b>.020</b>
3.	Trust in system and institutions	Fully corporatize	4.19 <sup>a</sup>	.027	4.23 <sup>a</sup>	.019
		Partially corporatize	3.78 <sup>a</sup>	.062	3.92 <sup>a</sup>	.053
		Not corporatize at all	4.03 <sup>a</sup>	.057	4.02 <sup>a</sup>	.030
		<b>Total</b>	<b>4.03<sup>a</sup></b>	<b>.029</b>	<b>4.05<sup>a</sup></b>	<b>.021</b>
4.	Overall	Fully corporatize	4.34 <sup>a</sup>	.024	4.33 <sup>a</sup>	.011
		Partially corporatize	3.80 <sup>a</sup>	.064	3.88 <sup>a</sup>	.047
		Not corporatize at all	4.19 <sup>a</sup>	.043	4.14 <sup>a</sup>	.024
		<b>Total</b>	<b>4.15<sup>a</sup></b>	<b>.026</b>	<b>4.12<sup>a</sup></b>	<b>.018</b>

Note: <sup>1</sup> mean value based on Likert scale: 1: strongly disagree; 2: disagree; 3: moderate; 4: agree; 5: strongly agree

<sup>a</sup> significant at the 0.0125 level

In addition, post hoc comparison method was applied to all constructs to confirm an acceptable level of overall Type 1 error rate (in this case at the 0.0125 level). It involves comparisons between a single dependent variable and other variables across multiple groups to determine whether they are significantly different.

Thus, the post hoc procedure tests all the group differences and identifies those differences that are statistically significant (Hair et.al, 2006, p. 442). This study applies two types of comparisons, namely Bonferroni and Games-Howell tests as discussed earlier. All results generally confirm the ANOVA test (refer APPENDICES-Table I-V), except in Selangor and Penang, where insignificant differences in means are observed as both states have similar zakat management systems.

### **5.5.1 Discussion of Findings**

It is evident from the findings in this study that the majority of respondents strongly support the concept of localization of zakat management, especially amils compared to zakat recipients. It also reveals that amils strongly concur with the concept, especially in terms of zakat distribution, although a significant difference is noted in means of perceptions between the two groups of respondents in all the states. This could be construed as a clarion-call for the zakat institutions to implement the concept. This further confirms the suggestion by Muhammad Syukri (2006) who urged the implementation of the concept of localization in zakat management. This finding also lends support to the study conducted by Abdul Aziz (1993), which considered that it would have a good justification to implement localization in zakat administration.

This finding is also supported by the study done by Sherman & Smith (1984; p.884). This study stated that greater decentralization of authority and decision making process as well as less emphasis on bureaucratic formalization and standardized procedures, should positively affect the motivation of the society intrinsically. In this case, the amils as the implementers have a greater motivation to implement localization compared to zakat recipients.

It is possible to implement localization of zakat management because amils in each village and district in every state are the most likely candidates to implement that concept, reflecting the practice in the history of zakat management in Malaysia, especially in the pre-colonial era (Abdul Aziz, 1993; Steiner, 2011). This study provides strong evidence on the potential implementation of zakat localization because majority of amils have many years of experience (more than 10 years). They have faced many problems during their course of duties, especially regarding zakat recipients. They

actually desire to see an improvement in zakat management. Issues on zakat distribution that must be addressed immediately by zakat institutions are for instance the bureaucratic red-tape, application process and the amount of zakat to be given either on monthly or yearly basis.

Further, the dissemination of information on zakat distribution as well as response and feedback from the community is imperative and local amils could emerge as good channels of communication. This would ensure the community is well informed and current on information regarding zakat management, especially the amount of zakat disbursed every year by the zakat institutions. However, to ensure effectiveness, all information on zakat collection and distribution should be disseminated through pamphlets, television broadcasts or billboards to show that the zakat institution has taken a proactive role in zakat distribution. Finally, this strategy would create public confidence on the zakat institution.

Geographical factor and the relationship between amils and zakat recipients could be a possible factor why their perceptions are significantly different. This study noted that the mean perceptions of the two groups of respondents were significantly different from each other among the states especially, in Selangor and Penang that have a relatively higher value of mean in all factors compared to other states. This finding is similar to the study by Muhammad Syukri (2006); Azhana & Abd Halim (2012) that suggested that the geographical and communication factors are the important factors to improve the zakat management.

The findings also reveal that the mean of each factor for the states that partially corporatized their zakat management is relatively lower than the states that have yet to

corporatize their zakat institutions. Probably the size of the states is an important contributory factor as the states of Selangor and Terengganu are larger than FT Kuala Lumpur and Malacca. This factor would widen the relationship gap between the amils and zakat recipients. In large states, it would be difficult for the amils to identify the zakat recipients easily and accurately and this could affect the efficient distribution of zakat. This issue was also highlighted by Muhammad Syukri (2006), who strongly advocated localization mainly due to the geographical factor (refer to Lucy et.al, 1977). However, in the case of Penang, the amils strongly supported this concept as the state is largely inhabited by the Chinese, who reside mainly in urban townships compared to the Malays who live in the rural areas or villages. As a result, amils have to work hard to search and identify the potential zakat recipients and maintain the relationship with zakat recipients.

There is also a significant difference between the states that have corporatized their zakat institutions and those that have not. In general, it could be vouched that the corporatization has been successful in zakat management, especially in zakat distribution. This study reckons that amils and zakat recipients in these states were relatively open minded to discuss zakat management as compared to the other states. Much information and discussions on zakat issues have been circulated widely and informatively to create awareness among them. Thus, zakat recipients were well aware of any policy change and would be encouraged to voice out their thoughts freely and bravely. As a result, the zakat management would become more efficient in future. In the next part, this study explores the determinants of perceptions of the amils and zakat recipients on zakat localization



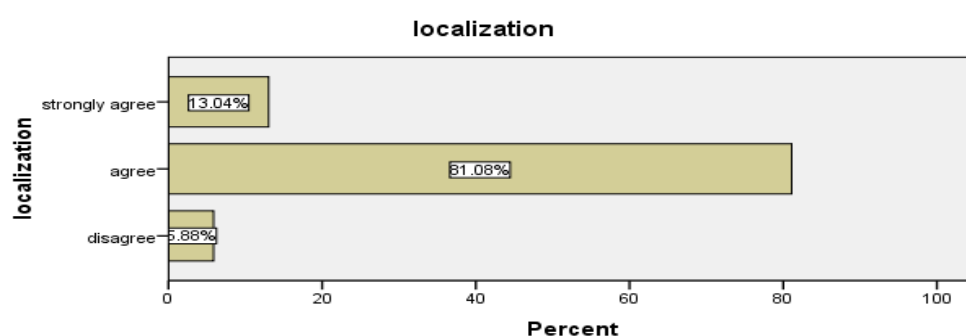
## 5.6 THE MAIN DETERMINANTS OF ZAKAT LOCALIZATION AS PERCEIVED BY THE AMILS AND ZAKAT RECIPIENTS

Table 5.12 presents the perception of the respondents towards the implementation of the localization concept in zakat management. The findings of the study indicate that 81.06 per cent agreed while 13.05 per cent strongly agreed to the concept of localization. Only 5.88 per cent of respondents did not agree to the implementation of the concept (refer Figure 5.4).

**Table 5.12: Respondents Perception toward concept of localization by state**

States	Agreement to implement the concept of localization			Total	(% from total respondents)
	Disagree	Agree	Strongly Agree		
Selangor	-	112	69	181	16.63
Penang	-	152	-	152	13.97
FT Kuala Lumpur	1	165	31	198	18.19
Malacca	3	118	26	151	13.87
Terengganu	59	183	15	257	23.62
Kedah	1	152	1	154	14.15
Total	64 (5.88)	882 (81.06)	142 (13.05)	1088 (100.00)	100.00

Note: Pearson  $\chi^2$  test is significant at the 0.01 level  
( ) per centage from total respondents



**Figure 5.4: Respondents Perception toward concept of localization (%)**

**Table 5.13: Respondents Perception toward concept of localization by category of institution**

Category of zakat institution	Agreement to implement the concept of localization			Total	Per centage
	Disagree	Agree	Strongly Agree		
Fully corporatize <sup>1</sup>	-	264	69	333	30.60
Partially corporatize <sup>2</sup>	4	283	57	344	31.61
Not corporatize at all <sup>3</sup>	60	335	16	411	37.75
Total	64	882	142	1088	100.00
	(100.00)	(100.00)	(100.00)		

Note: <sup>1</sup> Selangor & Penang

<sup>2</sup> FT Kuala Lumpur & Malacca

<sup>3</sup> Kedah & Terengganu

Pearson  $\chi^2$  test is significant at the 0.01 level

Table 5.13 shows the perception of respondents by category of zakat institutions. This study categorized the zakat institutions into three. Selangor and Penang have corporatized zakat management especially collection and distribution. FT Kuala Lumpur and Malacca have only corporatized their zakat collection while Terengganu has yet to corporatize its zakat management. The results reveal that none of the respondents in the states that have fully corporatized their zakat management disagreed with the concept of localization, rather they strongly agreed to it.

Table 5.14 presents the correlation matrix of all three constructs, namely close relationship efficiency distribution and, finally, trust in the systems and institutions as discussed earlier. Among those constructs, correlation coefficients ranged from 0.178 to 0.231. Indeed, these correlation coefficients were significant and met the criteria of unidimensionality, which indicates that this initial model could be analyzed further. For example, close relationship, efficiency and trust were 0.231, 0.178 and 0.186, respectively. Each dimension was statistically correlated at the 0.01 level. Therefore, each group of factors was found to have good correlations with each other and absence of criterion-related validity among the factors.

**Table 5.14: Correlation and covariance between Factor's Groups**

No	Dimension	Close relationship	Efficiency	Trust
1.	Close relationship	-		
2.	Efficiency	.730* (.231)	-	
3.	Trust in system & institutions	.709* (.178)	.824* (.186)	-

Note: \* p<0.01; ( ) correlation

The first stage of CFA is to confirm the results of the EFA as discussed earlier. Table 5.15 presents the results of the first stage of CFA that involved the sample of amils and zakat recipients. The second order SEM is that the model could relate the relationship between the three groups of variables (identified as latent) and the localization variable that is also a latent variable. Bryne (2001) recommended this method to be conceded to determine which group of factors are the most significant in influencing the factor of localization. Thus, the EFA approach only allows the researcher minimal control over certain structures such as the number of factors and the load factor and a new approach might be carried out to confirm the factor used and the number of factors (Anderson & Gerbing, 1988; Millsap & Everson, 1991; Hair et. al, 2006 p. 162). This finding is also useful to determine which groups of factors should be given focus by policy makers in the zakat institutions, especially with regard to formulation of policies. Therefore, as suggested by Hair et. al, (2006) the CFA approach gives a better result to confirm the findings obtained by using the CFA approach.

**Table 5.15: The first stage of CFA (CFA first order)**

Set of variables	Item	Factor loadings (Amil)			Factor loadings (Zakat Recipient)		
		1	2	3	1	2	3
Close relationship (3 items)							
	Immediately solve the problem	X <sub>10</sub>	.878			.756	
	Identify the economic potential	X <sub>14</sub>	.837			.632	
	bureaucracy process reduced	X <sub>18</sub>	.810			.740	
Efficiency (3 items)							
	Efficient distribution	X <sub>11</sub>	.829			.686	
	Promoting local economy	X <sub>12</sub>	.837			.635	
	quick distribution	X <sub>15</sub>	.650			.687	
Trust in system & institution (3 items)							
	familiar with zakat recipients	X <sub>1</sub>			.731		.725
	More reliable	X <sub>3</sub>			.843		.779
	not shy when applying zakat	X <sub>4</sub>			.761		.703
	Comparative fit index (CFI) <sup>a</sup>	.950					
	Bollen Relative fit index (RFI) <sup>b</sup>	.913					
	Bentler Bonett coefficient (NFI) <sup>c</sup>	.942					
	Tucker-Lewis coefficient (TLI) <sup>d</sup>	.926					
	Root Mean Square Error of approximation (RMSEA) <sup>e</sup>	.053					
	P-close	.165					

Note: <sup>a</sup> CFI values of 0.90 and above testifies strong scale unidimensionality

<sup>b</sup> RFI values close to 1 indicate a very good fit

<sup>c</sup> NFI values of 0.90 and above testifies strong scale convergent validity

<sup>d</sup> TLI analysis of moment structures. TLI values close to 1 indicate a very good fit.

<sup>e</sup> RAMSEA value of about 0.08 or less would indicate a reasonable error of approximation

Table 5.15 illustrates that three constructs were created and each has three factor attributes from the perspective of amils and zakat recipients, namely (1) close relationship (2) efficiency distribution and, (3) trust in system and institutions. As for the close relationship's construct, there are three factor attributes namely immediate solution of problems, ability to identify economic potentials and simplified bureaucratic process for which all values of standardized factor loadings for the observed variables were 0.878, 0.837 and 0.810, respectively. Hence, in the case of amils, the highest standardized factor loading is 0.878 for the direct effect 'immediate solution of problems' effect to close relationship, and in the case of zakat recipients, the highest standardized factor loading is 0.756 for the direct effect 'immediate solution of

problems' effect to close relationship, and also the same factor attribute in the case of amils. For the other two constructs: (1) Efficiency, in the case of amils, the highest standardized factor loading is 0.837 for the direct effect promoting the local economy to 'efficiency', and 0.687 for the direct effect quick distribution to 'efficiency' in the case of zakat recipients. (2) Trust in systems and institutions, in the case of amils, the highest standardized factor loading is 0.843 for the direct effect more reliable effect to 'trust in systems and institutions' and it also reveals the same factors in the case of zakat recipients (0.779).

Table 5.15 points out the first stage of CFA to confirm all variables to be analyzed in the next step. The goodness of fit of the model also shows that this model is good to be analyzed as shown by several indicators, namely; CFI = 0.950; RFI = 0.913, NFI = 0.942; TLI = 0.926, RMSEA = 0.053. Following the guidelines recommended by the scholars (Byrne, 2001; Hair et al., 2006), CFI threshold of more than 0.92 and RMSEA threshold of less than 0.07 reflects a good model fit. All three items have another three sub items for the same case for the amils and zakat recipients. However, it is important to analyze which of these factors would significantly influence perception and it could be done through the second stage of CFA approach.

Table 5.16 depicts the standardized path coefficient to compare directly the standardized direct effect between amils and zakat recipients. Initially, this study found that this model reflects a good model fit based on several criteria, namely CFI = 0.950; RFI = 0.913, NFI = 0.942; TLI = 0.926, RMSEA = 0.053 (Byrne, 2001; Hair et al., 2006). From the results obtained, it could be concluded that this model has a good level of fitness and valid to be analyzed further.

From Table 5.16 it is evident that the regression analysis shows that all factor loadings are significant at the 0.01 level. Factor loadings estimate the direct effects of factors on indicators and are interpreted as regression coefficients (Kline, 2011; p.231). In the case of amils, the unstandardized factor loading is 0.433 for the direct effect localization to close relationship, and this study predicts a 0.433-point increase on close relationship construct given a 1-point increase in factor localization. Next, the unstandardized factor loading is 0.403 for the direct effect localization to efficiency, and there is a 0.403-point increase on efficiency construct given a 1-point increase in factor localization. Finally, the unstandardized factor loading is 0.430 for the direct effect localization to trust, and this study predicts a 0.430-point increase on trust in system and institutions construct given a 1-point increase in factor localization. This result shows that the effects of localization on close relationship (0.433), is much greater than the effects on trust in system and institution (0.430) and efficiency (0.403) from the amils' perspective.

In the case of zakat recipients, the unstandardized factor loading is 0.365 for the direct effect of localization to close relationship. This study expects a 0.365-point increase in close relationship construct, given a 1-point increase in factor localization. The unstandardized factor loading is 0.413 for the direct effect localization to efficiency. There is then a 0.413-point increase in efficiency construct, given a 1-point increase in factor localization. Finally, the unstandardized factor loading is 0.393 for the direct effect localization to trust in system and institutions, and this study expects a 0.393-point increase in trust in system and institutions construct, given a 1-point increase in factor localization. Thus, the result shows that the effects of localization on efficiency (0.413) would be much greater than the effects on trust in system and institution (0.393) and close relationship (0.403), from the zakat recipients' perspective.

**Table 5.16: Maximum Likelihood Estimates for a Three-Factor Model of localization**

Parameter	Amil		Zakat Recipients		Overall	
	Unstandardized	Standardized	Unstandardized	Standardized	Unstandardized	Standardized
<i>Factor loadings</i>						
Close relationship	.433* (.030)	.823	.365* (.026)	.770	.395* (.020)	.793
Efficiency	.403* (.034)	.847	.413* (.026)	.979	.410* (.020)	.920
Trust in system & institutions	.430* (.031)	.864	.393* (.025)	.936	.405* (.019)	.895
Comparative fit index (CFI) <sup>a</sup>	.950					
Bollen Relative fit index (RFI) <sup>b</sup>	.913					
Bentler Bonett coefficient (NFI) <sup>c</sup>	.942					
Tucker-Lewis coefficient (TLI) <sup>d</sup>	.926					
Root Mean Square Error of approximation (RMSEA) <sup>e</sup>	.053					
p-close	.165					

Note: ( ) standard error

<sup>a</sup> CFI values of 0.90 and above testifies strong scale unidimensionality

<sup>b</sup> RFI values close to 1 indicate a very good fit

<sup>c</sup> NFI values of 0.90 and above testifies strong scale convergent validity

<sup>d</sup> TLI analysis of moment structures. TLI values close to 1 indicate a very good fit.

<sup>e</sup> RAMSEA value of about 0.08 or less would indicate a reasonable error of approximation

\* significant at the 0.01 level

The findings clearly show that: (1) all indicators have relatively high standardized factor loadings ( $>0.70$ ), indicating good psychometric characteristics (Kline, 2011; p.232); (2) from the perspective of amils. The trust factor has relatively high standardized factor loading compared to other parameters, whereas from the standpoint of zakat recipients, 'efficiency' emerge with relatively high standardized factor loading. Both factors have a high correlation to the consensus on the concept of localization and (3) a good model of CFA should explain majority of the variance ( $R^2_{smc} >.50$ ). In this study the CFA model is deemed as good because all indicators have  $R^2_{smc} >.50$ . For instance, close relationship standardized loading factors for amils and zakat recipients are 0.823 and 0.770, respectively. Therefore, the proportions of explained variance ( $R^2_{smc}$ ) are respectively,  $0.823^2 = 0.677$  and  $.770^2 = 0.593$ .

### **5.6.1 Discussion of Findings**

The findings of this study reveal that there are three groups of factors that influence the concept of localization. These factors are close relationship, efficiency and trust in the system and institutions of zakat. All these factors significantly affect the localization variable and the model achieved a goodness of fit. The coefficient value indicates that the main factor that influenced the zakat recipients to agree to the concept of localization is close relationships.

On the other hand, for the amils, trust in the system and institutions was the motivating determinant. The amils are of the view that improvement in the image of the zakat institutions should be pursued. Confidence and trust in the institutions by the Muslim community is paramount, which could be enhanced through the localization of zakat management. This proposition is supported by the study by Young-Ybarra and Wiersema, (1999). The zakat recipients were more concerned about relations and



politics, probably arising from several factors, including difficulty in meeting the state amils, bureaucratic procedures, geographical distance between the zakat recipients and the zakat institutions (see Muhammad Syukri, 2006). This study posits that zakat institutions should improve their management, especially distribution of zakat and the development of zakat recipients by improving their conditions of living and quality of their life through their income levels.

The next part delves on the proposition that religiosity factor is of utmost important consideration in zakat management, especially as a tool to alleviate poverty. Therefore, this study advocates that amils and zakat institutions focus on the religiosity factor to overcome the problem of poverty by initiating changes in attitude and improving the quality of life among the zakat recipients. Understandably, religiosity increases an individual's participation in social activities that would improve relationships among the members of the society and have a positive impact on mental health, leading to an improvement in the individual's level of satisfaction. This study examines the relationships among the other variables except religiosity, to determine that all these factors have a significant relationship among them. However, prior to that, it is necessary to establish that localization of zakat distribution could be a good solution in the zakat management system or known as a belief system that somehow relates to the political economy.

## **5.7 THE RELATIONSHIP BETWEEN ASNAF'S ATTITUDE TO CHANGE, QUALITY OF LIFE, PERCEPTION TOWARDS ZAKAT MANAGEMENT AND LOCALIZATION**

Based on Table 5.17 and Figure 5.5, it could be assumed that the quality of life of the poor is generally quite satisfactory. In reviewing the responses, 61.2 per cent of

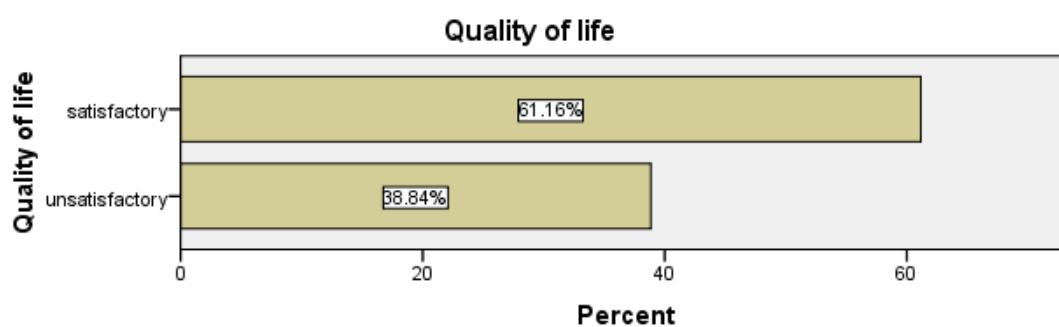
the poor were satisfied with their quality of life. When compared to other indicators on quality of life, relatively lower levels of satisfaction were recorded for transportation and communication; health and medical care; and, housing and shelter. Thus, it could be concluded that the poor still do not fully enjoy a satisfactory standard of living.

**Table 5.17: Distribution of Quality of Life (QOL)**

Quality of Life <sup>1</sup>	Satisfactory (%)	Unsatisfactory (%)
Food and Clothing	75.3	24.7
Transport & Communication	64.9	35.1
Health	59.5	40.5
Child Education	73.6	26.4
Housing	67.7	32.3
Participation	83.4	16.6
<b>Overall<sup>2</sup></b>	<b>61.2</b>	<b>38.8</b>

Note: 1 Likert scale 1 = unsatisfactory, 2 = good, 3 = very good

2 The overall quality of life



**Figure 5.5: The quality of life of zakat recipient**

This could be due to several reasons such as increasing medical costs and relatively higher cost of housing in major cities, especially in Penang and Kuala Lumpur. Many of the zakat recipients in urban areas live in flats, cheap or low cost houses where the quality of housing are generally poor hence, creating discomfort and dissatisfaction amongst the dwellers compared to those living in villages. Furthermore, those who have large families could also contribute to the perception of dissatisfaction. Only 75.3 per cent of the respondents were satisfied with the quality of life, in terms of food and clothing which represent the basic human needs. However, 83.4 per cent of the respondents were satisfied with the quality in terms of social participation, indicating that they were not marginalized and probably were more active in community activities.

**Table 5.18: Attitudes of Zakat Recipient (ATD)**

Item	Yes	No
Want to be a zakat payers	580 (84.9)	103 (15.1)
Interested in applying zakat capital	492 (75.1)	163 (24.9)

Note: ( ) per cent of the total respondents

Based on Table 5.18, majority of the poor and the needy, that is 84 per cent had a positive attitude and the desire to change and did not wish to remain as zakat recipients, Only 16 per cent of respondents thought otherwise. This group comprised the aged and elderly respondents, widows and those with health problems. For those who want to change their lives, the zakat institution in each state in Malaysia currently offers them zakat capital as seed money to start small- scale business. The findings of this study indicate that 75.1 per cent of respondents were interested in obtaining zakat capital to become entrepreneurs compared to 24.9 per cent who were not interested.

**Table 5.19: The first stage of CFA (CFA first order) of trust in institution**

Variable group	Item	Factor Loading	
		1	2
Islamic Institution (3 items)			
Dept. of Islamic Development Malaysia. (JAKIM)	X <sub>10</sub>	.868	
State Islamic Religious Council (SIRC)	X <sub>14</sub>	.872	
The Mosque	X <sub>17</sub>	.778	
zakat institution (2 items)			
The State Zakat Institution	X <sub>11</sub>		.800
The State <i>Baitul mal</i>	X <sub>12</sub>		.660
Comparative fit index (CFI) <sup>a</sup>	.991		
Bollen Relative fit index (RFI) <sup>b</sup>	.957		
Bentler Bonett coefficient (NFI) <sup>c</sup>	.989		
Tucker-Lewis coefficient (TLI) <sup>d</sup>	.966		
Root Mean Square Error of approximation (RMSEA) <sup>e</sup>	.074		
p-close	.101		

Note: <sup>a</sup> CFI values of 0.90 and above testifies strong scale unidimensionality

<sup>b</sup> RFI values close to 1 indicate a very good fit

<sup>c</sup> NFI values of 0.90 and above testifies strong scale convergent validity

<sup>d</sup> TLI analysis of moment structures. TLI values close to 1 indicate a very good fit.

<sup>e</sup> RAMSEA value of about 0.08 or less would indicate a reasonable error of approximation

CFA first order for trust in religious institutions was tested and this study discovered that there are two groups of institutions, namely, Islamic institutions that focus on general Islamic practices and the Islamic institutions that focus on zakat. Table 5.19 illustrates that the model has a good model fit where CFI = 0.991; RFI = 0.957; NFI = 0.989; TLI = 0.966 and RMSEA = 0.07. However, to test the overall model for goodness of fit, only two institutions were identified, namely, the Department of Islamic Development Malaysia (JAKIM), which represents the general Islamic institutions and the State *Baitul Mal*, which are the zakat institutions.

Table 5.20 illustrates that the majority of recipients trust the Islamic institutions in developing Islam. However, there are several respondents (not exceeding 1 per cent) who are inclined to believe that the Islamic institutions are not doing enough. Despite the relatively small percentage, it is pertinent that the Islamic institutions boost public confidence towards their role in developing Islam in Malaysia.

**Table 5.20: Trust in religious institutions (INS)**

Institutions	Not Believing	Believe	Strongly Believe
Department of Islamic Development Malaysia (JAKIM)	4 (0.6)	202 (29.6)	477 (69.8)
The state <i>Baitul mal</i>	4 (0.6)	299 (43.6)	382 (55.8)

Note: ( ) per cent of the total respondents

Table 5.21 depicts the level of agreement to the proposal of localization by the zakat recipients. Localization of zakat management was proposed by Muhammad Syukri (2006) as an alternative solution to overcome the problems encountered in distribution of zakat. The localization process would easily facilitate zakat distribution to the zakat recipients. Local amils at the district or village levels as well at particular localities could be appointed on permanent basis to enable them to perform their work professionally, especially to develop the personality of zakat recipients and introduce

various programs to develop the aspect of religiosity (RI) and encourage self-motivation (entrepreneurship). Although this concept is new and still at the proposal stage, the study by Hairunnizam et. al. (2010) found that the majority, almost 80 per cent of respondents, concurred with the concept of zakat localization compared to 20 per cent who disagreed.

**Table 5.21: Agreement on the concept of Localization (LOC)**

Factor <sup>1</sup>	Disagree	Agree
Close relationship	136 (19.8)	551 (80.2)
Efficiency	138 (20.1)	549 (79.9)
Trust in system & institutions	136 (19.8)	551 (80.2)

Note: ( ) per cent of the total respondents

<sup>1</sup>The formation using second factor of the CFA.

The following analysis using Model I examines the relationship between each component and this study advocates that localization could be a viable strategy to improve zakat distribution. Following this validation, the religiosity variable is fitted into the initial SEM Model I and renamed as Model II. Preceding the analysis, correlation analysis among the variables was conducted to ensure that all variables have significant relationships among them. The results are tabulated Table 5.22.

**Table 5.22: Correlation matrix of manifest variables used in the theoretical SEM: Model I**

Variables	(1)	(2)	(3)	(4)	(5)
(1) Trust	-				
(2) Perceived zakat distribution	.416**	-			
(3) Attitude	.155**	.408**	-		
(4) Quality of life	.082*	.659**	.504**	-	
(5) Localization	.295**	.486**	.217**	.427**	-

Note: n= 687, \* p<0.1; \*\* p<0.01

Table 5.22 presents the correlation matrix of those manifest variables in Model I. The variables representing each of the five major factors have coefficients ranging from 0.082 to 0.659. Indeed, the correlation coefficients between localization and the

other four main variables were significant, fulfilled the unidimensionality assessment and permitted further analysis. For example, the coefficient for localization and trust; localization and perceived zakat distribution; localization and attitude; and, localization and quality of life were 0.295, 0.486, 0.217 and 0.427, respectively. Each major factor was statistically correlated to localization at the 0.01 level of significance. Therefore, all manifest variables are analyzed in the subsequent structural equation modeling based on correlation analysis and existing literature.

Table 5.23 and Figure 5.6 present the maximum likelihood estimates for the recursive path model of zakat distribution (Model I). Based on Model I, this study initially concludes that localization of zakat distribution is a good solution to be implemented by zakat institution. Based on Figure 5.6, the quality of life of zakat recipients as an output significantly influences localization as an opinion factor in Model I.

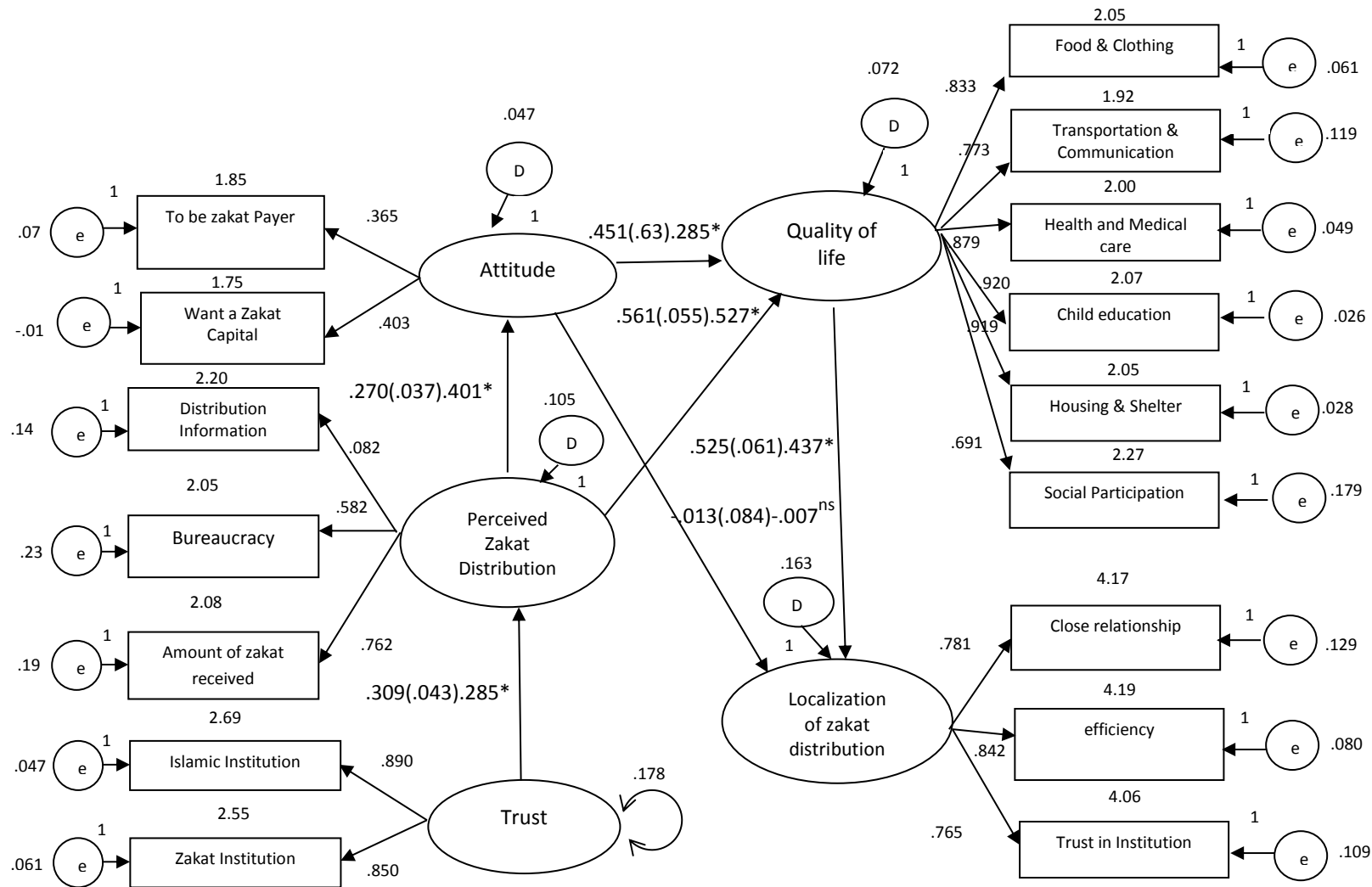
**Table 5.23: Maximum likelihood estimates for a recursive path model of zakat distribution (Model I)**

Parameter	Unstandardized	SE	Standardized
<u>Direct effects</u>			
Trust → Perceived zakat distribution	.309*	.043	.285
Perceived zakat distribution → Attitude	.270*	.037	.401
Perceived zakat distribution → Quality of life	.561*	.055	.527
Attitude → Quality of life	.451*	.063	.285
Quality of life → localization	.525*	.061	.437
Attitude → localization	-.013	.084	-.007
<u>Disturbance variances</u>			
Trust	.178*	.020	
Perceived zakat distribution	.105*	.014	
Attitude	.047*	.006	
Quality of life	.072*	.006	
Localization	.163*	.015	

Note: n= 687, \* p<0.01; CFI=.923; NFI=.910; TLI=.893; RMSEA= .066

The findings depict that a 1-point increase in quality of life results in a 0.525-point increase in the localization variable. The estimated standard error for this direct

effect is 0.061 (Table 5.23), so  $t = 0.525/0.061 = 8.60$ , which is statistically significant at the 0.01 level. The unstandardized path coefficient for the direct effect of attitude on localization is -0.013. Thus, when attitude goes up by 1 unit, localization goes down by 0.013 units. On the other hand, the standardized regression weight of attitude on localization is -0.07, which indicates that when attitude goes up by 1 standard deviation, localization goes down by 0.07 standard deviations. However, the estimated standard error is 0.084, so  $t = -0.013/0.084 = 0.015$ , which is statistically not significant at the 0.01 level. Next, the unstandardized path coefficient for the direct effect of perceived zakat distribution on quality of life is 0.561. Thus, a 1-point increase in perceived zakat distribution generates a 0.561 increase in quality of life and is statistically significant at the 0.01 level. On the other hand, the standardized regression weight of perceived zakat distribution on quality of life is 0.527, which indicates that when perceived zakat distribution goes up by 1 standard deviation, quality of life goes up by 0.53 standard deviations. The unstandardized path coefficient for the direct effect of trust on perceived zakat distribution is 0.309. Thus, a 1-point increase in trust predicts a 0.309 increase in perceived zakat distribution and is statistically significant at the 0.01 level. The standardized regression weight of trust on perceived zakat distribution is 0.285. When trust goes up by 1 standard deviation, perceived zakat distribution increases by 0.28 standard deviations.



Note: Structural model for a structural regression model of zakat distribution and localization. Estimates are reported as unstandardized (standard error) standardized. The unstandardized estimates are all significant at the .01 level except for those designated “ns” which means not significant. CFI=0.914; NFI=0.893; RFI=0.847; TLI=0.877; RMSEA=0.08. CFI = 0.923, NFI = 0.910; RFI = 0.875; TLI = 0.893, RMSEA = 0.066. \*\*p<0.05, p\*\*\*<0.01. All common coefficients, intercepts and covariances for measurement model are significant at 1% level (asterisks omitted).

**Figure 5.6:** Comparison of the coefficient for SEM among the five components by the zakat recipient (Model I)



This study also analyzes the mediating variable in Model I. As illustrated in Figure 5.6, both attitude and quality of life are said to play a mediating role in linking perceived zakat distribution to quality of life, as well as a mediating role in linking attitude and localization. Based on Figure 5.6, this study concludes that the construct attitude does mediate the relationship between perceived zakat distribution and quality of life. The type of mediation here is partial mediation since perceived zakat distribution has both significant direct effect on quality of life and significant indirect effect on quality of life through the mediator variable, namely attitude. Further, this study also concludes that the construct quality of life does mediate the relationship between attitude and quality of life. The type of mediation here is full mediation since relationship between attitude (a predictor) and localization (an outcome) variable becomes insignificant after a mediator (quality of life) is entered as an additional predictor.

Finally, this model fits the observed data and the fit indices show good indicators for the model (CFI=0.923 and RMSEA=0.066). Adopting the guidelines of the scholars (Byrne, 2001; Hair et al., 2006), for complex models (i.e. five latent constructs, 16 total indicators and 687 sample size (n=687), CFI threshold of more than 0.92 and RMSEA threshold of less than 0.07 reflects a good fit.

### **5.7.1 Discussion of Findings**

This study observes that all variables, namely trust in Islamic institution (input factor), perceived zakat management (process factor), asnaf's attitude to change and asnaf's quality of life (output factor) as well as proposed localization of zakat distribution (opinion factor) have significant relationship amongst the variables in a political economy. This study lends support to the study by Lucy et al (1977) and

Mikami & Inoguchi (2008) and is congruent with the performance measurement model in zakat management employed by Abd Halim (2011).

A primary concern is the zakat recipients' attitude towards embracing changes and improving their quality of life. It should reflect the effectiveness of zakat distribution by the institutions. However, the findings of this study indicate that the existing quality of life of zakat recipients is generally low. This could be interpreted from the mean value of quality of life of zakat recipients. The study also finds that the quality of life is much better for social participation where the mean value is relatively higher (2.27) compared to that of clothing and food (2.05), housing and shelter (2.05), health and medical care (2.00), child education (2.07) and finally, transport and communication (1.92).

Ironically, the quality of life with regards to transportation and communication for the poor and the needy is below the mean average of 2.0, while health and medical care is at an average of 2.0. This finding shows that they are not satisfied with both these items. Even then, the mean values for basic necessities such as food and clothing and housing and shelter, are just at par and a little bit above the average level. In fact, quality of life with regards to housing and shelter was the biggest contributor in terms of factor loading and presented the highest coefficient in quality of life, compared to others. On the other hand, the attitude of the poor and the needy allude that they generally intend to become zakat payers in future and not always remain as zakat recipients. This is supported by the study by Syed Husin (1978) and Azhana & Abd Halim (2012) that reveal that the poor harbor the intention to change their life if they are given assistance in the form of economic inputs such as land or capital. The mean value of item such as 'want to change their attitude' is 1.85 and the item 'interested to apply

for zakat capital' has mean value of 1.75, which is very close to the maximum value of 2.0. This indicates that these people are interested to become entrepreneurs.

This study reveals a number of issues that require attention of zakat institutions. Trust in Islamic institutions in Malaysia is considered to be at a low level among amils and zakat recipients. In fact, the role of *Baitul Mal* is still considered relatively weak compared to other institutions like JAKIM and SIRC. Thus, *Baitul Mal* should enhance its efforts, particularly its role in managing zakat, waqf, etc. to earn the full trust of the Muslim community. It should be noted that the role of institutions is vital in implementing policy decisions in a system. The institutions should improve their efficiency in zakat management and administration, which would ultimately increase public's confidence in *Baitul Mal*. It could boost confidence among the zakat payers that could manifest in an increase in zakat collections and a reduction in leakages in the collections through unofficial channels (Sanep et al. 2005a). Increasing trust towards the institutions would increase the effectiveness of zakat management.

Quality of life and attitude of zakat recipients is an important objective in the process of zakat distribution as it ensures the effectiveness of zakat distribution. However, the study discovered that the overall quality of life of the poor and the needy is still not satisfactory, especially health and medical care and transportation and communication. Quality of life of zakat recipients, in terms of housing and shelter, should also be given utmost attention since it is a basic human need. Zakat recipients should be encouraged to improve their lives as well as of their descendants. They could introduce entrepreneurship training and provide capital to the zakat recipients to induce a change of attitude and instill positive thinking.

The study found that many zakat recipients are keen to change their lives and become entrepreneurs through zakat capital. However, a continuous monitoring process to ensure progress of this program should be done systematically by the zakat institutions. This is because several studies have shown that many zakat entrepreneurs fail to succeed in their businesses (Nor Ghani et.al, 2002; Rosbi et. al, 2008). This study also found that when the zakat recipients change their attitude and become positive individuals, their quality of life improves significantly. Therefore, the strategy to change the attitude or mindset of zakat recipients is an important agenda that must be implemented by the zakat institutions. Change in attitude could possibly occur because of two factors, namely, the level of religiosity among zakat recipients (see Hairunnizam et. al, 2010b) and self-motivation through motivational talks, training, upgrading entrepreneurship knowledge and skills. In fact, a study done by Hairunnizam et. al. (2010b), suggest that the localization of zakat distribution should focus on developing the interpersonal skills, religiosity and sense of responsibility among zakat recipients. This study has confirmed the findings by Muhammad Syukri (2006) that localization (as the opinion factor) has a significant impact (Lucy et al, 1977; Mikami & Inoguchi, 2008) specifically on asnaf's attitude and quality of life. The proposed localization of zakat distribution could be a significant potential solution to overcome the problems in the zakat management, as confirmed by Muhammad Syukri (2006).

This scenario would possibly improve the effectiveness of zakat programs implemented by the zakat institutions, especially in zakat distribution. Therefore, could religiosity be a significant variable in changing the attitude of zakat recipients? Does localization significantly influence religiosity of the zakat recipient? This study tests the hypothesis empirically in the next part.

## **5.8 THE RELATIONSHIP BETWEEN RELIGIOSITY AND OTHER VARIABLES**

Table 5.24 shows the religiosity index (RI), which is the focus of discussion in this section. It is an index, as measured by equations (4.1), (4.2), (4.3) and (4.4). According to Naziruddin and Shabri (2003; p.47), the highest index that could be achieved is 100 and the lowest is -100. Based on the results, the majority of respondents (60.1 per cent) achieved the overall value of RI between 91 and 100, while only 0.3 per cent of respondents achieved index below 20. Almost 10.8 per cent of respondents were in the RI of less than 50 per cent and the remaining respondents had more than 50 per cent RI.

Generally, the result shows that respondents possess strong faith. However, if this study calculates the average value of RI, it shows that the average RI is 86.23 points and almost 21.7 per cent respondents are below average. There are two states that indicate an index much lower than the average total RI in all six states, namely FT Kuala Lumpur and Malacca. In FT Kuala Lumpur and Malacca, almost 50 per cent and 45 per cent, respectively of the respondents in each state have a total RI below the average 86.26 points. It clearly shows that in some states, the level of religiosity of zakat recipients, especially the poor and needy, is still low and the zakat institution should map a good strategy to overcome this issue.

**Table 5.24: Religiosity Index (RI) for zakat recipient<sup>1</sup>**

Index <sup>2</sup>	States						Total Respondents	(%)
	Selangor	Penang	FT Kuala Lumpur	Malacca	Terengganu	Kedah		
<b>Below than 20</b>	0	0	1	1	0	0	2	0.3
<b>21-30</b>	0	0	0	1	0	0	1	0.1
<b>31-40</b>	0	0	9	13	3	0	25	3.6
<b>41-50</b>	0	0	22	20	5	0	47	6.8
<b>51-60</b>	0	0	0	2	6	0	8	1.2
<b>61-70</b>	0	0	18	6	1	0	25	3.6
<b>71-80</b>	0	0	15	8	19	0	42	6.1
<b>81-90</b>	4	16	3	2	26	73	124	18.0
<b>91-100</b>	65	85	62	60	111	30	413	60.1
<b>Total Respondents</b>	<b>69</b>	<b>101</b>	<b>130</b>	<b>113</b>	<b>171</b>	<b>103</b>	<b>687</b>	<b>100.0</b>

Note: <sup>1</sup> KW + KH + KS

<sup>2</sup> RI = 86.23 in average; 21.7 % respondents are below than average

The issue is how to increase the level of religiosity among the asnafs. Could localization increase the level of religiosity of asnafs to make sure all asnaf have good faith and is a good strategy to overcome the problem of poverty? This study believes that localization through the role of local amils and the local mosques could enhance the level of religiosity of the poor and needy in that area. This issue would be discussed further in the next part in this chapter. The subsequent analysis examines the relationship between each variable as mentioned before. However, initially, the correlation analysis is done to ensure that all variables have significant relationships among them.

**Table 5.25: Correlation matrix of manifest variables used in the theoretical SEM: Model II**

Variables	(1)	(2)	(3)	(4)	(5)	(6)
(1) Trust	-					
(2) Perceived zakat distribution	.412**	-				
(3) Attitude	.165**	.411**	-			
(4) Quality of life	.083*	.660**	.510**	-		
(5) Localization	.295**	.486**	.221**	.427**	-	
(6) Religiosity	.343**	.187**	.174**	.129**	.256**	-

Note: n= 687, \* p<0.1; \*\* p<0.01

Table 5.25 presents the correlation matrix of those manifest variables used in the Model II. All manifest variables, representing each of the six major factors, show the correlation's value ranging from 0.083 to 0.660. More interestingly those correlation coefficients between religiosity and other five main variables were statistically significant at 0.01 level indicating that this model that includes the religiosity factor met unidimensionality criteria and could be analyzed further. For example, the coefficients for religiosity and trust; religiosity and perceived zakat distribution; religiosity and attitude; religiosity and quality of life; and religiosity and localization were 0.343, 0.187, 0.174, 0.129 and 0.256, respectively. Therefore, all

manifest variables are analyzed in Model II, in the structural equation modeling based on the correlation analysis and existing literature.

**Table 5.26: Maximum likelihood estimates for a recursive path model of zakat distribution and Religiosity factor (Model II)**

Parameter	Unstandardized	SE	Standardized
<b>Zakat management model</b>			
<u>Direct effects</u>			
Trust → Perceived zakat distribution	.322**	.043	.368
Perceived zakat distribution → Attitude	.267**	.036	.391
Perceived zakat distribution → Quality of life	.570**	.055	.536
Attitude → Quality of life	.460**	.063	.296
Quality of life → localization	.547**	.064	.455
Attitude → localization	-.046	.087	-.025
<b>Religiosity</b>			
Trust → Religiosity	13.754**	1.975	.297
Religiosity → Attitude	.001*	.001	.082
Religiosity → Quality of life	-.001	.001	-.066
Localization → Religiosity	8.227**	1.863	.199
<u>Disturbance variances</u>			
Trust	.160**	.016	
Perceived zakat distribution	.106**	.014	
Attitude	.047**	.006	
Quality of life	.072**	.006	
Localization	.163**	.015	
Religiosity	297.0**	16.4	

Note: n= 687, \* p<0.1; \*\* p<0.01; CFI=.920; NFI=.906; TLI=.887; RMSEA= .065

Table 5.26 and Figure 5.7 present the maximum likelihood estimates for a recursive path model of zakat distribution and religiosity. Based on this table, the result shows that 1-point increase in trust would lead to a 13.754-point increase in the religiosity variable. The estimated standard error for this direct effect is 1.975 (Table 5.26), so  $t = 13.75/1.975 = 6.96$ , which is statistically significant at the 0.01 level. On the other hand, for the standardized regression weight, when trust goes up by 1 standard deviation, religiosity goes up by 0.29 standard deviations. On the other hand, the unstandardized path coefficient for the direct effect of religiosity on attitude is 0.001. Thus, a 1-point increase in religiosity predicts only a 0.001 increase in attitude. The estimated standard error is statistically significant at the 0.05 level. Next, the



unstandardized path coefficient for the direct effect of localization on religiosity is 8.227. Thus, a 1-point increase in localization would result in an 8.227 increase in religiosity and it is statistically significant at the 0.01 level. The value of standardized regression weight is 0.199 indicates that when localization goes up by 1 standard deviation, religiosity increases by 0.19 standard deviations. Last but not least, the unstandardized path coefficient for the direct effect of religiosity on quality of is -0.001 and it is statistically insignificant at the 0.01 level.

This model fits the observed data and the fit indices show good indicators for the model (CFI = 0.920; NFI= 0.906; and RMSEA=0.065). Following the guideline by the scholars (Byrne, 2001; Hair et al., 2006), for the complexity of this model (i.e. five latent constructs, 17 total indicators and 687 sample size (n=687), CFI threshold of more than 0.92 and RMSEA threshold of less than 0.07 reflects a good model fit.

**Table 5.27: Fitness statistics for Model I and Model II**

Model	Sample, n	CFI <sup>a</sup>	NFI <sup>b</sup>	TLI <sup>c</sup>	RMSEA <sup>d</sup>	PNFI <sup>e</sup>	AIC <sup>f</sup>	ECVI <sup>g</sup>
Model I:	687	.923	.910	.893	.066	.656	727.5	1.061
Model II:	687	.920	.906	.887	.065	.645	783.8	1.143

Note: <sup>a</sup> CFI values of 0.90 and above testifies strong scale unidimensionality

<sup>b</sup> NFI values of 0.90 and above testifies strong scale convergent validity

<sup>c</sup> TLI analysis of moment structures. TLI values close to 1 indicate a very good fit.

<sup>d</sup> RAMSEA value of about 0.08 or less would indicate a reasonable error of approximation

<sup>e</sup> PNFI with higher values indicating a more parsimonious fit

<sup>f, g</sup> smaller than AIC and ECVI for comparison model

Table 5.27 presents the comparison fitness statistics between Model I (localization as an opinion) and Model II (influence on religiosity). Generally, it is good to look into the descriptive measure, based on model comparisons using some comparison indices such as NFI, CFI and TLI and descriptive measures of model parsimony such as Parsimony Normed Fit Index (PNFI), the Akaike Information Criteria (AIC) and the Expected Cross-Validation Index (ECVI) to decide the best model. Parsimony is considered to be important in assessing the model fit and serves as

a criterion for choosing between alternative models (Hu & Bentler, 1995; Mulaik, et.al, 1989; Schermelleh-Engel et. al, 2003; p.43). Therefore, based on all criteria as discussed earlier, this study is of the view that both model fits are sufficient. For Model I, this study made minimum modifications<sup>74</sup> to the original study by Mikami and Inoguchi (2008), so that sufficient model fit could be achieved. As the initial Model I was sufficient, this study incorporated religiosity variable (Model II). This model fit is still considered sufficient when compared to the study by Mikami & Inoguchi (2008)<sup>75</sup>.

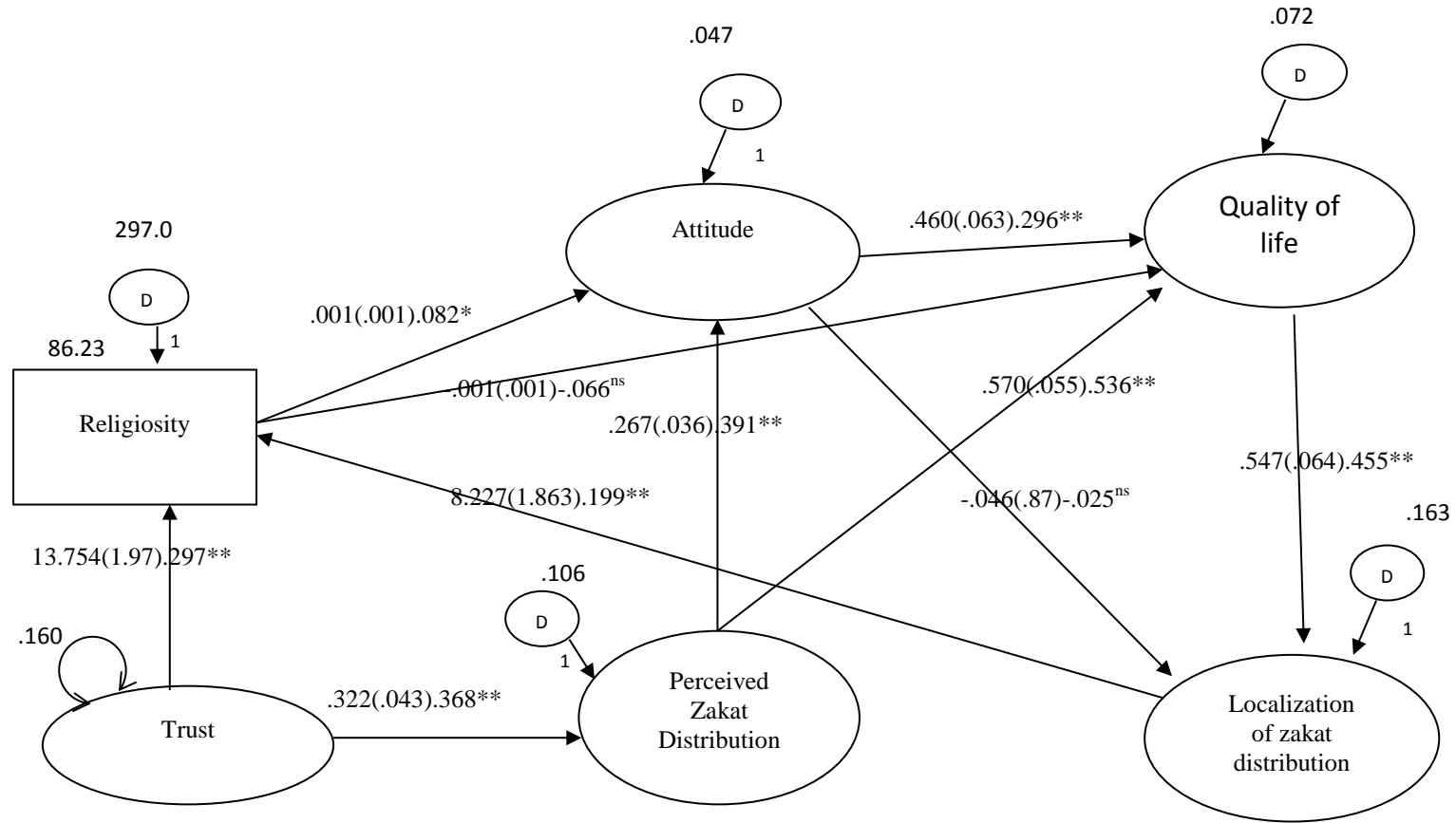
### **5.8.1 Discussion of Findings**

Several implications emerged in this study, namely (1) trust in Islamic institution (input factor) and localization (opinion factor) have strong effects on RI and this finding supports the hypothesis that religiosity (belief factor) has a significant direct effect on attitude and quality of life of asnaf (output factor). For instance, Table 5.26 shows that RI is strongly influenced by the trust in institution coefficient of 13.754 as compared to localization (8.227) and both variables are statistically significant at the 0.01 level; (2) in terms of output factor, the variable of attitude is significantly influenced by religiosity in which a unit increase in religiosity leads to an increase of only 0.001-point in attitude and is significant at the 0.01 level. However, this study discovers that the variable of quality of life is not significantly influenced by RI.

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<sup>74</sup> This study has dropped two exogenous variables; level of education and level of income

<sup>75</sup> Measurement model by Mikami & Inoguchi (2008) based on model comparison: Comparative fit index= 0.793; Root-mean-square residual = 0.036.



Note: The model was adapted from Mikami and Inoguchi, (2008)  
<sup>a</sup> factor attribute for each latent variables as seen in Model I

<sup>ns</sup> not significant  
 n= 687, \* p<0.1; \*\* p<0.01

**Figure 5.7:** Structural model for a structural regression model of zakat recipients in the zakat system to test relationship between religiosity indexes with other variable (Model II)

Therefore, this study reckons that religiosity (belief factor) has a significant direct effect only on attitude of asnaf (output factor); (3) the variable of attitude potentially becomes a full mediating variable because the unstandardized path coefficient for the direct effect of religiosity on quality of life is not significant; and religiosity is significantly correlated to attitude and attitude is significantly correlated to quality of life (Hair et. al, 2006; p.867).

However, the unstandardized indirect effect of religiosity on quality of life through attitude interactions is estimated as the product of the unstandardized coefficients for the same two paths, which is  $0.001 \times 0.460$  or  $0.00046$  (see Figure 5.26). The quality of life in its original metric is expected to increase by only  $0.00046$  points for every 1-point increase in religiosity and this figure is considered too small. However, based on Sobel test,  $z = 0.002154$  ( $SE=0.000464$ ) which leads to an acceptance of the null hypothesis that the total indirect effect is zero ( $\rho > .05$ ). Thus, this study concludes that the construct attitude does mediate the relationship between religiosity and quality of life. The type of mediation here is full mediation since relationship between religiosity (a predictor) and quality of life (an outcome) variable becomes insignificant after a mediator (attitude) is entered as an additional predictor.

If the zakat institutions wish to improve the quality of life (output factor), they have to initiate a strategy to change the attitude of zakat recipients. However, attitude of the zakat recipients could be enhanced if the respondents' attitudes are improved through their level of religiosity. Further, localization is expected to improve the level of religiosity through the role of the zakat institutions. Therefore, this study could be summarized as follows:

$$\text{Localization} \longrightarrow \text{Religiosity} \longrightarrow \text{Attitude} \longrightarrow \text{Quality of life} \quad (5.1)$$

The study also finds that religiosity level is considerably higher in terms of RI (index from 91-100) among the poor and needy in certain states, for instance, Selangor and Penang, which have fully corporatized zakat management and in Kedah that has yet to corporatize. However, in the other states i.e. FT Kuala Lumpur, Malacca and Terengganu, the RI of zakat recipients is still considered moderate because many of them are still below the average RI (86.3). However, it is observed that zakat recipients generally have a high level of religiosity to perform the mandatory *ibadah* and refrain from forbidden activities. They also have a strong commitment towards *Sunnah* activities, such as reading the Quran, praying in congregation (*jamaah*) in the mosque and fasting. Zakat institutions in some states like Selangor and Penang were able to maintain increased levels of religiosity in zakat recipients. This is due to religious lectures (*kuliyah*) held at the mosque exclusively for them.

This study proves that religiosity has significant indirect effects on attitude and quality of life. It shows that religiosity is very important not only in their lives but is the foundation for the way of life. High level of religiosity values would also bring about positive changes in the attitude of zakat recipients. It forms an important and integral part of positive change in the attitude of zakat recipients in improving their economic wellbeing. This study also proves that the value of religiosity has a significant indirect effect on quality of life. The increase in religiosity values would affect the attitudes of zakat recipients who want to change their status from zakat recipients to zakat payers in the long term. Once zakat recipients have positive attitudes, it would lead to increases in their income levels and ultimately, improve their quality of life. Zakat institutions should not only distribute the zakat fairly, but also plan religious programs for the poor and the needy, as well as motivational and entrepreneurship courses to change their

attitudes. This could be implemented by professional amils, as suggested by Mujaini (2011).

Changes in attitude, particularly among zakat recipients could be implemented through active involvement of amils at *mukim*, village or community levels, as suggested in this study. Amils at local levels should not only collect zakat and identify potential zakat recipients in particular villages but become involved in organizing programs proposed to be implemented at specific districts or villages (Muhammad Syukri, 2006). This is not only to ensure that zakat recipients are monitored more closely, but more importantly reflects the social aspect of being good Muslim, which is the basic philosophy of zakat. Basically, spirituality and religiosity are related to educational backgrounds and culture. The zakat recipients' background varies between regions, villages or states and it requires an experienced local amil to resolve issues that arise. This strategy could improve the quality of zakat management, not only in distributing the zakat but also financing religious programs through zakat funds collected. Finally, zakat recipients are expected to increase their level of spirituality and religiosity.

## **5.9 FACTORS INFLUENCING AMILS TO AGREE TO IMPLEMENT THE CONCEPT OF LOCALIZATION**

The study showed that the majority of amils are agreeable in principle to implement the concept of localization in zakat distributions. This study found that almost 82.2 per cent of amils agreed, 9.9 per cent strongly agreed whilst only 7.9 per cent did not agree with that concept.

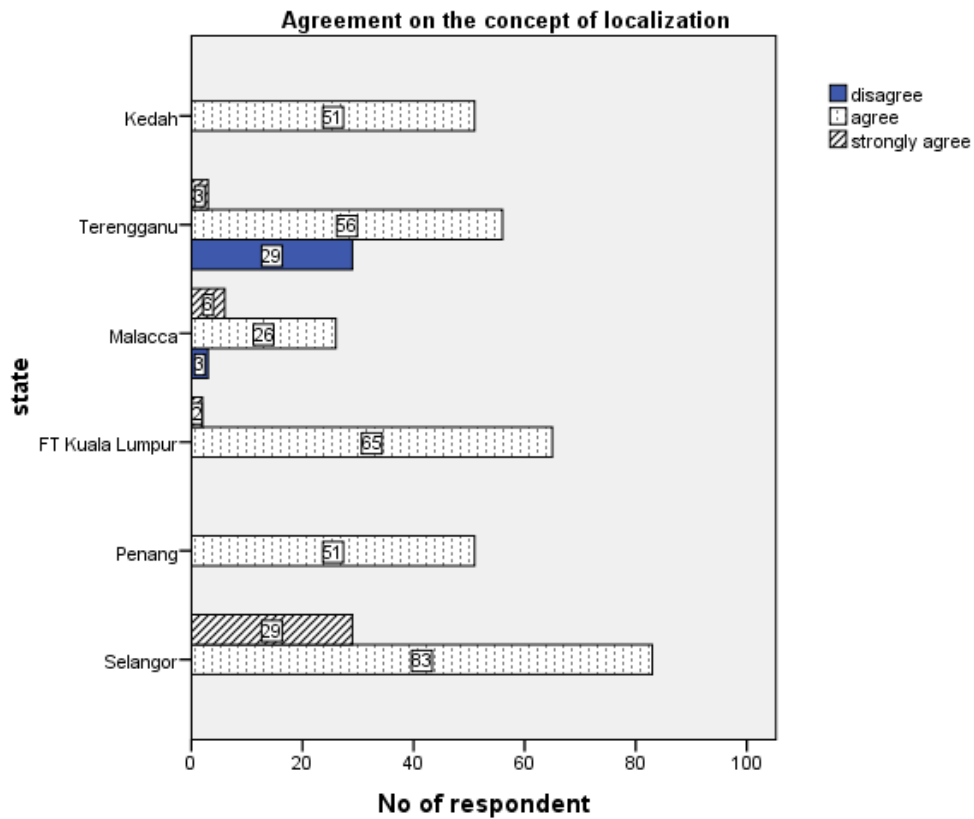
**Table 5.28: Agreement on the concept of localization by amil**

State	Disagree	Agree	Strongly agree
Selangor	0	83	29
Penang	0	51	0
FT Kuala Lumpur	0	65	2
Malacca	3	26	6
Terengganu	29	56	3
Kedah	0	51	0
<b>Total</b>	32	332	40
	<b>(7.9)</b>	<b>(82.2)</b>	<b>(9.9)</b>

Note: Pearson  $\chi^2$  test is significant at 1%  
( ) Percentage of the total respondents

The question arises, are they willing to perform and be responsible for implementing that concept in their respective localities? This study found that the majority of amils, which is 95.4 per cent, are willing to bear the responsibility of implementing the concept of localization compared to 4.6 per cent that are not willing to take this responsibility. With respect to additional allowances for amils, almost 88.3 per cent were interested in additional allowance compared to only 11.7 per cent who were not interested due to certain reasons, for instance, they revealed that their duty as amil was sincere and they performed their duties for the sake of Allah s.w.t.

What was their response to the offer of employment as full-time professional amils? Most of the amils interviewed were temporary and only performed their duties during the month of Ramadan. This study found that about 79.1 per cent of amils agreed whilst the balance 20.9 per cent was not interested to become full-time professional amils. Hence, it could be concluded that majority of amils are really interested in becoming full time professionals.



**Figure 5.8: Agreement on the concept of localization by amil**

Based on the third objective of the study, further analysis is required to examine the factors that influence the amils' interest and desire to implement this concept by using regression analysis. However, prior to that, it is necessary to determine the validity of the model.

**Table 5.29: Amil View**

State	Increased responsibilities as amil		Additional allowances to collect zakat		Amil full-time professional	
	Willing	Not willing	Interested	No interested	Interested	No Interested
Selangor	112	0	112	0	82	30
Penang	51	0	51	0	51	0
FT Kuala Lumpur	62	6	61	4	56	9
Malacca	34	6	30	6	25	11
Terengganu	81	7	48	37	46	31
Kedah	51	0	51	0	50	1
<b>Total</b>	<b>391</b>	<b>19</b>	<b>353</b>	<b>47</b>	<b>310</b>	<b>82</b>
	<b>(95.4)</b>	<b>(4.6)</b>	<b>(88.3)</b>	<b>(11.7)</b>	<b>(79.1)</b>	<b>(20.9)</b>

Note: Pearson  $\chi^2$  test is significant at 1%  
 ( ) Percentage of the total respondents



Table 5.30 displays the classification table that discloses the validity of the model. In total, more than 80 per cent of the responses from the amils were considered valid for all models studied. Model Va shows that the percentage of correct answers is 97.8 per cent denoting the highest level of validity compared to Model Vb (83.4%) and Model Vc (83.1%). This indicates that all the answers and responses from amils are considered valid and suitable for further analysis (see Table 5.30).

**Table 5.30: Logistic Regression Classification Table**

		Predicted		
		Not able to	Able	
Observation <sup>1</sup>	Not able to	0	8	
	Able	0	348	
Observation <sup>2</sup>		Not Professional	Professional	
	Not professional	24	51	
	Professional	6	263	
Observation <sup>3</sup>		Disagree	Agree	Strongly Agree
	Disagree	21	6	0
	Agree	9	274	8
	Strongly Agree	1	36	1

Note: Cutting point is 0.500

<sup>1</sup> Percentage true: Able = 100 %; not able = 0%; Overall = 97.8 %

<sup>2</sup> Percentage true: Professional = 97.8 %; Not professional = 32.0%; Overall = 83.4 %

<sup>3</sup> Percentage true: Disagree = 77.8 %; Agree = 94.2%; Strongly Agree= 2.6%; Overall = 83.1 %

According to Table 5.31, three models were developed and analyzed using logistic regression analysis. This technique of analysis was chosen because the dependent variables in all models are in terms of binary (0 or 1) for Model Va and Model Vb and multinomial (more than 2 value) for Model Vc. If Model Va is observed, only one variable, which is additional allowances, was found to be significant. This variable is positive and significant at the 0.05 level. The log of the odds ratio for additional allowance is 1.889. However, based on the model fit test using *Hosmer and Lemeshow* test, the *Chi-Square* value is 9.591 (sig= 0.295) with 8 degrees of freedom. Thus, this model is not significant and indicates that the model fit is acceptable. In

addition, the indicator of  $R^2$  depicts the variation of all variables to the model was very small, in the range of only 3.4 per cent to 17.4 per cent.

**Table 5.31: Regression Results**

Variable	Model Va	Model Vb	Model Vc	
			Agree	Strongly Agree
Constant/Intercept	-1.237 (0.926)	0.165 (1.247)	-3.658 (2.158)	-10.244* (2.886)
Age	-0.082 (0.303)	-0.254 (0.165)	0.088 (0.320)	-0.287 (0.356)
Level of Education (1)	0.455 (0.980)	2.025* (0.424)	0.993 (1.150)	0.443 (1.209)
Background Education (1)	0.380 (0.810)	-0.135 (0.393)	0.520 (0.644)	-0.013 (0.761)
Amil Experience	0.742 (0.450)	0.223 (0.202)	0.297 (0.314)	0.225 (0.388)
Additional allowances (1)	1.889* (0.939)	2.554* (0.521)	3.514* (0.730)	3.389* (1.019)
Corporate (1)	-1.237 (0.926)	-0.774* (0.451)	2.967* (1.093)	4.848* (1.248)
Frequency attending mosque	-0.129 (0.427)	-0.109 (0.187)	0.284 (0.268)	1.333* (0.396)
Hosmer and Lemeshow test ( $\chi^2$ )	9.591	34.187*		
Pearson Goodness of fit ( $\chi^2$ )			587.755*	
Cox and Snell $R^2$	0.174	0.239	0.348	
Nagelkerke $R^2$	0.034	0.367	0.498	

Note: ( ) standard error; (1) dummy variables

Model Va: Binary logistic regression. Dependent variable: willingness to perform its duties

Model Vb: binary logistic regression. Dependent variable: interested to be professionals amil

Model Vc: multinomial logistic regression. Dependent variables: accept the concept of localization

Reference category is not agreed

\* Significant at the 0.05 level

On the other hand, Model Vb shows that there are three variables that significantly influence the decision to become a professional amil, namely level of education, additional allowances and the category of zakat institutions where the amils perform their duties or their residences. Both the variables, namely educational level and additional allowances, were positive and significant at the 0.05 level. The logs of the odds ratio for each variable are as follows: the level of education is 2.025; an additional allowance is 2.554; and, corporatization is -0.774. This variable indicates that the probability of amils who are willing to become professional and full-time increases in the states where the zakat management is yet to be corporatized. However,

based on the model fit test, the model is not acceptable as Hosmer and Lemeshow (2000) test show that the model was significant at the 0.05 level (*chi-square* test is 34.187 and sig=0.05 level and 8 degrees of freedom). Conversely, the  $R^2$  values were ranging from 23.9 per cent to 36.7 per cent, which indicate larger variations of dependent variables, explained by the independent variable. Hence, Model Vb is much better than Model Va.

Finally, Model Vc tests the consent of amils towards the concept of localization. The study observed that there are only two significant variables, additional allowances and categories of zakat management, whether corporatized or not, that probable influenced the response of amils who agreed compared to those who did not. For additional allowance variable, the log of the odds ratio is 3.514 and the log of the odds ratio for corporatization variable is 2.967. These two variables are positive and significant at the 0.05 level.

However, when this study compared the response of amils who strongly agree to the response of those who do not agree, it found that there were three significant variables that probably influence the dependent variable, namely additional allowances (the log of the odds ratio is 3.389), category of zakat management (the log of the odds ratio is 4.848) and the frequency of amils involved in congregational prayers in the mosque (the log of the odds ratio is 1.333). All these variables are positive and significant at the 0.05 level. In addition, Pearson  $\chi^2$  test shows that this model fit is not acceptable as the test is significant at the 0.05 level. However, the value of  $R^2$  is relatively high compared to Model Va and Model Vb, which is in the range of 34.8 per cent and 49.8 per cent (which is close to 50 per cent).

### **5.9.1 Discussion of Findings**

The results of this study clearly show that several variables are significant and should be taken into account by the zakat institutions. Based on the observations of these three models, it is noted that (1) additional allowances for amils is positive and significant in all three models, which indicates that this variable is consistent and should be given important consideration if the zakat institutions desire to implement the concept of localization in zakat distribution; (2) different categories of zakat management showed that this variable was significant in two models, indicating different relationships (positive and negative) to dependent variable, based on different models; (3) the level of education of amils and frequency of amils attending mosque to perform congregational prayers also show that these three variables are important to be considered, even though the level of significance vary in all three models studied. Thus, from the results of this study, gathered from the three models that examined three different dependent variables, it could be deduced that all the significant variables should be considered by the zakat institutions if the zakat institutions intend to implement the concept of localization.

This study regards additional allowance as a reward factor which supports the hypothesis and confirms studies by Emerson (1976), Cameron (2001), Besley & Coate (1992), Abdul Aziz (1993), Muhammad (1995), Kivetz (2003); and Gagne & Deci (2005). It is also important to regard the position of the amil as a professional (Mujaini, 2011; Ram, 2011), especially to promote and implement the concept of localization of zakat management. Based on these factors, this study forwards two issues to be addressed by the zakat institution. First, the position of the amil should be strengthened with the establishment of zakat office in specific localities; the position of amil should be considered professional based on permanent and full time employment with monthly

remuneration. This would ensure efficient management of zakat by the amils, not only to collect zakat but bestowed with full responsibility to distribute the zakat in their own localities, as suggested by Muhammad Syukri (2006). This could solve problems in zakat applications and preempt possible predicaments faced by current and potential asnafs. Appointments to the post of amils should be based on conditions of eligibility, such as good academic qualifications (Muhammad Syukri, 2006), at least a degree in accounting, economics, etc., experience and knowledgeable in zakat and religious practices. This could elevate the position of amils to become role models in the society and thereby, easily paving the way to relate with the asnafs and zakat payers. It is widely held that any improvement in the professional level of amils would lead to a better quality of zakat management in Malaysia and refute any kind of criticism against them (Abdul-Wahab, Mohamed et al, (1995); Ram 2011).

The corporatization of zakat management in terms of collection or distribution or both has shifted the paradigm of amils implicitly as professionals. The management of zakat should be organized efficiently from the grassroots to the districts and the states and eventually, to the whole country. In general, the amils, especially in their own villages or localities, have social interaction with the community and are close and friendly to the society members. They are always at the mosques, as most of the amils collect zakat *fitriah* at the mosques. Such experiences could potentially contribute towards improving the quality and the performance of zakat management. In essence, the concept of localization requires a network of socialization to be established between the amils performing their duty at their own local communities that consist of zakat payers, zakat recipients, particularly the poor and needy, and also other zakat payers, such as *fi-sabilillah*, *al-Muallaf*, and *al-gharimun*. This could further improve and promote the awareness of community to pay zakat, encourage active participation in the

activities organized by the mosque as well as other economic or cultural activities of the community.

The role of the mosque should be strengthened to ensure that zakat related activities organized by the amils, are effectively implemented. Philosophy of zakat emphasizes not only the cleansing of wealth but also the purification of souls of the zakat payers and recipients through the institution of mosque. The success of zakat management should begin at the mosque whether at the village, district, state or national level. In fact, the management and solution of any complex problem, including zakat management should begin at the mosque, based on evidence in the Quran (Sura 9:18). In the next section, this study discusses the role of the mosque.

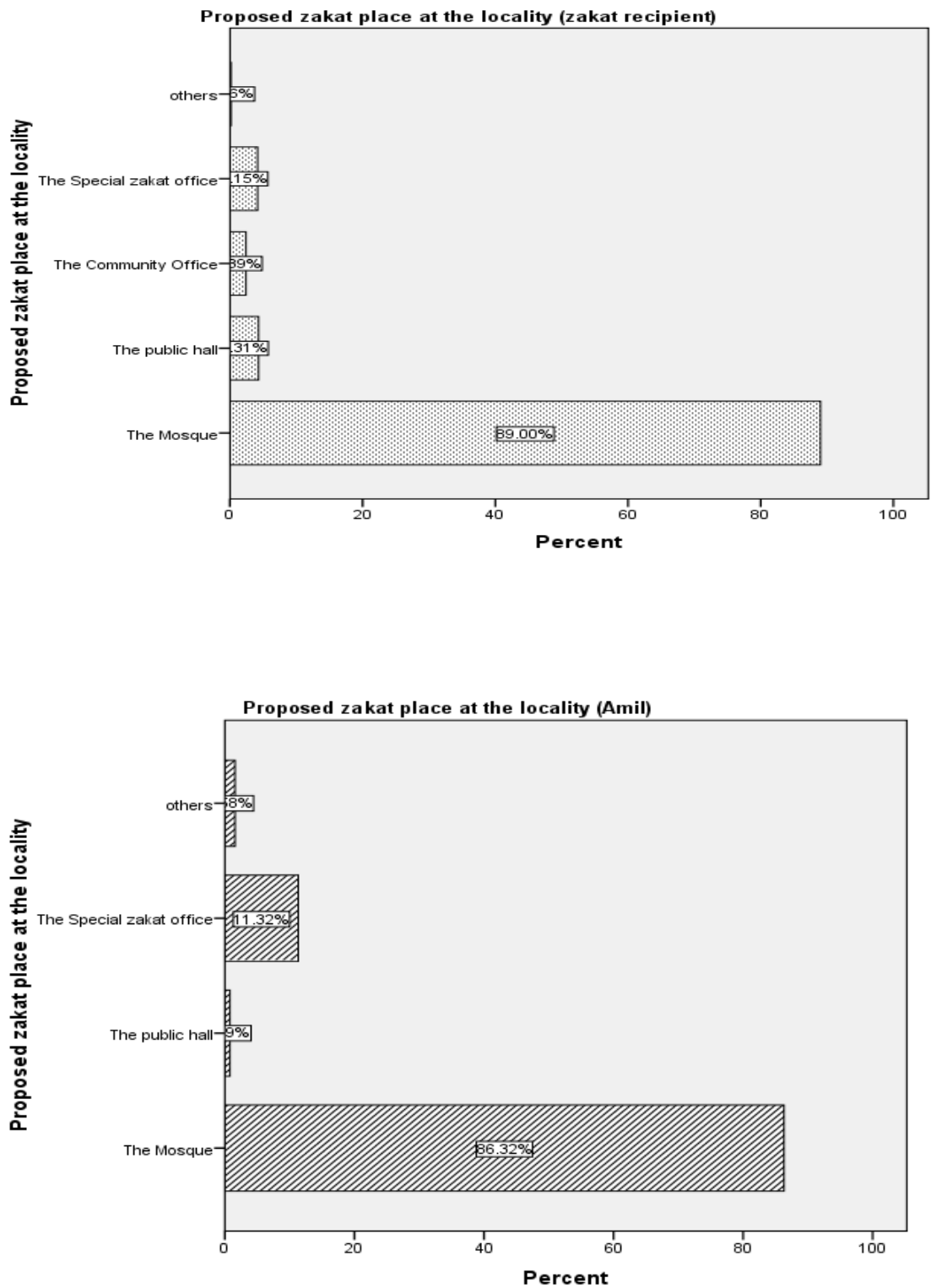
#### **5.10 LOCALIZATION OF ZAKAT DISTRIBUTION AND ISLAMIC INSTITUTION: THE ROLE OF THE MOSQUE**

Table 5.32 denotes the choice of the mosque as an institution responsible for managing zakat in their locality compared to other places, such as community halls or neighborhood offices, by a majority of the respondents, including amils and zakat recipients.

**Table 5.32: Proposed zakat place at the locality**

Respondent	The Mosque	The Public Hall	The Community Office	The Special zakat office	Others	Total Respondents
Zakat Recipient	558 (89.0%)	27 (4.3%)	15 (2.4%)	26 (4.1%)	1 (0.2%)	627 (100.0%)
Amil	328 (86.3%)	3 (0.8)	0 (0.0%)	43 (11.3%)	6 (1.5%)	380 (100.0%)
Total	886	30	15	69	7	1007

Note: ( ) percentage from total respondents



**Figure 5.9: Proposed zakat place at the locality (amil & zakat recipient)**

Table 5.32 and Figure 5.9 indicate that majority of zakat recipients (89%) and amils (86.3%) prefer mosque as the place of management of zakat in a particular

locality. The second place of choice is the special zakat office. However, this study reckons the mosque should be the preferred choice, especially at the *Jami'* Mosque (the district mosque), as it is big enough to accommodate a huge congregation. This study proposes the mosque to be the best place to manage zakat as confirmed by Kahf (1995), Ajeel (1995) and Zayas (2003).

Table 5.33 highlights two factors that determine the role of the mosque as perceived by the amils and zakat recipients. These factors were extracted using EFA, based on the screen test criterion, the latent roots (eigenvalue) criterion using principal components analysis and varimax rotation method with Kaiser Normalization, as proposed by Shine (1972); and Takane & Shibayama (1991). Both factors are reliable, as indicated by the high Cronbach alpha value (0.865).

**Table 5.33: EFA approach: Factors determining of the role of the Mosque-**

Variable group	Item 2	MSA 1	Loading factor		Communalities
			1	2	
Programmes and activities (6 items)					
The role of the mosque of distributing zakat	X <sub>2</sub>	.835	.763		.613
The role of economic activity	X <sub>5</sub>	.751	.762		.598
Attending congregation prayer	X <sub>6</sub>	.755	.834		.706
Many knowledgeable activities	X <sub>7</sub>	.731	.579		.500
quickly and efficiently to manage the zakat	X <sub>9</sub>	.846	.533		.738
Close relationship with the community members	X <sub>10</sub>	.881	.700		.443
					.565
Moral values & management (4 items)					
The Mosque promote economic activity	X <sub>1</sub>	.857		.668	.516
<i>Jami'</i> Mosque could become partly zakat inst.	X <sub>3</sub>	.798		.827	.705
Efficient management of the mosque	X <sub>4</sub>	.738		.845	.723
values consequences from mosque activities	X <sub>8</sub>	.832		.533	.527
					Total
The sum of squares ( <i>eigenvalue</i> )			3.223	2.673	5.896
The per centage of variance			32.23	26.72	58.96

Note: Method of extraction: Principal components analysis. Rotation Method: Varimax with Kaiser Normalization

Kaiser-Meyer-Olkin Measure of Sampling Adequacy = 0.798

Bartlett's Test of Sphericity: significant at 1% level

<sup>1</sup> (MSA) to measure the adequacy of sampling. Value = 0.50 and more is in the acceptable range.

<sup>2</sup> Cronbach Alpha ( $\alpha$ ) total value = 0.865; value of 0.70 and above testifies strong scale reliability



The Kaiser-Meyer-Olkin value is high, showing that factor analysis is feasible for the data set whilst the Bartlett's Test of Sphericity is highly significant, suggesting that it is unlikely that the correlation matrix of the variables is an identity. Factor 1 refers to program and activities of the mosques which are the common construct shared by the 6 items under it. Meanwhile Factor 2 is moral values and management of the mosque to represent the 4 items associated with it. The items under each factor have large loadings, indicating that these items have high correlations with each other and it shows that criterion-related validity does exist among the variables.

**Table 5.34: The first stage of CFA (CFA first order) variable of the role of the mosque**

Variable group	Item	Loading Factor	
		1	2
Programmes and activities (2 items)			
Follow the activities of the congregation prayer	X <sub>6</sub>	.715	
Close relationship with community members	X <sub>10</sub>	.766	
Moral values & management (2 items)			
Efficient management of the mosque	X <sub>4</sub>		.544
values consequences from mosque activities	X <sub>8</sub>		.938
Comparative fit index (CFI) <sup>a</sup>	.998		
Bollen Relative fit index (RFI) <sup>b</sup>	.973		
Bentler Bonett coefficient (NFI) <sup>c</sup>	.997		
Tucker-Lewis coefficient (TLI) <sup>d</sup>	.984		
Root Mean Square Error of approximation (RMSEA) <sup>e</sup>	.037		

Note: <sup>a</sup> CFI values of 0.90 and above testifies strong scale unidimensionality

<sup>b</sup> RFI values close to 1 indicate a very good fit

<sup>c</sup> NFI values of 0.90 and above testifies strong scale convergent validity

<sup>d</sup> TLI analysis of moment structures. TLI values close to 1 indicate a very good fit.

<sup>e</sup> RAMSEA value of about 0.08 or less would indicate a reasonable error of approximation

Table 5.34 presents the results of CFA analysis using SEM, where the number of items for each factor group was reduced to two items. However, it is important to look at the goodness of fit indices before proceeding with further analysis. It is found that the overall model fit is adequate. The CFI value of 0.998 is well above the recommended value of 0.95 and hence, is considered to be an outstanding fit for this model. TLI, RFI and NFI also recorded values above the recommended value of 0.95. Finally, RMSEA value of 0.037 is below 0.08, which indicates a reasonable error of

approximation. Overall, the model is acceptable to evaluate the results of the SEM technique. Thus, the role of the mosque (latent variable) would be proxied by the 2 indicator variables.

The next discussion is analyzing the role of the mosque with respect to localization. This part is divided into two sections, namely (1) the role of the mosque as a mediating factor and, (2) the role of the mosque as a direct factor. The first part examines Model III, a modification from Model I that analyses the role of the mosque (institutional factor) as a mediating variable between quality of life (output factor) and localization (opinion factor). This part focuses on the response of the zakat recipients (zakat users) only. The second part examines another model (Model IV) that analyses the role of the mosque as a direct effect factor to localization and focuses on both groups of respondents.

#### **5.10.1 The role of the mosque as a mediating factor**

Table 5.35 presents the correlation matrix of the manifest variables used in Model III. Among the manifest variables representing each of the six major factors, the values of coefficients range from 0.082 to 0.660. This study explores the correlation coefficients between the role of the mosque and other five main variables (Model I). The result shows that all correlation coefficients are statistically significant at the 0.01 level except correlation between quality of life and trust that is statistically significant at 0.1 levels. This indicates that it is possible that this model, that includes the role of the mosque factor, could be further analyzed. For example, the variables on the role of the mosque and trust, the role of the mosque and perceived zakat distribution, the role of the mosque and attitude, the role of the mosque and quality of life, and the role of the mosque and localization were 0.384, 0.364, 0.358, 0.261 and 0.522, respectively.

Therefore, all manifest variables are further analyzed in Model III, based on the correlation analysis and existing literature.

**Table 5.35: Correlation matrix of manifest variables used in the theoretical SEM: Model III**

Variables	(1)	(2)	(3)	(4)	(5)	(6)
(1) Trust	-					
(2) Perceived zakat distribution	.415**	-				
(3) Attitude	.169**	.409**	-			
(4) Quality of life	.082*	.660**	.539**	-		
(5) Localization	.296**	.489**	.238**	.431**	-	
(6) The role of the mosque	.384**	.364**	.358**	.261**	.522**	-

Note: n= 687, \* p<0.1; \*\* p<0.01

Table 5.36 and Figure 5.10 present the maximum likelihood estimates for a recursive path model of zakat distribution and the role of the mosque. The main focus of this section is to examine the role of the mosque and whether it could become the mediator variable between quality of life (output factor) and localization (opinion factor). In this model, this study could assess the direct effect as well as the indirect effect of quality of life on localization. If the direct effect of quality of life on localization is not significant, but instead, the indirect effect (through the role of the mosque) is significant, then the role of the mosque is said to play a mediating role in linking quality of life to localization indirectly.

Based on Table 5.36, the unstandardized path coefficients are almost the same as the results in Model I and Model II. This study focuses on three path coefficients, namely (1) quality of life and localization (2) quality of life and the role of the mosque and (3) the role of the mosque and localization. Based on Table 5.36, the result shows that 1-point increase in quality of life variable point to a 0.437-point increase in localization variable. The estimated standard error for this direct effect is 0.059 (Table 5.36), so  $t = 0.437/0.059 = 7.41$ , which is statistically significant at the 0.01 level. Thus,

the regression weight for quality of life in the prediction of localization is significantly different from zero at the 0.01 level (two tail test). In this case, quality of life has significant direct effect on localization.

**Table 5.36: Maximum likelihood estimates for a recursive path model of zakat distribution and the role of the mosque (Model III)**

Parameter	Unstandardized	SE	Standardized
<b>Zakat management model</b>			
<u>Direct effects</u>			
Trust → Perceived zakat distribution	.309**	.043	.373
Perceived zakat distribution → Attitude	.275**	.037	.404
Perceived zakat distribution → Quality of life	.557**	.055	.523
Attitude → Quality of life	.461**	.062	.295
Quality of life → localization	.437**	.059	.357
Attitude → localization	-.162*	.080	-.085
<b>The role of the mosque</b>			
Quality of life → mosque	.239**	.045	.252
mosque → localization	.630**	.069	.489
<u>Disturbance variances</u>			
Trust	.178**	.020	
Perceived zakat distribution	.105**	.014	
Attitude	.047**	.006	
Quality of life	.072**	.006	
Localization	.121**	.012	
Mosque	.117**	.018	

Note: n= 687, \* p<0.1; \*\* p<0.01; CFI=.900; NFI=.885; TLI=.846; RMSEA=.067

On the other hand, the unstandardized path coefficient for the direct effect of quality of life on the role of the mosque is 0.239. Thus, a 1-point increase in the quality of life results in a 0.239 increase in the role of the mosque. The estimated standard error is statistically significant at the 0.01 level. Thus, the regression weight for quality of life in the prediction of the role of the mosque is significantly different from zero at the 0.01 level (two-tailed test). In this case, quality of life has a significant direct effect on the role of the mosque. Next, the unstandardized path coefficient for the direct effect of the role of the mosque on localization is 0.630. Thus, a 1-point increase in the role of the mosque leads to a 0.630 increase in localization and is statistically significant at the 0.01 level. Thus, the regression weight for the role of the mosque in the prediction of

localization is significantly different from zero at the 0.01 level (two-tailed test). In this case, the role of the mosque has a significant direct effect on localization.

Based on Table 5.36 and Figure 5.3, the results show that a 1-point increase in quality of life variable results in a 0.437-point increase in the localization variable. The unstandardized path coefficient for the direct effect of quality of life on the role of the mosque is 0.239 and the unstandardized path coefficient for the direct effect of the role of the mosque on localization is 0.630. However, the unstandardized indirect effect of quality of life on localization through the role of the mosque interactions is estimated as the product of the unstandardized coefficients for the same two paths, which is  $0.239 \times 0.630$  or 0.150 (see Figure 5.3). That is, localization in its original metric is expected to increase by about 0.150 points for every 1-point increase in the quality of life variable. To run the Sobel test, this study utilizes a webpage by K. Preacher, which automatically calculates the Sobel test after data is entered in graphical dialogs<sup>76</sup>. The test results are presented in Figure 5.37.

**Figure 5.37: Sobel Test Result**

	<i>z</i>	<i>SE</i>	$\rho$
Sobel Test	4.5904	.032797	$\rho < .01$
Aroian Test	4.5704	.032944	$\rho < .01$
Goodman Test	4.6116	.032650	$\rho < .01$

Based on Sobel test in Figure 5.37, the asymptotic critical ratio for the indirect effect of quality of life on localization is 4.5904, which leads to a rejection of the null hypothesis that the total indirect effect is zero ( $\rho < .01$ ). Therefore, the role of the mosque perhaps could be a potential mediator in Model I. The construct the role of the mosque does mediate the relationship between quality of life and localization. The type of mediation here is a called partial mediation since the direct effect of quality of life on localization is still significant after variable the role of the mosque entered the model

<sup>76</sup> <http://quantpsy.org/sobel/sobel.htm>

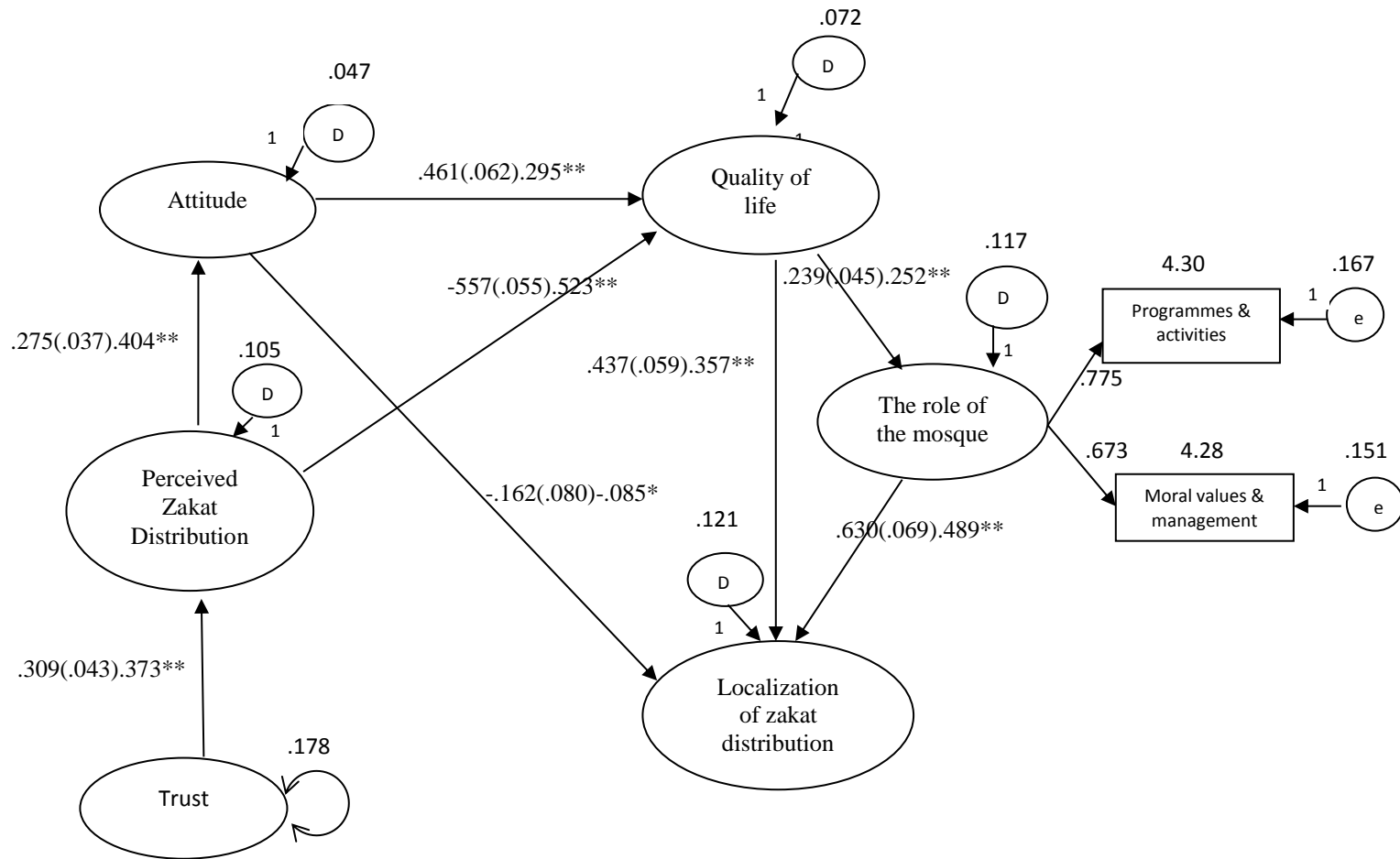
even though the unstandardized beta coefficient for quality of life reduced from 0.525 (in Figure 5.6) to 0.437 (in Figure 5.10). In this case, quality of life is both significant direct effect on localization and also significant indirect effect on localization through the mediator variable, namely the role of the mosque.

The value of 0.05 in the close-fit hypothesis originates from Brown and Cudeck (1993), who suggest that  $RMSEA \leq 0.05$  indicates good fit and the poor fit hypothesis  $RMSEA \geq 0.10$ . Therefore, goodness of fit indices for the model is also good, which indicates  $RMSEA = 0.067$ . This model III model fit is still sufficient, based on SEM criterions, in which,  $CFI = 0.900$ ;  $NFI = 0.885$ ; and  $TLI = 0.864$ .

**Table 5.38: Comparison Fitness statistics between Model I, Model II and Model III**

Model	Sample, n	CFI <sup>a</sup>	NFI <sup>b</sup>	TLI <sup>c</sup>	RMSEA <sup>d</sup>	PNFI <sup>e</sup>	AIC <sup>f</sup>	ECVI <sup>g</sup>
Model I:	687	.923	.910	.893	.066	.656	727.5	1.061
Model II:	687	.920	.906	.887	.065	.645	783.8	1.143
Model III:	687	.900	.885	.864	.067	.647	1031.9	1.504

Note: <sup>a</sup> CFI values of 0.90 and above testifies strong scale unidimensionality  
<sup>b</sup> NFI values of 0.90 and above testifies strong scale convergent validity  
<sup>c</sup> TLI analysis of moment structures. TLI values close to 1 indicate a very good fit.  
<sup>d</sup> RAMSEA value of about 0.08 or less would indicate a reasonable error of approximation  
<sup>e</sup> PNFI with higher values indicating a more parsimonious fit  
<sup>f, g</sup> smaller than AIC and ECVI for comparison model



Note: n= 687, \* p<0.1; \*\* p<0.01

**Figure 5.10:** Structural model for a structural regression model of zakat recipients in the zakat system to test relationship the role of the mosque with other variable (Model III)

### 5.10.2 The role of the mosque as a direct effect variable on localization

This section discusses the role of the mosque from the view of amils and zakat recipients compared to the first part that only focused on zakat recipients. Thus, this part investigates the role of the mosque as a direct effect variable on localization<sup>77</sup> using Model IV. Table 5.38 shows the correlation and covariance between the latent variables specifically, the role of the mosque and the proposed zakat localization. The study found that the two variables have a moderate correlation as perceived by the zakat recipients (0.567) and all respondents (0.599) compared to the relatively high correlation from the perception of the amils (0.825). The relationship between these variables is significant for the overall group at the 0.01 level.

**Table 5.38: Correlation and covariance on the role of the Mosque and Zakat Localization**

Respondent	Correlation	Covariance
Amil	.825	.123* (.018)
Zakat Recipient	.567	.119* (.013)
Overall (amil and zakat recipients)	.599	.071* (.008)
Comparative fit index (CFI) <sup>a</sup>	.975	
Bollen Relative fit index (RFI) <sup>b</sup>	.893	
Bentler Bonett coefficient (NFI) <sup>c</sup>	.971	
Tucker-Lewis coefficient (TLI) <sup>d</sup>	.905	
Root Mean Square Error of approximation (RMSEA) <sup>e</sup>	.057	

Note: ( ) standard error

<sup>a</sup> CFI values of 0.90 and above testifies strong scale unidimensionality

<sup>b</sup> RFI values close to 1 indicate a very good fit

<sup>c</sup> NFI values of 0.90 and above testifies strong scale convergent validity

<sup>d</sup> TLI analysis of moment structures. TLI value is close to 1 which indicates a very good fit.

<sup>e</sup> RAMSEA value of about 0.08 or less would indicate a reasonable error of approximation

<sup>77</sup> The questionnaire distributed to amil and zakat recipient is quite different. As mentioned before, Model I, Model II and Model III are suitable to analyse the SEM for zakat recipients. Only Model IV analyses the sample of amil and zakat recipients



This result shows that the two latent variables could be analyzed at the next stage via regression analysis. Nevertheless, it is very important to examine the goodness of fit (GOF) criteria before proceeding to the regression analysis. The values of the indices are as follows: CFI = 0.975; RFI = 0.893, NFI = 0.971; TLI = 0.905, RMSEA = 0.057 which show a good fit between the model and the observed data.

Finally, Table 5.39 shows the regression results whether the perception towards the role of the mosque is more dominant than the perception towards localization or vice versa. The findings indicate that the perception towards the role of the mosque is significant and more dominant than the perception towards zakat localization from the perspective of amils and all respondents compared to the perceptions of only the zakat recipients. For instance, in the first model, from the perception of the amils, the unstandardized direct effect of the role of the mosque on localization is 1.370. This means that a 1-point increase in the role of the mosque would lead to a 1.370-point increase in localization. The estimated standard error for the direct effect is 0.436, so  $t = 1.370/0.436 = 3.14$ , which exceeds the critical value for two-tail statistical significance at the 0.01 level. On the other hand, from the perspective of overall respondents, the unstandardized direct effect of the role of the mosque on localization is 0.633. This means that a 1-point increase in the role of the mosque leads to a 0.633-point increase in localization. The estimated standard error for the direct effect is 0.063 and it is statistically significant at the 0.01 level.

However, in the second model, from the amil's perspective, the unstandardized direct effect of the localization on the role of the mosque is 0.496. This means that a 1-point increase in localization allows a 0.496-point increase in the role of the mosque. The estimated standard error for the direct effect is 0.063, so  $t = 0.496/0.063 = 7.87$ ,

which exceeds the critical value for two-tail statistical significance at the 0.01 level. On the other hand, from the perspective of overall respondents, the unstandardized direct effect of localization on the role of the mosque is 0.567. This means that a 1-point increase in localization predicts a 0.567-point increase in the role of the mosque. The estimated standard error for the direct effect is 0.043 and it is statistically significant at the 0.01 level.

**Table 5.39: Maximum likelihood estimates for a recursive path model of zakat distribution on the role of the Mosque and Zakat Localization (Model IV)**

Respondent	Unstandardized	SE	Standardized
	<u>Direct effects</u>		
Mosque → Localization			
Amil	1.370*	.436	.825
Zakat Recipient	.537*	.055	.567
Overall	.633*	.063	.599
Localization → Mosque			
Amil	.496*	.063	.825
Zakat Recipient	.598*	.058	.567
Overall	.567*	.043	.599
Comparative fit index (CFI) <sup>a</sup>	.975		
Bollen Relative fit index (RFI) <sup>b</sup>	.893		
Bentler Bonett coefficient (NFI) <sup>c</sup>	.971		
Tucker-Lewis coefficient (TLI) <sup>d</sup>	.905		
Root Mean Square Error of approximation (RMSEA) <sup>e</sup>	.057		

Note: <sup>a</sup> CFI values of 0.90 and above testifies strong scale unidimensionality

<sup>b</sup> RFI values close to 1 indicate a very good fit

<sup>c</sup> NFI values of 0.90 and above testifies strong scale convergent validity

<sup>d</sup> TLI analysis of moment structures. TLI value is close to 1 which indicates a very good fit.

<sup>e</sup> RAMSEA value of about 0.08 or less would indicate a reasonable error of approximation

From the perspective of zakat recipients, in the first model, the unstandardized direct effect of the role of the mosque on localization is 0.537. This means that a 1-point increase in the role of the mosque results in a 0.537-point increase in localization. The estimated standard error for the direct effect is 0.055, so  $t = 0.537/0.055 = 9.76$ , which exceeds the critical value for two-tail statistical significance at the 0.01 level. In the second model, from the view of zakat recipients, the unstandardized direct effect of

the localization on the role of the mosque is 0.598. This means that a 1-point increase in localization predicts a 0.598-point increase in the role of the mosque. The estimated standard error for the direct effect is 0.058, so  $t = 0.598/0.058 = 10.31$ , which exceeds the critical value for two-tail statistical significance at the 0.01 level. This model is considered a good fit because the value of CFI is = 0.975; RFI = 0.893, NFI = 0.971; TLI = 0.905 and RMSEA = 0.057.

### **(a) Discussion of Findings**

This study advances several findings, namely (1) within the mediation model, this model produces a non-suppression effect which indicates that the direct and mediated effects of one variable on another variable is consistent and this pattern is called consistent mediation (Kline, 2011); (2) the unstandardized coefficients of the path of the role of the mosque's variable satisfied the SE requirements and is significant at the 0.01 level. This supports the hypothesis that the role of the mosque as a mediating variable has a significant indirect effect on localization based on the perception of zakat recipients. Therefore, the role of the mosque's variable perhaps could be considered as an important mediating variable to ensure successful implementation of the concept of localization; and, (3) in Model I, the unstandardized direct effect of quality of life on localization is 0.525 and is statistically significant at the 0.01 level. However, in Model III, the unstandardized direct effect of quality of life on localization is 0.437 and is statistically significant at the 0.01 level, much lower compared to Model I. Therefore, the variable of the role of the mosque is considered as partial mediation.

The study also supports the hypothesis that the role of the mosque, as a direct variable, has a significant relationship with the proposed localization of zakat

distribution from the perceptions of amils and zakat recipients. It could be seen that in the first model, the influence of the role of the mosque on the localization is significant at the 0.01 level, while in the second model, the influence of localization on the role of the mosque is also significant at the 0.01 level. However, looking at the overall coefficient for each model, the first model has an overall coefficient value of 0.633, which is much higher than the 0.567 in the second model. This study found that the coefficient value of amils is much higher as compared to zakat recipients in the first model but not in the second model. In the first model, the coefficient value of amils is 1.370 compared to zakat recipients, which is 0.537.

However, in the second model, coefficient value of amils is 0.496 compared to zakat recipients, which is 0.598. These findings draw several conclusions, namely (1) based on the coefficient of respondents, the first model was chosen because the overall coefficient, including amils and zakat recipients (0.633), is larger than the overall coefficient in the second model (0.567). The different value of the coefficients shows that the variable of the mosque representing institutional factors has a greater influence on localization. Therefore, the mosque is more dominant compared to localization. This finding also indicates that the successful implementation of localization is dependent on the importance of the role of the mosque. In other words, the role of the mosque should be strengthened from the outset and then, it would facilitate the implementation of the localization of zakat management; (2) the first model also shows the influence of the role of amils is more dominant compared to zakat recipients, indicating that amils are proactive and innovative in implementing localization through the mosque. This shows that amils are ready to implement localization of zakat distribution as supported by Mujaini (2011), who stated that amils must be innovative and productive.

## 5.11 CONCLUSION

There are three main factors influencing the zakat localization variable from the perspectives of the amils and zakat recipients, namely: (1) close relationship between the amils and zakat recipients, (2) efficient distribution to zakat recipients by the amils; and, (3) trust in system and zakat institutions. The study ascertains that a majority of the respondents' perceptions, especially the amils were similar compared to zakat recipients. It also reveals that amils strongly agree to implement the localization concept in zakat management, especially in terms of zakat distribution. This study found that the main determinants of localization differ between the amils and zakat recipients. Trust is an important variable that contributes to the consensus on the concept of localization from the perspective of amils. On the other hand, from the perspective of zakat recipients, the factor 'efficiency' was vital.

The study found that each covariance between the all latent variables, such as trust in Islamic institution, perceived zakat management, asnaf's attitude to change, asnaf's quality of life and perceived localization in zakat distribution is significant at the 0.01 level. This indicates that the concept of localization has a strong relationship with all those variables in the framework of the political economy. It also indicates that localization of zakat distribution could be a possible solution to overcome current problems in zakat management in Malaysia.

Attitude is important as a mediating factor, thus, to improve the quality of life of zakat recipients, it must begin by increasing asnaf's level of religiosity. On the other hand, asnaf's quality of life could be enhanced if the level of zakat recipient's attitude is improved which, in turn would affect positively all the other variables. Localization is expected to improve asnaf's quality of life through the role the zakat institutions i.e. the

local mosque. An improvement in the attitude of the asnaf would eventually lead to an increase in the level of income as an entrepreneur (as planned by zakat institutions). Alternatively, they could find jobs in the government or private sectors and become zakat payers, indicating that they have managed to improve their lives.

Several variables are significant in enhancing the performance of the amils and attracting them to be professionals, namely (1) additional allowances, (2) the category of zakat management, corporatized or not corporatized and, (3) the level of education of amils, their experience and the frequency of attendance at the mosque to perform congregational prayers. All these significant variables should be considered by the zakat institutions if they wish to implement the concept of localization. This study also reveals that the perception towards the role of the mosque is significant and more dominant than zakat localization, from the perspective of all the respondents compared to just the zakat recipients.

## **CHAPTER 6**

### **RECOMMENDATIONS AND CONCLUSIONS**

#### **6.1 INTRODUCTION**

The purpose of this chapter is to discuss the conclusions and provide suggestions as well as highlight the limitations and areas for future research. This study conducted an analysis to observe the perceptions of amils and zakat recipients on the concept of zakat localization and evaluate the main determinants of zakat localization as perceived by the amils and zakat recipients. This study also aims to examine the relationship between perceived zakat localization and religiosity level, attitude to change and quality of life as perceived by the zakat recipients. It also analyzes the factors that influence the behavior of the amils to implement the localization of zakat management. Finally this study ends the discussion by analyzing the role of the mosque as a significant Islamic institution to implement zakat localization in the particular village. Six states in Malaysia were selected based on three different models of zakat management, namely (1) fully corporatized, (2) partially corporatized and (3) non-corporatized. The research results are expected to provide guidance and reference for the management of zakat institutions in Malaysia. This chapter highlights the main findings, implications of the data and offers recommendations for future research.

#### **6.2 THE MAIN FINDINGS OF THE STUDY**

It is evident from the findings in this study that majority of respondents strongly support the concept of localization of zakat management, especially the amils compared to zakat recipients. It also indicates that amils strongly concur with the concept, especially in terms of zakat distribution although a significant difference is noted in means of perceptions between the two groups of respondents in all the states. This could be construed as a clarion-call for the zakat institutions to implement the concept.

The findings of this study reveal that there are three groups of factors that influence the concept of localization. These factors are close relationship, efficient distribution and trust in the system and institutions of zakat. All these factors significantly affect the localization variable and the model achieves a goodness of fit. The coefficient value indicates that the main factor that influences the zakat recipients to agree to the concept of localization is close relationship. As for the amils, trust in the system and institutions was the motivating determinant.

This study also found that all variables, namely trust in Islamic institution (input factor), perceived zakat management (process factor), asnaf's attitude to change and asnaf's quality of life (output factor) as well as the proposed localization of zakat distribution (opinion factor) have significant relationship amongst the variables. This study lends support to the study by Lucy et al (1977) and Mikami & Inoguchi (2008) and is congruent with the performance measurement model in zakat management employed by Abd Halim (2011). On the other hand, this study proves that religiosity has significant indirect effects on attitude and quality of life and is recognized as a significant factor not only in zakat recipients' lives but also is the strong basic foundation for the way of life. High level of religiosity values would bring about positive changes in the attitude of zakat recipients. It forms an important and integral part of positive change in the attitude of zakat recipients in improving their economic wellbeing and becoming potential zakat payers.

This study also regards additional allowance as a reward factor which supports the hypothesis and confirms several previous studies. It is also important to regard the position of the amil as a professional (Mujaini, 2011; Ram, 2011), especially to promote and implement the concept of localization of zakat management. This finding



also indicates that the successful implementation of localization is dependent on the importance of the role of the mosque. In other words, the role of the mosque should be strengthened from the outset and then, it would facilitate the implementation of the localization of zakat management.

### **6.3 RECOMMENDATIONS**

The process of localization in the long run could create favorable impacts such as good governance, higher investment in human capital and social services, implementation of projects to address the urgent needs of the poorest regions in the country, as well as increase the accountability of the state. In terms of zakat management, localization could be implemented by forming local committees in the villages. The zakat could be distributed closer to the zakat recipients, especially the poor and needy and also others such as *fi sabilillah*, *ibn sabil*, *al-riqab* whilst potential zakat receivers could be identified. This could increase awareness and boost confidence amongst the zakat payers and encourage them to pay through official channels, resulting in an increase in zakat collections annually. This would bring about huge benefits to the zakat recipients in the future. However implementation of zakat localization also could bring several issues that need to be addressed by zakat institution such as lack of accountability, lack of qualified staff to run zakat efficiently and effectively. These problems could be rectified through proper regulations, spiritual training and the role of educational institutions such as the university to educate and upgrade the amils' knowledge and skills. However these actions should be handled effectively and professionally. Thus, this study suggests corporatization of zakat management in terms of organizational structure as a strong complement to localization of zakat management (governance). There are several recommendations to be highlighted to the policy makers to improve zakat management.

### **6.3.1 Localization could change the livelihood of zakat recipients**

Another issue that is associated with the mosque is the level of religiosity amongst the zakat recipients. This is a major issue that must be addressed wisely by the mosque particularly and zakat institutions generally. Despite numerous views that the role of zakat is to eradicate poverty, this is not the primary objective in the philosophy of zakat. The main philosophy of the zakat is actually cleansing the soul and wealth, not only of the zakat payers, but also the zakat recipients, and this clearly shows that the zakat is not only confined to purely economic aspects. Purifying the soul through zakat is very important to religiosity values. Increased religiosity is fundamental to the purpose of creation of mankind by the Creator. Success in educating people in the religiosity aspects would not only improve the level of religious understanding, but also increase awareness and bring about changes in zakat recipients towards having more positive outlook. This would motivate the zakat recipients to lift them out of the poverty cycle and improve the quality of life. Although zakat might not eradicate poverty or change their economic conditions, it would improve their mental and spiritual strengths. This is the true spirit and philosophy of zakat management and distribution.

Changes in attitudes, particularly amongst the zakat recipients, could be brought about through active involvement of amils at the mukim or village or community levels. The proposed localization of zakat distribution would significantly affect the quality of life and attitudes of zakat recipients. The amils at the local level could not only collect zakat and identify potential zakat recipients in the particular villages, but also encourage interactions with zakat recipients through organized programs in the specific district or village. The zakat recipients could be monitored more effectively through a closer rapport with them. Religiosity value is related to educational background and culture.

The zakat recipients' backgrounds vary between regions, villages or states and an experienced amil at the local level would be able to handle and resolve issues among them. This would improve the quality of zakat management, not only in terms of distributing the zakat fund but also in providing religious programs for the zakat recipients, using the zakat funds. Through such programs, zakat recipients are expected to increase their religiosity values or at least, be at par with others in the local community.

This study reveals that zakat recipients actually want to change themselves in a positive direction. However to effect these changes takes a very long time period as it involves changing of attitudes and cultural traits. The momentum of this change should be stimulated through a systematic program and organized efficiently by the zakat institution. Currently, the entrepreneurship program organized by the zakat institution is still considered a good program that aims to change their life out of poverty. However, not all zakat recipients aspire to be entrepreneurs to change their lives. In fact the entrepreneur's program proposed by zakat institution should be carried out by those who have the appropriate criteria, such as educational background and have not reached an old age. However in most cases, the majority of zakat recipients, especially the poor and needy, were uneducated, as well as elderly single mothers who have many young children and therefore potentially could not become entrepreneurs as planned. Hence, this study suggests that they be given the opportunity to carry out community activities (social work) and given an allowance, besides the monthly zakat or an extra monthly allowance as an incentive to motivate them to do some social work to ensure that they have a close relationship with the society. It would at least enable them to change their way of life rather than just receive zakat.

The study by Hairunnizam et. al. (2011) found that the majority of zakat recipients were interested in participating in social service. They were interested in providing training to the society in the activities of sewing and baking (28.3%), cleaning the mosque or cemetery (22.5%) and carpentry (16.8%) and teaching children to read the Quran (15.6 %). About 1.2 per cent of respondents would prefer to be involved in other skills such as helping the mosque in terms of cooking and food preparation. Although they have a low level of education compared to surrounding communities, they in fact have specific individual skills that could of use to society. What is to be highlighted here is that zakat institutions should plan a good mechanism to enable the zakat recipients, especially the poor and needy, to contribute their social skills to the community. Their attitude could change through close social interaction with the community though they are not part of the entrepreneur program planned by zakat institutions. Thus, the local community could benefit from their skills, especially in social activities that usually involve high costs, but could be undertaken utilizing the skills of the poor and needy at a lower cost. The successful implementation of this program is possible with close monitoring by the local amil at the district or village level.

### **6.3.2 Spiritual and level of religiosity as an important factor to overcome poverty from the Islamic perspective**

The level of religiosity is still low in some states. Religiosity values could be increased with informal learning, such as through religious talks in the mosque, radio and television. Religiosity values should also be inculcated in their children and successive generations to move ahead in life. Ultimately, they might emerge from poverty not only in terms of economic wellbeing but also in their level of religiosity.

It is possible to relate the role of the mosque and its effects on the level of religiosity amongst zakat recipients. Despite numerous views on the role of zakat to eradicate poverty, it is pertinent to acknowledge that this is not the important objective in the philosophy of zakat. The primary philosophy of the zakat is actually cleansing the soul and wealth of the zakat payers and the recipients. This clearly indicates that the zakat is not confined only to the purely economic aspects. Purifying the soul through zakat emphasizes the importance of zakat in the spiritual context, which is related to religiosity values. The increase in religiosity is important because it is fundamental to the purpose of creation of the mankind by the Creator. The success of the mosque in educating people, especially in the religiosity aspects is reflected in the increase in the level of religious understanding, enhanced awareness and positive changes in zakat recipients outlook. This ultimately would increase the motivation of zakat recipients to strive to be free from poverty by improving the quality of life not only for themselves but their generations of children and descendants. Though zakat is targeted to eradicate poverty, but at times it might not be able to change their economic conditions, though it improves their mental and spiritual strengths. This is the true spirit and philosophy of zakat management and distribution.

### **6.3.3 The role of the local amil**

The role of *imam* has to be strengthened. Historically in the pre-colonial era, the position of the *imam* was highly respected by the Muslim society (Abdul Aziz, 1993; Abdul-Wahab et.al, 1995; Mutiara & Muchtar, 2010; Steiner, 2011) because of their duties as an *ustaz* or teacher and leading the community in worship, such as congregational prayers, Friday prayers, funeral prayers, marriages and divorces and managing zakat. In terms of managing zakat, it is suitable to appoint the *jami'* (district or *mukim*) mosque (Zayas, 2003). This could facilitate the appointment of an *imam*

with good educational qualifications to become the head of amil with full pay or salary. Through this the perception of the public towards the amils being not professionals could be overcome (Abdul-Wahab et.al, 1995).

For instance, at the *Jami'* mosque in Selangor, the first *imam* by rank was appointed by the state government specifically to lead the congregational prayers and focus on matters of worship, especially prayers. This imam was considered as a professional because the selection to this position was very competitive and only those with high educational qualifications, at least a degree, could fill the position. Thus, this study proposes that a second *imam* by rank be appointed by the state government to specifically manage economic affairs, particularly zakat management (at the same time carry out his duty as *imam*). The post of imam has to be setup as a professional position. Any appointment as amil should meet the standard and professional requirements, for instance, at least is qualified with a degree, is a local resident and has good educational background in finance and economics. Therefore this second imam in rank could give special focus to economic affairs, including zakat, waqf, sadaqa and mosque's cooperative.

This suggestion is in line with verse 18 in Surah At-Tawba, which was previously discussed. This could improve public confidence in paying zakat, especially zakat on wealth, and enhance the role of *imam*. It could address the geographical and bureaucratic problems in the current practice of approving zakat applications through the district and the state levels. As a result, amils could not only receive zakat payments but also assist in recognizing and identifying potential zakat recipients by investigating their background, especially the poor and the needy. This, in turn could reduce the number of poor households among the Muslims. The amils could contact and monitor

the recipients easily, hopefully to change the zakat recipients' attitude towards becoming zakat payers in the future. In addition, the roles of amils should change, not only to identify the zakat recipients but more importantly, to determine their social and economic potentials that could help them eventually, to become zakat payers.

#### **6.3.4 The role of the federal and local Islamic institutions**

Majority of the zakat recipients strongly agree that zakat institution should be located close to them and that the mosque is the best institution to implement localization. This study suggests that zakat should be distributed from the mosque as the foremost institution of the Muslim community. The concept of localization of zakat management and administration could be implemented from the mosque. This study suggests that a branch office of zakat institution should be built within the mosque area. As a result, the role of the mosque could be widened to include management of zakat applications and distribution of zakat to zakat recipients in the specific area or village. Localization through the local mosque would reduce difficulties among the zakat recipients, especially the elderly group who could seek assistance of the amil to obtain and complete the application forms. In addition, many zakat programs and activities could be organized in the local mosques to encourage zakat recipients in particular and the Muslim society in general to continue attending mosque. This could foster better *hablun* (relationship) with Allah s.w.t as the Creator as well as with other members of the society. The concept of zakat could purify the individual's property and this should be associated with the mosque because majority of the people are very keen to pay zakat through the mosque rather than at zakat offices or at counters in shopping malls.

The zakat institution at a district level also has to be strengthened. Most of the zakat recipients visit the district zakat office to obtain information as well as apply for

zakat funds. The zakat officers should be professional in engaging the zakat recipients as there are many negative reports in newspapers and internet regarding their attitudes. This study suggests that educational institutions should provide training for the amils to avert serious and wilful misconduct. The issue of lack of accountability and lack of qualified zakat staff (amil) could be rectified by improving the efficiency of zakat institutions through education and spiritual training.

Islamic institutions such as JAKIM, especially Jabatan Zakat, Wakaf dan Haji (JAWHAR), should endeavor to increase public confidence among the Muslim society. This study found that the Islamic institutions have a significant effect on religiosity. This could be effectively implemented through various strategies designed to encourage participation and cooperation among the Muslim *ummah* as whole and local Muslim community, specifically. The role of JAKIM as a federal Islamic institution has to be strengthened in order to assist in overcoming poverty and strengthening the spirituality and level of religiosity among the poor and needy.

#### **6.4 LIMITATIONS AND DIRECTIONS FOR FUTURE RESEARCH**

This study has certain limitations that should be highlighted. As regards the methodology used, this study only focused on the opinions and perceptions of amils and zakat recipients in certain states in Peninsular Malaysia. Future research could take into consideration the perceptions of those in East Malaysia, that is, the states of Sabah and Sarawak. Moreover, this study focuses only on amils and zakat recipients and not on the perceptions of the zakat payers, an important sample in exploring the potential to implement the concept of localization. Thus, this is an interesting angle that could be studied. Hence, further question arises, that is, do the groups of vulnerable poor have the same perceptions as those identified by the zakat institution in each state? Such



comparisons would contribute to advancing the understanding of the relevance of the concept of localization.

## **6.5 CONCLUSION**

Majority of the respondents, especially the amils, agree in principle to implement localization of zakat distribution in Malaysia. Three main factors are recognized as significant, namely close relationship, efficiency and trust in the zakat institutions. These factors have to be taken into consideration by the zakat institutions prior to implementing localization of zakat distribution. This study proves that localization of zakat distribution could be implemented either from the perspective of the political economy or with the amils as implementers in zakat management. The religiosity factor has to be addressed carefully to improve asnafs' quality of life or at least to change their outlook in life to become potential zakat payers. The mosque is recognized as an important Islamic institution to act as a catalyst in the evolution of zakat management in Malaysia. Finally, this study proposes that the *imam* or *ulama*', as a highly respectable person, and the amil lead the changes in the system of zakat management, to resolve the zakat problem in Malaysia, as suggested by Abdul Aziz (1993).

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## APPENDIX A

**Table I: Post Hoc comparisons on Close relationship construct across state**

Bonferroni				Games-Howell			
(I) State	(J) State	Mean Difference (I-J)	Std. Error	(I) State	(J) State	Mean Difference (I-J)	Std. Error
Selangor	Penang	.00497	.05593	Selangor	Penang	.00497	.04841
	Wilayah Persekutuan	.51286*	.05280		Wilayah Persekutuan	.51286*	.05635
	Malacca	.84561*	.07083		Malacca	.84561*	.08790
	Terengganu	.37230*	.05056		Terengganu	.37230*	.04788
	Kedah	-.11254	.05573		Kedah	-.11254	.04328
Penang	Selangor	-.00497	.05593	Penang	Selangor	-.00497	.04841
	Wilayah Persekutuan	.50789*	.05532		Wilayah Persekutuan	.50789*	.05727
	Malacca	.84064*	.07273		Malacca	.84064*	.08850
	Terengganu	.36733*	.05319		Terengganu	.36733*	.04896
	Kedah	-.11751	.05812		Kedah	-.11751	.04447
Wilayah Persekutuan	Selangor	-.51286*	.05280	Wilayah Persekutuan	Selangor	-.51286*	.05635
	Penang	-.50789*	.05532		Penang	-.50789*	.05727
	Malacca	.33275*	.07035		Malacca	.33275*	.09308
	Terengganu	-.14057	.04989		Terengganu	-.14057	.05683
	Kedah	-.62540*	.05512		Kedah	-.62540*	.05301
Malacca	Selangor	-.84561*	.07083	Malacca	Selangor	-.84561*	.08790
	Penang	-.84064*	.07273		Penang	-.84064*	.08850
	Wilayah Persekutuan	-.33275*	.07035		Wilayah Persekutuan	-.33275*	.09308
	Terengganu	-.47331*	.06869		Terengganu	-.47331*	.08821
	Kedah	-.95815*	.07258		Kedah	-.95815*	.08580
Terengganu	Selangor	-.37230*	.05056	Terengganu	Selangor	-.37230*	.04788
	Penang	-.36733*	.05319		Penang	-.36733*	.04896
	Wilayah Persekutuan	.14057	.04989		Wilayah Persekutuan	.14057	.05683
	Malacca	.47331*	.06869		Malacca	.47331*	.08821
	Kedah	-.48484*	.05298		Kedah	-.48484*	.04390
Kedah	Selangor	.11254	.05573	Kedah	Selangor	.11254	.04328
	Penang	.11751	.05812		Penang	.11751	.04447
	Wilayah Persekutuan	.62540*	.05512		Wilayah Persekutuan	.62540*	.05301
	Malacca	.95815*	.07258		Malacca	.95815*	.08580
	Terengganu	.48484*	.05298		Terengganu	.48484*	.04390

\* The mean difference is significant at the .05 level.

**Table II: Post Hoc Comparisons on efficiency construct across State**

Bonferroni				Games-Howell			
(I) State	(J) State	Mean Difference (I-J)	Std. Error	(I) State	(J) State	Mean Difference (I-J)	Std. Error
Selangor	Penang	.24067*	.05429	Selangor	Penang	.24067*	.03898
	Wilayah Persekutuan	.55646*	.05126		Wilayah Persekutuan	.55646*	.05698
	Malacca	.82620*	.06876		Malacca	.82620*	.08912
	Terengganu	.36677*	.04908		Terengganu	.36677*	.04956
	Kedah	.16115*	.05410		Kedah	.16115*	.04179
Penang	Selangor	-.24067*	.05429	Penang	Selangor	-.24067*	.03898
	Wilayah Persekutuan	.31579*	.05370		Wilayah Persekutuan	.31579*	.04937
	Malacca	.58553*	.07060		Malacca	.58553*	.08446
	Terengganu	.12610	.05163		Terengganu	.12610*	.04059
	Kedah	-.07952	.05642		Kedah	-.07952	.03061
Wilayah Persekutuan	Selangor	-.55646*	.05126	Wilayah Persekutuan	Selangor	-.55646*	.05698
	Penang	-.31579*	.05370		Penang	-.31579*	.04937
	Malacca	.26974*	.06829		Malacca	.26974	.09413
	Terengganu	-.18969*	.04843		Terengganu	-.18969*	.05809
	Kedah	-.39531*	.05351		Kedah	-.39531*	.05162
Malacca	Selangor	-.82620*	.06876	Malacca	Selangor	-.82620*	.08912
	Penang	-.58553*	.07060		Penang	-.58553*	.08446
	Wilayah Persekutuan	-.26974*	.06829		Wilayah Persekutuan	-.26974	.09413
	Terengganu	-.45943*	.06668		Terengganu	-.45943*	.08984
	Kedah	-.66504*	.07045		Kedah	-.66504*	.08579
Terengganu	Selangor	-.36677*	.04908	Terengganu	Selangor	-.36677*	.04956
	Penang	-.12610	.05163		Penang	-.12610*	.04059
	Wilayah Persekutuan	.18969*	.04843		Wilayah Persekutuan	.18969*	.05809
	Malacca	.45943*	.06668		Malacca	.45943*	.08984
	Kedah	-.20562*	.05143		Kedah	-.20562*	.04329
Kedah	Selangor	-.16115*	.05410	Kedah	Selangor	-.16115*	.04179
	Penang	.07952	.05642		Penang	.07952	.03061
	Wilayah Persekutuan	.39531*	.05351		Wilayah Persekutuan	.39531*	.05162
	Malacca	.66504*	.07045		Malacca	.66504*	.08579
	Terengganu	.20562*	.05143		Terengganu	.20562*	.04329

\* The mean difference is significant at the .05 level.

**Table III: Post Hoc Comparisons on trust in system and institutions construct across State**

Bonferroni				Games-Howell			
(I) State	(J) State	Mean Difference (I-J)	Std. Error	(I) State	(J) State	Mean Difference (I-J)	Std. Error
Selangor	Penang	.15273	.05630	Selangor	Penang	.15273*	.03067
	Wilayah	.36589*	.05315		Wilayah	.36589*	.05413
	Persekutuan				Persekutuan		
	Malacca	.55307*	.07130		Malacca	.55307*	.08190
	Terengganu	.30613*	.05090		Terengganu	.30613*	.05323
Penang	Kedah	.18685*	.05610	Penang	Kedah	.18685*	.03232
	Selangor	-.15273	.05630		Selangor	-.15273*	.03067
	Wilayah	.21316*	.05569		Wilayah	.21316*	.04893
	Persekutuan				Persekutuan		
	Malacca	.40034*	.07321		Malacca	.40034*	.07856
Wilayah Persekutuan	Terengganu	.15339	.05354	Wilayah Persekutuan	Terengganu	.15339*	.04794
	Kedah	.03412	.05851		Kedah	.03412	.02256
	Selangor	-.36589*	.05315		Selangor	-.36589*	.05413
	Penang	-.21316*	.05569		Penang	-.21316*	.04893
	Malacca	.18718	.07082		Malacca	.18718	.09034
Malacca	Terengganu	-.05976	.05022	Malacca	Terengganu	-.05976	.06548
	Kedah	-.17904*	.05549		Kedah	-.17904*	.04998
	Selangor	-.55307*	.07130		Selangor	-.55307*	.08190
	Penang	-.40034*	.07321		Penang	-.40034*	.07856
	Wilayah	-.18718	.07082		Wilayah	-.18718	.09034
Terengganu	Persekutuan			Terengganu	Persekutuan		
	Terengganu	-.24695*	.06914		Terengganu	-.24695*	.08981
	Kedah	-.36622*	.07306		Kedah	-.36622*	.07922
	Selangor	-.30613*	.05090		Selangor	-.30613*	.05323
	Penang	-.15339	.05354		Penang	-.15339*	.04794
Kedah	Wilayah	.05976	.05022	Kedah	Wilayah	.05976	.06548
	Persekutuan				Persekutuan		
	Malacca	.24695*	.06914		Malacca	.24695	.08981
	Kedah	-.11927	.05333		Kedah	-.11927	.04901
	Selangor	-.18685*	.05610		Selangor	-.18685*	.03232
Kedah	Penang	-.03412	.05851	Kedah	Penang	-.03412	.02256
	Wilayah	.17904*	.05549		Wilayah	.17904*	.04998
	Persekutuan				Persekutuan		
	Malacca	.36622*	.07306		Malacca	.36622*	.07922
	Terengganu	.11927	.05333		Terengganu	.11927	.04901

\* The mean difference is significant at the .05 level.

**Table IV: Post Hoc Comparisons on Overall Construct across State**

Bonferroni				Games-Howell			
(I) State	(J) State	Mean Difference (I-J)	Std. Error	(I) State	(J) State	Mean Difference (I-J)	Std. Error
Selangor	Penang	.13279	.04638	Selangor	Penang	.13279*	.02348
	Wilayah	.47840*	.04379		Wilayah	.47840*	.04757
	Persekutuan				Persekutuan		
	Malacca	.74163*	.05874		Malacca	.74163*	.07769
Penang	Terengganu	.34840*	.04193	Penang	Terengganu	.34840*	.03906
	Kedah	.07849	.04622		Kedah	.07849*	.02514
	Selangor	-.13279	.04638		Selangor	-.13279*	.02348
	Wilayah	.34561*	.04588		Wilayah	.34561*	.04411
Wilayah Persekutuan	Persekutuan			Wilayah Persekutuan	Persekutuan		
	Malacca	.60884*	.06032		Malacca	.60884*	.07562
	Terengganu	.21561*	.04411		Terengganu	.21561*	.03476
	Kedah	-.05430	.04820		Kedah	-.05430*	.01773
Malacca	Selangor	-.47840*	.04379	Malacca	Selangor	-.47840*	.04757
	Penang	-.34561*	.04588		Penang	-.34561*	.04411
	Malacca	.26322*	.05835		Malacca	.26322*	.08619
	Terengganu	-.13001*	.04137		Terengganu	-.13001	.05404
Terengganu	Kedah	-.39992*	.04571	Terengganu	Kedah	-.39992*	.04501
	Selangor	-.74163*	.05874		Selangor	-.74163*	.07769
	Penang	-.60884*	.06032		Penang	-.60884*	.07562
	Wilayah	-.26322*	.05835		Wilayah	-.26322*	.08619
Kedah	Persekutuan			Kedah	Persekutuan		
	Terengganu	-.39323*	.05696		Terengganu	-.39323*	.08181
	Kedah	-.66314*	.06019		Kedah	-.66314*	.07615
	Selangor	-.34840*	.04193		Selangor	-.34840*	.03906
Kedah	Penang	-.21561*	.04411	Kedah	Penang	-.21561*	.03476
	Wilayah	.13001*	.04137		Wilayah	.13001	.05404
	Persekutuan				Persekutuan		
	Malacca	.39323*	.05696		Malacca	.39323*	.08181
Kedah	Kedah	-.26991*	.04394	Kedah	Kedah	-.26991*	.03590
	Selangor	-.07849	.04622		Selangor	-.07849*	.02514
	Penang	.05430	.04820		Penang	.05430*	.01773
	Wilayah	.39992*	.04571		Wilayah	.39992*	.04501
Kedah	Persekutuan			Kedah	Persekutuan		
	Malacca	.66314*	.06019		Malacca	.66314*	.07615
	Terengganu	.26991*	.04394		Terengganu	.26991*	.03590

\* The mean difference is significant at the .05 level.

**Table V: Post Hoc comparisons for all construct across Type of Zakat Management**

Bonferroni				Games-Howell			
(I) Categorization of Institution	(J) Categorization of Institution	Mean Difference (I-J)	Std. Error	(I) Categorization of Institution	(J) Categorization of Institution	Mean Difference (I-J)	Std. Error
<b>(1) close relationship</b>				<b>(1) close relationship</b> Fully			
Fully Corporatized	Partially Corporatized	.56225*	.05475	Corporatized	Partially Corporatized	.56225*	.05794
	Not Corporatized	.19955*	.04966		Not Corporatized	.19955*	.04186
Partially Corporatized	Fully Corporatized	-.56225*	.05475	Partially Corporatized	Fully Corporatized	-.56225*	.05794
	Not Corporatized	-.36270*	.05057		Not Corporatized	-.36270*	.05821
Not Corporatized	Fully Corporatized	-.19955*	.04966	Not Corporatized	Fully Corporatized	-.19955*	.04186
	Partially Corporatized	.36270*	.05057		Partially Corporatized	.36270*	.05821
<b>(2) efficiency</b>				<b>(2) efficiency</b>			
Fully Corporatized	Partially Corporatized	.48407*	.04999	Fully Corporatized	Partially Corporatized	.48407*	.05372
	Not Corporatized	.15900*	.04535		Not Corporatized	.15900*	.03585
Partially Corporatized	Fully Corporatized	-.48407*	.04999	Partially Corporatized	Fully Corporatized	-.48407*	.05372
	Not Corporatized	-.32507*	.04617		Not Corporatized	-.32507*	.05503
Not Corporatized	Fully Corporatized	-.15900*	.04535	Not Corporatized	Fully Corporatized	-.15900*	.03585
	Partially Corporatized	.32507*	.04617		Partially Corporatized	.32507*	.05503
<b>(3) trust in system</b>				<b>(3) trust in system</b>			
Fully Corporatized	Partially Corporatized	.31275*	.05373	Fully Corporatized	Partially Corporatized	.31275*	.05605
	Not Corporatized	.21438*	.04874		Not Corporatized	.21438*	.03600
Partially Corporatized	Fully Corporatized	-.31275*	.05373	Partially Corporatized	Fully Corporatized	-.31275*	.05605
	Not Corporatized	-.09836	.04963		Not Corporatized	-.09836	.06076
Not Corporatized	Fully Corporatized	-.21438*	.04874	Not Corporatized	Fully Corporatized	-.21438*	.03600
	Partially Corporatized	.09836	.04963		Partially Corporatized	.09836	.06076
<b>(4) Overall</b>				<b>(4) Overall</b>			
Fully Corporatized	Partially Corporatized	.45302*	.04428	Fully Corporatized	Partially Corporatized	.45302*	.04797
	Not Corporatized	.19098*	.04016		Not Corporatized	.19098*	.02606
Partially Corporatized	Fully Corporatized	-.45302*	.04428	Partially Corporatized	Fully Corporatized	-.45302*	.04797
	Not Corporatized	-.26204*	.04090		Not Corporatized	-.26204*	.05241
Not Corporatized	Fully Corporatized	-.19098*	.04016	Not Corporatized	Fully Corporatized	-.19098*	.02606
	Partially Corporatized	.26204*	.04090		Partially Corporatized	.26204*	.05241

\* The mean difference is significant at the .05 level.



## APPENDIX D

### PUBLICATIONS

#### List of Journals published

1. Hairunnizam Wahid, Radiah Abdul Kader & Sanep Ahmad (2014). Lokalisasi pengagihan zakat di Malaysia: Persepsi amil dan penerima zakat. *Jurnal Islam dan Masyarakat Kontemporari*. (Forthcoming)
2. Hairunnizam Wahid, Sanep Ahmad & Radiah Abdul Kader. (2012). Penerimaan Amil dan Asnaf Terhadap Penyetempatan Pengagihan Zakat di Malaysia. *Jurnal Ekonomi Malaysia*. 46(1). 39-51 (SCOPUS-Cited Publication)
3. Hairunnizam Wahid, Sanep Ahmad & Radiah Abdul Kader. (2012). Melokalisasikan Urus tadbir Pengagihan Zakat: Peranan Institusi Masjid di Malaysia *Asian Journal of Accounting and Governance* 3: 71-83 (Non-ISI/Non-SCOPUS Cited Publication)
4. Hairunnizam Wahid, Sanep Ahmad & Radiah Abdul Kader. (2012). Cadangan Penyetempatan Pengagihan Zakat Di Malaysia: Adakah Amil Sudah Bersedia? *Jurnal Ekonomi Malaysia* 46(2). 17-27 (SCOPUS-Cited Publication)
5. Hairunnizam Wahid, Sanep Ahmad & Radiah Abdul Kader. (2012). Pengaruh faktor keagamaan terhadap kualiti hidup asnaf fakir dan miskin: Satu tinjauan awal. *Jurnal Pengurusan JAWHAR*.6(1). 131-155 (Non-ISI/Non-SCOPUS Cited Publication)
6. Hairunnizam Wahid, Sanep Ahmad & Radiah Abdul Kader. (2012).Persepsi amil dan asnaf terhadap lokalisasi zakat: Kajian di Wilayah Persekutuan Kuala Lumpur. *Jurnal Pengurusan JAWHAR*. 6(1). 79-106 (Non-ISI/Non-SCOPUS Cited Publication)
7. Hairunnizam Wahid, Sanep Ahmad & Radiah Abdul Kader. (2011). Pengaruh Faktor Keagamaan Terhadap kepuasan Hidup Individu: Kajian Kes Asnaf Fakir dan Miskin di Wilayah Persekutuan Kuala Lumpur. *Malaysian Journal of Consumer and Family Economics*. 14, 2011: 172-192 (SCOPUS-Cited Publication)
8. Hairunnizam Wahid, Sanep Ahmad & Radiah Abdul Kader. (2010). Pengagihan Zakat oleh Institusi Zakat kepada Lapan asnaf: Kajian di Malaysia. *Jurnal Pengurusan JAWHAR*. 4 (1). 141-170 (Non-ISI/Non-SCOPUS Cited Publication)
9. Hairunnizam Wahid, Sanep Ahmad & Radiah Abdul Kader. (2009). Pengagihan Zakat oleh Institusi Zakat di Malaysia: Mengapakah Masyarakat Islam Tidak Berpuashati? *Jurnal Syariah*.17 (1). 89-112 (Non-ISI/Non-SCOPUS Cited Publication)

## List of Proceedings published

1. Hairunnizam Wahid, Radiah Abdul Kader and Sanep Ahmad (2013). Localization of Zakat Distribution and the Role of Mosque: An Application of *Hablum Minallah* and *Hablum Minannas*. In Abdul Ghafar Ismail et. al (Eds.) Proceedings TAWHIDI2013 10<sup>th</sup> International Conference on Tawhid and The World-System. ISBN 978-967-12286-0-9
2. Hairunnizam Wahid, Radiah Abdul Kader and Sanep Ahmad (2012). Localization of Zakat Distribution, Religiosity, Quality of Life and Attitude Change. (Perceptions of Zakat Recipients in Malaysia) Proceeding The 13th Malaysia Indonesia Conference on Economics, Management and Accounting (MIICEMA) 2012: Palembang: Sriwijaya University. ISBN: 979-587-424-1
3. Hairunnizam Wahid, Sanep Ahmad dan Radiah Abdul Kader (2011). Lokalisasi Pengagihan Zakat di Malaysia: Adakah Amil Sudah Bersedia? The 5th ISDEV International Islamic Development Management: Islamic Marketing and Assets Management. USM Pulau Pinang. 13-14 Disember 2011. Anjuran ISDEV. ISBN: 978-967-394-073-8
4. Hairunnizam Wahid, Radiah Abdul Kader & Sanep Ahmad. (2011). Lokalisasi pengagihan zakat dan cadangan khidmat sosial: Satu tinjauan awal di Malaysia. The World Universities 1st Zakat Conference 2011 (WU1ZC 2011) at PWTC Kuala Lumpur, Malaysia on 22 – 24 November 2011. Anjuran IKAZ. ISBN 978-983-44948-2-7
5. Hairunnizam Wahid, Radiah Abdul Kader & Sanep Ahmad (2011). Lokalisasi Pengagihan zakat dan Cadangan Khidmat Sosial: Satu Tinjauan Awal. Lizar Alfansi (eds.) Proceeding The 12th Malaysia Indonesia International Conference on Economics, Management, and Accounting 2011. pp. 457-475. Bengkulu: Unib Press Universitas Bengkulu. ISBN 9789799431684
6. Hairunnizam Wahid Sanep Ahmad & Radiah Abdul Kader (2011). Cadangan Melokalisasikan Pengagihan Zakat di Malaysia: Peranan Institusi Masjid. Dalam Mansor Jusoh et.al Prosiding Persidangan Kebangsaan Ekonomi Malaysia ke-VI 2011 Jilid I. pp. 124-137. Bangi: Penerbit Fakulti Ekonomi dan Pengurusan UKM. ISBN 978-983-3198-65-8
7. Hairunnizam Wahid & Radiah Abdul Kader. (2010). Localization of Malaysian Zakat Distribution: Perceptions of Amil and Zakat Recipients. in Abdul Ghafar et.al (edt.) Proceedings of Seventh International Conference. The Tawhidi Epistemology: Zakat and Waqf Economy. pp. 461-484. ISBN 978-983-44351-2-7
8. Radiah Abdul Kader, Hairunnizam Wahid & Sanep Ahmad (2010). Cadangan Melokalisasikan Pengagihan Zakat: Persepsi Amil dan penerima Zakat. Seminar SEBUMI 3 2010. Penjanaan Ilmu Serumpun Ke arah Kelestarian Penyelidikan dan Kecemerlangan Akademik. ISBN 978-983-9391-63-3

9. Radiah Abdul Kader, Hairunnizam Wahid & Sanep Ahmad (2010). Faktor Penentu Terhadap Cadangan Lokalisasi pengagihan Zakat: Pendekatan Analisis Pengesahan Faktor (CFA). in Mariani Abdul Majid et.al (edt.) Prosiding Persidangan Kebangsaan Ekonomi Malaysia ke V 2010: Inovasi dan Pertumbuhan Ekonomi. Jilid II pp. 88-103. ISBN 978-983-3198-54-2
10. Hairunnizam Wahid Sanep Ahmad & Radiah Abdul Kader. (2010). Pengaruh Faktor Keagamaan Terhadap kepuasan Hidup Individu: Kajian Kes Asnaf Fakir dan Miskin. in Nor Aini Hj Idris et.al (edt.) Prosiding Seminar Kebangsaan MACFEA ke 14. Halatuju Penyelidikan Kepenggunaan: Isu dan Cabaran . pp. 480-499 ISBN. 978-983-3198-49-8
11. Hairunnizam Wahid, Sanep Ahmad & Radiah Abdul Kader. (2009). Pengagihan Zakat oleh Institusi Zakat kepada Lapan Asnaf: Kajian di Malaysia. Seminar Ekonomi Islam Peringkat Kebangsaan 2009: ISBN 978-983-43709-8-5
12. Hairunnizam Wahid, Sanep Ahmad & Radiah Abdul Kader. (2008). Pengagihan Zakat oleh Institusi Zakat di Malaysia: Mengapakah Masyarakat Islam Tidak Berpuashati ? in Abdul Ghafar et.al (edt.) Pascasidang Seminar Kebangsaan Ekonomi Malaysia ke III 2008. hlm 804-816: ISBN 978-983-3198-21-4

### **Chapter in Book**

1. Hairunnizam Wahid & Radiah Abdul Kader. (2013). Localization of Malaysian Zakat Distribution: Perceptions of Amil and Zakat Recipients. in Abdul Ghafar et.al (eds.) The Tawhidi Epistemology: Zakat and Waqf Economy. Kuala Lumpur: Dewan Bahasa dan Pustaka (Forthcoming).

### **Presentation at seminar/conference/workshop**

1. Hairunnizam Wahid, Radiah Abdul Kader and Sanep Ahmad (2012). Localization of Zakat Distribution, Religiosity, Quality of Life and Attitude Change. (Perceptions of Zakat Recipients in Malaysia). Paper presented at The 13th Malaysia Indonesia Conference on Economics, Management and Accounting (MIICEMA) 2012: Palembang: Sriwijaya University, Indonesia.
2. Hairunnizam Wahid, Sanep Ahmad & Radiah Abdul Kader (2011). Lokalisasi Pengagihan Zakat di Malaysia: Adakah Amil Sudah Bersedia? Paper presented at The 5th ISDEV International Islamic Development Management: Islamic Marketing and Assets Management. USM Pulau Pinang. 13-14 Disember 2011. ISDEV, USM, Malaysia.
3. Hairunnizam Wahid, Radiah Abdul Kader & Sanep Ahmad. (2011). Lokalisasi pengagihan zakat dan cadangan khidmat sosial: Satu tinjauan awal di Malaysia. Paper presented at The World Universities 1st Zakat Conference 2011 (WU1ZC 2011). PWTC Kuala Lumpur, Malaysia on 22 – 24 November 2011. IKAZ, UiTM, Malaysia.
4. Hairunnizam Wahid, Radiah Abdul Kader & Sanep Ahmad (2011). Lokalisasi Pengagihan zakat dan Cadangan Khidmat Sosial: Satu Tinjauan Awal. Paper presented

at The 12th Malaysia Indonesia International Conference on Economics, Management, and Accounting 2011. Bengkulu, Indonesia.

5. Hairunnizam Wahid, Sanep Ahmad & Radiah Abdul Kader (2011). Cadangan Melokalisasikan Pengagihan Zakat di Malaysia: Peranan Institusi Masjid. Paper presented at Persidangan Kebangsaan Ekonomi Malaysia ke-VI 2011. Fakulti Ekonomi dan Pengurusan UKM, Malaysia.

6. Hairunnizam Wahid & Radiah Abdul Kader. (2010). Localization of Malaysian Zakat Distribution: Perceptions of Amil and Zakat Recipients. Seventh International Conference. *The Tawhidi Epistemology: Zakat and Waqf Economy*. 6- 7 January 2010. Organized by Kumpulan Penyelidikan Ekonomi dan Kewangan Islam UKM and Jabatan Wakaf, Zakat dan Haji (JAWHAR). Venue: Institut Latihan Islam Malaysia (ILIM).

7. Hairunnizam Wahid Sanep Ahmad & Radiah Abdul Kader. (2010). Pengaruh Faktor Keagamaan Terhadap kepuasan Hidup Individu: Kajian Kes Asnaf Fakir dan Miskin. Seminar Kebangsaan MACFEA Ke-14. *Halatuju Penyelidikan Kepenggunaan: Isu dan Cabaran*. 13 –14 July 2010. Organized by Fakulti Ekonomi dan Perniagaan, Universiti Kebangsaan Malaysia, KPDKK& MACFEA. Vanue: Hotel Equatorial, Bangi, Selangor

8. Radiah Abdul Kader, Hairunnizam Wahid & Sanep Ahmad (2010). Seminar SEBUMI 3 2010. *Penjanaan Ilmu Serumpun Ke arah Kelestarian Penyelidikan dan Kecemerlangan Akademik*. 12 –13 Oktober 2010. Organized by Fakulti Sains Sosial & Kemanusiaan, Universiti Kebangsaan Malaysia and Universitas Indonesia. Vanue: UKM

9. Radiah Abdul Kader, Hairunnizam Wahid & Sanep Ahmad (2010). Faktor Penentu Terhadap Cadangan Lokalisasi pengagihan Zakat: Pendekatan Analisis Pengesanan Faktor (CFA). Persidangan Kebangsaan Ekonomi Malaysia Ke V 2010. Inovasi dan Pertumbuhan Ekonomi. 15 -17 Oktober 2010. Hotel Avillion Admiral Cove, Port Dickson, Negeri Sembilan. Organized by Fakulti Ekonomi dan Pengurusan, UKM

10. Hairunnizam Wahid, Sanep Ahmad & Radiah Abdul Kader (2010). Pengaruh Faktor Keagamaan Terhadap Kualiti Hidup Asnaf Fakir Dan Miskin: Pendekatan Model Persamaan Berstruktur (SEM) .The 4th ISDEV International Islamic Development Management Conference (IDMAC 2010) Zakat Transformation: From Subsistence to Productive. 21<sup>st</sup> -22<sup>nd</sup> December 2010. Organized by: Centre for Islamic Development Management Studies (ISDEV) and Universiti Sains Malaysia.

11. Radiah Abdul Kader, Hairunnizam Wahid & Sanep Ahmad (2010). Cadangan Melokalisasikan Pengagihan Zakat Di Malaysia: Satu Kajian Empirik. The 4th ISDEV International Islamic Development Management Conference (IDMAC 2010) Zakat Transformation: From Subsistence to Productive. 21<sup>st</sup> -22<sup>nd</sup> December 2010. Organized by: Centre for Islamic Development Management Studies (ISDEV) and Universiti Sains Malaysia.

12. Hairunnizam Wahid, Sanep Ahmad & Radiah Abdul Kader. (2009). Pengagihan Zakat oleh Institusi Zakat di Malaysia: Mengapakah Masyarakat Islam Tidak

Berpuashati? Seminar Ekonomi Islam Peringkat Kebangsaan 2009. Organized by Akademi Pengajian Islam Universiti Malaya

13. Hairunnizam Wahid, Sanep Ahmad & Radiah Abdul Kader. (2008). Pengagihan Zakat oleh Institusi Zakat kepada Lapan asnaf: Kajian di Malaysia Seminar Kebangsaan Ekonomi Malaysia ke III 2008 organized by Fakulti Ekonomi dan Pengurusan, UKM

### **Awards**

1. Best paper awards for article: Hairunnizam Wahid, Sanep Ahmad & Radiah Abdul Kader. (2010). Pengaruh Faktor Keagamaan Terhadap kepuasan Hidup Individu: Kajian Kes Asnaf Fakir dan Miskin. in Nor Aini Hj Idris et.al (edt.) Prosiding Seminar Kebangsaan MACFEA ke 14. Halatuju Penyelidikan Kepenggunaan: Isu dan Cabaran. pp. 480-499