



## Effects of Stewardship on Zakat Payers' Trust in Kelantan: Does a Good Mix of Board Capital Increase Zakat Payers' Trust Through Stakeholder Management?

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**ABSTRACT** - Due to the COVID-19 pandemic crisis, it is an urge to maximize the *zakat* collection to reduce citizens' burden who got laid off and lost income sources. Despite *zakat*'s obligation to every eligible Muslim, the *zakat* collection is still considered unsatisfactory due to the leakage in the *zakat* collection. The leakage happens when *zakat* payers prefer to pay directly to *asnafs*. One cause of the leakage is a lack of trust in the *zakat* institution. There is a lack of previous literature that reported on determinants of *zakat* payers' trust. Therefore, the objective of this paper is to explore the relationships between board capital, stakeholder management, and *zakat* payers' trust and the mediating effect of stakeholder management on the link between board capital and *zakat* payers' trust. Four hypotheses were derived for this paper. 553 responses were collected from *zakat* payers in Kelantan. The data was analyzed using SmartPLS and revealed that board capital and stakeholder management positively affects *zakat* payers' trust. Furthermore, board capital positively impacts stakeholder management, and the mediating effect of stakeholder management is confirmed. These findings imply that a combination of board members and good stakeholder management does increase *zakat* payers' trust, thereby strengthening the function of *zakat* institutions as a socio-economic balancer.

### ARTICLE HISTORY

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## INTRODUCTION

*Zakat* is one of the five Islamic pillars and is imposed on eligible Muslims who fulfill certain criteria. *Zakat* acts as the epicenter of the Islamic economic system (Tarimin, 2012). *Zakat* bridges the gaps between the rich and poor Muslims and the reverted and devout Muslims (Wahab & Borhan, 2014).

Malaysian citizens who got laid off and lost their source of income had increased due to the COVID-19 pandemic. Therefore, the Prime Minister of Malaysia urged the *zakat* institutions to play proactive roles in channeling financial help to those affected (Malaysiakini, 2020). The urge came as a wake-up call for the institutions to step up as the balancer in socio-economics in Malaysia, especially in backing up 99,696 who got laid off during the pandemic COVID-19 (Malaymail, 2020). However, *zakat* institutions had another concern at that time. The *zakat* collection was never at its optimum level because of the leakage.

The self-distribution practice among *zakat* payers is a factor that causes leakage in the *zakat* collection (Bashir & Ali, 2012). One factor leading to self-distribution practice is the distrust that *zakat* payers have towards the *zakat* institution. The distrust feeling that they have is due to the

inefficiency of *zakat* institutions in *zakat* fund management (Tajuddin et al., 2014) and poor stakeholder management (Ahmad & Ma'in, 2014).

Many studies on *zakat* in recent years were on *zakat* compliance behavior, the performance of the *zakat* institutions, improvement of *asnaf's* welfare, and reporting aspects (Ali et al., 2017; Aminuddin et al., 2017; Hassan et al., 2017; Ismail & Daud 2017; Alim 2015). However, the focus on the *zakat* payers' trust is still limited, especially in studies focusing on stakeholder management as a mediator in the model. Therefore, this paper investigates the board capital and stakeholder management effects on *zakat* payers' trust in a particular *zakat* institution to fill this gap. In addition, this paper also highlights the stakeholder management's mediating effect on the relationship between board capital and *zakat* payers' trust.

Kelantan was chosen as the state of interest because it is the poorest state in Malaysia (Economic Planning Unit, 2022). Therefore, this study will provide inputs to the authorities to solve the leakage in the *zakat* collection.

## LITERATURE REVIEW

Given the importance of *zakat* payers' trust in a *zakat* institution, several papers showed interest in investigating the factors that can be associated with *zakat* payers' trust (Abioye et al., 2011; Muhammad & Saad 2016; Mustafa, Mohamad et al., 2013; Samargandi et al., 2018). These further suggest the interest among researchers to explore the interrelationship between stewardship and trust. The stewardship term in this study means the act of taking care of or managing something, for example, property, an organization, money, or valuable objects (Hornby, 2010).

However, in this study, the term was broken into two concepts (board capital and stakeholder management) to fit into the research model. The concept of board capital in this study represents the board members who are stewards in charge to supervise the *zakat* institution's effectiveness and its missions' accomplishments as suggested by Donaldson and Davis (1991) and Keay (2017). Meanwhile, the concept of stakeholder management refers to effective actions facilitated by those board members to achieve the good performance that they aspire to (Donaldson & Davis, 1991; Schillemans & Basuic, 2015).

In this study, those elements from stewardship theory are assimilated into a research model based on resource dependence theory. Either board capital or stakeholder management is found to be a determinant of trust. For instance, in a study by Samargandi et al. (2018), even though stakeholder management was found not to influence the *zakat* payers' trust, it proved that the interest in exploring the relationship between stakeholder management and trust had been intensified from when Mustafa et al. (2013) and Abioye et al. (2011) had started. Mustafa et al. (2013) and Abioye et al. (2011) found out that the board capital and stakeholder management affected *zakat* payers' trust positively.

There are several studies on *zakat* payers' trust in the *zakat* institutions, but research addressing the determinants of trust in the institutions is sparse (Abioye et al., 2011; Samargandi et al., 2018). Abioye et al. (2011) propose both elements of stewardship in their study as the determinants of *zakat* payers' trust in Nigeria. The elements are board capital and stakeholder management which are two determinants out of four independent variables developed in their theoretical framework of *zakat* payers' trust in Nigeria. De Oliveira and Rabechini Jr. (2019) find that stakeholder management influences trust in their study on 130 project professionals in Brazil. The study reveals that stakeholder management influences three types of trust: intuitive, integrity, and competence. This study strengthens the findings by Mustafa et al. (2013), who said that competent board capital would improve the trustworthiness of the *zakat* institution.

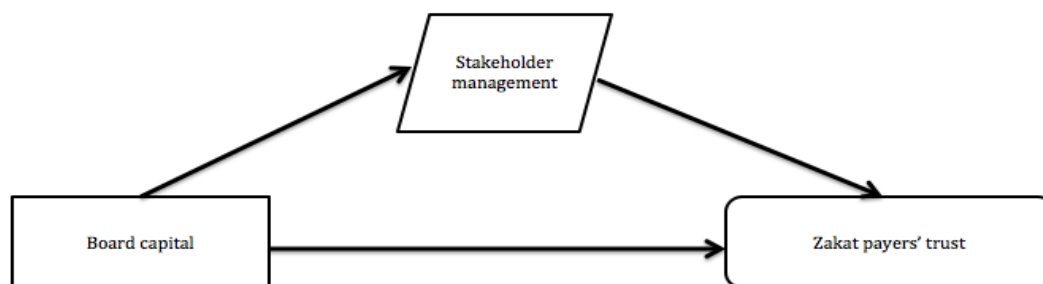
Meanwhile, Samargandi et al. (2018) found that disclosure practices positively affect *zakat* payers' trust in their study in Malaysia. The revelation supports the previous work by Mustafa et al. (2013) and Abioye et al. (2011). However, studies on the mediation effect of stakeholder management on the relationship between board capital and *zakat* payers' trust are still lacking.

Abioye et al. (2011) did find there is a positive relationship between board capital and stakeholder management, but the exploration of the mediation effect of stakeholder management did not happen there. Hence, this calls for this paper to explore the relationship between stakeholder management and trust, the relationship between board capital and trust, and the mediating variable of stakeholder management in the relationship between board capital and trust. The last cause represents a gap in the literature, and this paper intends to bridge this void with the new relationship in the *zakat* payers' trust model.

### Theoretical Background

The previous studies' findings stress the two-way relationship between the *zakat* payers and *zakat* institutions, where the payers need specific signals from the institutions to perceive them as trustworthy. Even though paying *zakat* is compulsory in Islam, the payers can always choose to pay the *zakat* directly to *asnafs* if they believe that the institutions are not trustworthy enough (Ghazali et al., 2016). It is because the cause of the *zakat* is considered more important than the medium itself (Ali et al., 2017). The *zakat* payers believe that the *zakat* payment should be conveyed and used by the rightful *asnafs* instead of being misused by the institutions' immoral managers in a worst-case scenario (Sawmar & Mohammed, 2021).

The resource dependence theory suggests that an organization's tactical decisions are influenced to an abundant range by the environment (Pfeffer & Salancik, 2003). From a *zakat* institution's perspective, Mustafa et al. (2013) impart that there are four critical signals from the institutions for *zakat* payers to perceive the entities as trustworthy. They are the nature of *zakat* institutions, board capital, disclosure practices, and stakeholder management (Mustafa et al., 2013; Abioye et al., 2011). However, for this paper, the model only investigates the effect of independent variables of board capital and stakeholder management on the dependent variable of *zakat* payers' trust. This paper also intends to explore the mediating effect of stakeholder management on the *zakat* payers' trust (Figure 1).



**Figure 1:** Proposed Model of *Zakat* Payers' Trust

This study proposes that the board capital is crucial in attracting *zakat* payers' trust. The board capital term in this study represents selected board members on the supervisory committee of a *zakat* institution. Ghani et al. (2018) used the "board management" term in their study. Meanwhile, Mustafa et al. (2013) referred to them as board capital. To gain *zakat* payers' trust, the board capital needs to be selected from different backgrounds, education, and professionalism to become the advocates and images for the *zakat* institutions. The *zakat* payers tend to trust the board capital capabilities because the board capital comes from external environment. The external environment term used in this study refers to the same term used by Ghani et al. (2018), Hasan et al. (2019), and Mustafa et al. (2013). It refers to all outside aspects and stimuli that impact the operation of a *zakat* institution. Therefore, the entity must react to aspects and stimuli to maintain its flow of operations (Ghani et al., 2018; Hasan et al., 2019; Mustafa et al., 2013).

Similarly, *zakat* institutions should treat the *zakat* recipients and other stakeholders favorably to gain the trust of *zakat* payers (Mustafa et al., 2013). Berman et al. (1999) state that stakeholder management is how an entity that manages its resources economically for its targeted beneficiaries. Sound stakeholder management is an essential element in gaining *zakat* payers' trust (Aziz & Anim, 2020; Arshad et al., 2021).

From the perspective of resource dependence theory, the board capital is the vital medium between the internal and external of an entity (Pfeffer & Salancik, 1978). The board capital can provide (1) advice and counsel by applying their knowledge, skills, and experiences, (2) legitimacy to outsiders as the mass needs outsiders to be in the entity to supervise its activity, (3) channels for disseminating insider information to the general public, and (4) way to gain supports from masses to strengthen the cause of the entity.

The assumption is that when a *zakat* institution has a dynamic mix of board members, the public's trust in the institution will grow. In other words, the good quality of board capital enhances the public's trust in the institution (Ghani et al., 2018). The public believes that a good quality of board capital increases the management of the institution in terms of honesty and effectiveness (Mustafa et al., 2013). Thus, it also implies that board capital positively impacts how an organization manages its stakeholders. These facts lead to the following hypotheses:

**H<sub>1</sub>:** The high quality of the board capital affects *zakat* payers' trust positively.

**H<sub>1a</sub>:** The high quality of the board capital positively affects the way a *zakat* institution manages its stakeholders.

The principal concept in the resource dependence theory is that the entity's strategic course of action depends on the pressure from the external environment. In managing a *zakat* institution, the public, especially *zakat* payers, expects the institution to execute its obligations in multiple directions. These obligations are known as stakeholder management and are expected practices that include performing transparency communication and taking care of the institutions' stakeholders' welfare. The great practice of stakeholder management increases the reputation of an entity. In a study by Ko et al. (2014), a company that executed good accountability to its stakeholders and public was more likely trusted by the masses. This leads to H<sub>2</sub>:

**H<sub>2</sub>:** Better stakeholder management increases *zakat* payers' trust.

The studies that include board capital and stakeholder management as the independent variables that can affect trust are easily visible (Abioye et al., 2011; Ghani et al., 2018; Mustafa et al., 2013; Samargandi et al., 2018). However, there has been little research into the role of stakeholder management in mediating the relationship between board capital and trust. The role of stakeholder management as a mediator is scarce. Nguyen and Mohamed (2021) reported that effective stakeholder management either partially or fully mediated the relationship between stakeholder characteristics and project performance in the study. However, stakeholder management fulfills the requirements set up by Baron and Kenny (1986) as the independent variable (board capital) is correlated with the mediator (stakeholder management) and the mediator (stakeholder management) is proven to affect the dependent variable (*zakat* payers' trust). Mustafa et al. (2013) reported that the board capital affected stakeholder management positively in their study. The stakeholder management was also found to affect *zakat* payers' trust positively (Ghani et al., 2018). Thus, this leads to H<sub>3</sub>:

**H<sub>3</sub>:** Stakeholder management mediates the relationship between board capital and *zakat* payers' trust.

## METHODOLOGY

### Sampling

The target population for this study covered all *zakat* payers in Kelantan state. The sampling frame in this study is a *zakat* payer who pays *zakat* through the *zakat* institution in Kelantan. Therefore, the sample in this study is 553 individual *zakat* payers who pay *zakat* payments through *amil* representatives in all 10 districts in Kelantan. Since there are two types of *zakat*, respondents were chosen based on the following criteria; 1) Muslims aged 15 years old and above, 2) owners of wealth equal to or above *nisab* level, 3) reside in Kelantan and 4) pay *zakat* through MAIK (Majlis Agama Islam dan Adat Istiadat Melayu Kelantan).

Based on the data acquired from Jabatan Perangkaan Malaysia (2019), there are 933,544 individuals in Kelantan state, aged 15 years old and above. Out of the number, only 57,941 working Muslim individuals paid *zakat* through the formal institution (Majlis Agama Islam dan Adat Istiadat Melayu Kelantan, 2017). This means that only 6.21 percent of the target population paid *zakat* through MAIK. Therefore, the researchers assumed that in every district, the minimum seven percent of the population paid *zakat* payment through a formal institution. However, Cohen (1969) suggests a sample size of 382 for a population of 57,941. Therefore, to decrease the possibility of a non-response problem, 1000 were distributed.

### Instrumentation

Items adopted from previous studies were used to create the study instrument. *Zakat* payers' trust was measured using six items adopted from Mustafa et al. (2013). Meanwhile, board capital and stakeholder management were measured using five and four items, respectively, adopted from Mustafa et al. (2013). All items were measured against a 6-point Likert scale, ranging from "1" which represents "strongly disagree" to "6" which represents "strongly agree". The 6-point Likert scale was used instead of the 5-point Likert scale because the 6-point Likert scale gives a higher discriminant value and reliability value as a whole than the 5-point Likert scale (Chomeya, 2010).

The questionnaires were distributed to 1000 *zakat* payers in 10 districts in Kelantan. A minimum of 382 responses were needed based on a suggestion by Cohen (1969). Therefore, 39 questionnaires should be distributed equally to each district. However, 100 questionnaires were distributed to avoid the non-response problem. Surprisingly, 603 valid responses in total were returned, which made the response rate 60.3%. However, only 553 of the responses were usable and proceeded to the analysis stage. 50 responses were discarded because respondents failed to answer 50 percent of the questionnaire and above as suggested by Hair et al. (2013).

### Analytical Procedures

This study used SmartPLS software Version 3.3.2 to analyze its data. The rationale for using PLS in this study is that it provides additional analysis, which simplifies the analyses for mediating effects in this study.

In most cases, a PLS model is reviewed and interpreted in two stages (Hulland, 1999). The metrics in the model were validated and examined for reliability in the first phase. The structural model was evaluated for the routes between the model's constructs in the second step. Their significance and the model's predictive ability were established. Before concluding the nature of the construct relationships, this protocol must be performed. This protocol guarantees that trustworthy and valid construct measurements are employed.

## RESULTS

### Demographic Profile of the Sample

Table 1 indicates the portions of the sample in each district in Kelantan. Kota Bharu has the highest response rate (9.0 percent), followed by Tumpat and Pasir Mas with 8.1 and 8.0 percent. According to Cohen (1992), for two arrows pointing at a construct, at a one percent significance level, the recommendation of a minimum 158-sample size and five percent significance level for a minimum 110-sample size to produce a statistical power of 80%. Therefore, the sample size in this exceeds the minimum recommendation.

**Table 1: Respondent Response Rate**

District	Number of responses		Accepted responses in %	Number of data	
	Distributed	Received		Dropped	Analyzed
Bachok	100	42	4.2	2	40
Kota Bharu	100	90	9.0	10	80
Machang	100	32	3.2	1	31
Pasir Mas	100	80	8.0	8	72
Pasir Puteh	100	74	7.4	8	66
Tanah Merah	100	78	7.8	5	73
Tumpat	100	81	8.1	5	76
Gua Musang	100	45	4.5	5	40
Kuala Krai	100	60	6.0	5	55
Jeli	100	21	2.1	1	20
Total	1000	603	60.3	50	553

### Reliability and Validity

PLS was used in this study to examine the research model depicted in Figure 1. The findings were used to evaluate the measurement model first, and then the structural model's fit and performance. To test the relationships between the constructs, PLS structural equation modeling was used (Fornell & Cha, 1994). The application of SmartPLS enables the simultaneous testing of hypotheses (Ringle et al., 2005). SmartPLS also supports single and multi-item measurements, as well as the usage of reflective and formative scales (Fornell & Bookstein, 1982). Table 2, Table 3, and Figure 2 demonstrate the results.

The internal consistency index was used to assess the reliability (Fornell & Larcker 1981). If the index reaches at least 0.70, the construct is considered reliable (Nunnally, 1978). Other criteria for reliability also include Cronbach's alpha and composite reliability. For its Cronbach's alpha value and composite reliability, the value must be greater than 0.70 (Gefen et al., 2000). The reliability report shown in Table 2 shows that all three constructs fulfill the recommended criteria.

From Table 2, the values for Cronbach's alpha for *zakat* payers' trust, board capital, and stakeholder management are 0.937, 0.940, and 0.952, respectively. Stakeholder management has the highest composite reliability value (0.965) and board capital scores of 0.954. Overall, all values surpass 0.70 as recommended.

A two-step technique was used to assess the validity of the measurement model, as recommended by Anderson and Fornell (2009). First, the convergent validity was determined. Table 2 represents data on the convergent validity. Convergent validity consists of two important criteria; outer loadings and the average variance extracted (AVE). The convergent validity is obtained if the loadings are greater than 0.50 (Bagozzi & Yi, 1991), and the average variance extracted is 0.50 or higher (Chin 1998; Fornell & Lacker, 1981).

From Table 2, all items have outer loadings values that exceed 0.70. Item zpt1 has the lowest outer loading (0.804), and item zpt3 has the highest outer loading (0.921) for *zakat* payers' trust construct. For board capital construct, item cb3 has the highest outer loading (0.930), and item cb1 has the lowest outer loading (0.845). Smp2 and smp3 score the highest outer loading (0.953) under the stakeholder management construct.

The average variance extracted (AVE) results show that all constructs have AVE values greater than 0.50. The stakeholder management construct has the highest AVE value (0.874), followed by board capital (0.807), and *zakat* payers' trust has the lowest value (0.761).

**Table 2:** Internal Consistency and Convergent Validity of Constructs

Constructs	Items	Internal consistency		Convergent validity	
		Cronbach's Alpha	CR	Outer loading	AVE
Zakat payers' trust	Zpt1	0.937	0.950	0.804	0.666
	Zpt2			0.870	
	Zpt3			0.921	
	Zpt4			0.906	
Board capital	Zpt5	0.940	0.954	0.865	0.807
	Zpt6			0.862	
	Cb1			0.845	
	Cb2			0.920	
	Cb3			0.930	
Stakeholder management	Cb4	0.952	0.965	0.899	0.874
	Cb5			0.897	
	Smp1			0.912	
	Smp2			0.953	
	Smp3			0.953	
	Smp4			0.920	

The Fornell and Lacker criterion was utilized to assess discriminant validity (Fornell & Lacker 1981). The average variance shared by each construct and its measures should be greater than the variance shared by the construct and other constructs when determining discriminant validity. The correlations for each construct are less than the square root of the average variance extracted by the construct indicators, indicating good discriminant validity. Therefore, all constructs in this study passed all the convergent and discriminant validity tests to build a structural model.

### Structural Model Analysis and Hypothesis Testing

SmartPLS 3.3.2 was used to test the structural model by a bootstrapping (5000 resamples) procedure. Figure 2 and Table 3 represent the bootstrapping results. The adjusted R<sup>2</sup> values were 0.454 and 0.443 for stakeholder management and *zakat* payers' trust, respectively (see Figure 2). Board capital explains 45.4 percent of the variance of stakeholder management. Board capital and stakeholder management jointly explain 44.3 percent of the variance of the *zakat* payers' trust. These two values are deemed sufficient to demonstrate the model's predictive ability.

Table 3 displays the results of path coefficients and hypothesis testing. Board capital and stakeholder management were the predictors of *zakat* payers' trust. Assuming a 5 percent

significance level, the relationships in the structural model include board capital → *zakat* payers' trust ( $p=0.000$ ), board capital → stakeholder management ( $p=0.000$ ), and stakeholder management → *zakat* payers' trust ( $p=0.000$ ), are significant.

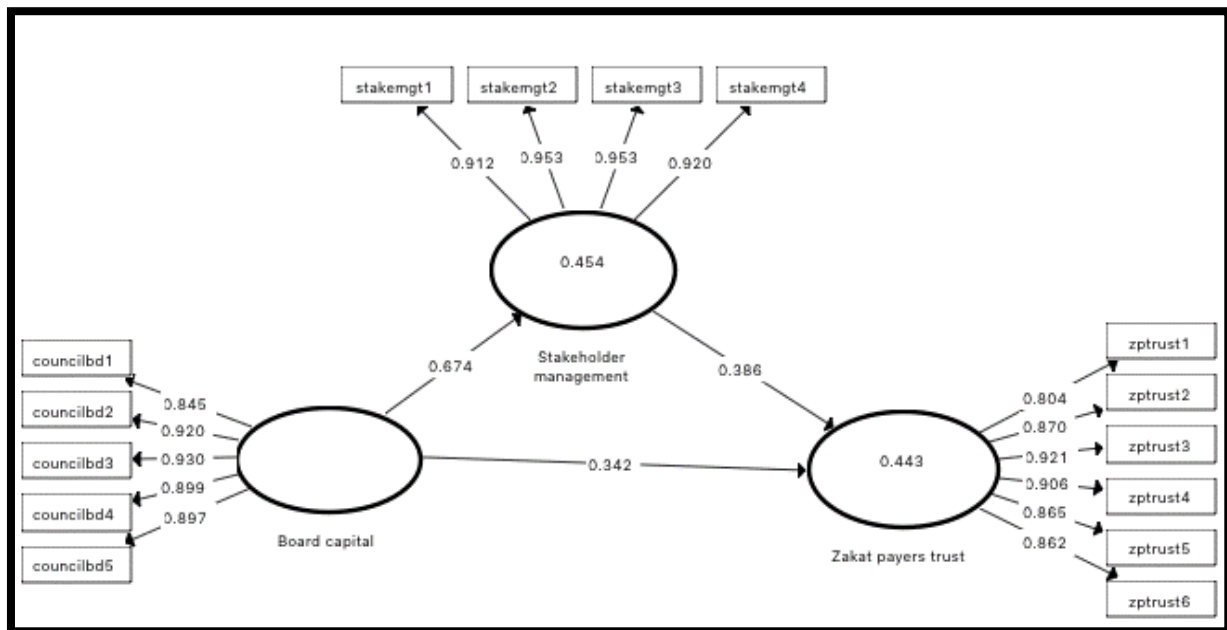


Figure 2: The PLS structural model results

Table 3: Path Coefficient and Hypothesis Testing

Hypothesis	Relationship	Coefficient	T-value	Supported
H <sub>1</sub>	Board capital → Zakat payers' trust	0.342	4.690***	Yes
H <sub>1a</sub>	Board capital → Stakeholder management	0.674	19.039***	Yes
H <sub>2</sub>	Stakeholder management → Zakat payers' trust	0.386	5.719***	Yes

Note: \*\*\* $p < 0.01$

### Mediating Effect

The evaluation of mediating effect was done by SmartPLS 3.3.2 software by bootstrapping with 5000 resamples to calculate the specific indirect effect (Hair et al., 2012; Zhao et al., 2010). Table 4 shows that the specific indirect effect of stakeholder management is significant, and the confidence interval does not include zero. Thus, H<sub>3</sub> is supported.

Table 4: Specific Indirect Effect and Confidence Interval

Hypothesis	Relationship	Specific indirect effect	T-value	Confidence interval	
				2.5%	97.5%
H <sub>3</sub>	Board capital → Stakeholder management → Zakat payers' trust	0.260	5.890***	0.177	0.352

Note:\*\*\* $p < 0.01$



## CONCLUSION

The purpose of this study was to investigate the relationship between board capital and *zakat* payers' trust, as well as the relationship between stakeholder management and *zakat* payers' trust, and to determine whether stakeholder management influences the relationship between board capital and *zakat* payers' trust as a mediator. The respondents in this study were *zakat* payers in Kelantan. Another surprising revelation found is that board capital is a determinant of stakeholder management, verifying previous findings. However, the role of stakeholder management as a mediator was unlikely studied before. This study proposes a research framework and applies SmartPLS to highlight the mediating effect of stakeholder management in the link between board capital and *zakat* payers' trust. Given the findings gained from this study, it appears that there is a direct link between board capital and *zakat* payers' trust and between stakeholder management and *zakat* payers' trust. Furthermore, a direct link between board capital and stakeholder management was discovered. In other words, if *zakat* institutions want to develop trust in *zakat* payers towards them, generally, this will happen automatically through an effective and right combination of board capital. A dynamic combination of board capital may directly establish a great practice of managing stakeholders and gaining *zakat* payers' trust.

This study presents a research methodology backed by PLS structural equation modeling to emphasize the mediating influence of stakeholder management in the relationship between board capital and *zakat* payers' trust. Based on the outcomes of the study, it appears that there is a direct relationship between *zakat* payers' trust and board capital. Our findings also shed light on the model's role in stakeholder management, which had a direct and more positive impact on *zakat* payers' trust. Another breakthrough findings were the positive direct impact of board capital on stakeholder management, which was more prominent than the impact board capital had on *zakat* payers' trust.

The relationship between a *zakat* institution's internal and external environment is the key to alleviating *zakat* payers' trust, and good practice of stakeholder management is a competitive advantage. However, to achieve a good practice of managing stakeholders, a good combination of capable and dynamic board members is necessary. The results gained in this study show that board capital and stakeholder management affect *zakat* payers' trust. Therefore, potential researchers could explore these two features of the *zakat* institution concerning increasing trust in a *zakat* institution context.

The study's findings have several implications for *zakat* institution management in general and *zakat* payers' trust in particular. The suggestion includes that *zakat* institutions enhance their governance to form a good relationship with *zakat* payers, *zakat* recipients, and the public. They can gain the confidence and trust of *zakat* payers in this manner. Future researchers could investigate whether the ineffective combination of board capital undermines the trust of *zakat* payers.

The findings in this study must be interpreted with several limitations. Firstly, this study is only generalizable to the Kelantan state context. These limitations can be improved in future studies by using samples from various states. In this study, the researcher attempted to utilize the best relevant measurements for each variable. However, the findings might come out differently if different measures were used.

Overall, this study adds theoretical and practical insights, particularly to the literature on *zakat* payers' trust. From a theoretical standpoint, the proposed model in this study differed from existing models of *zakat* payers' trust by incorporating stakeholder management as an endogenous variable. This study also applied resource dependence theory from the previous study by highlighting board capital as the determinant of stakeholder management and *zakat* payers' trust. From a viewpoint from the same theory, stakeholder management was the mediator between board capital and *zakat* payers' trust. From a practical standpoint, the study's findings provide visions for *zakat* payers' trust and *zakat* institutions. The findings thus guide welfare programs and other marketing initiatives planned by *zakat* institutions. The insights from this

study can also be inferred from other activities under *zakat* institutions, such as *wakaf* (endowment), where trust is also challenging to inspect ex-ante.

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