

FACTORS THAT INFLUENCE BUSINESS ZAKAT COMPLIANCE AMONG SMALL AND MEDIUM ENTREPRENEURS

IZLAWANIE MUHAMMAD
Universiti Sains Islam Malaysia

ABSTRACT

The purpose of this paper is to examine factors that influenced business *zakat* compliance among small and medium entrepreneurs. The factors are role of *zakat* administrator, business profitability, length of business establishment and entrepreneurs' *zakat* attitude. The study adopts mixed methods approach. 47 Muslim owners of small and medium enterprises participated in the study. They completed a survey and explained their business *zakat* compliance experience through interviews. The survey data were analyzed using the Mann-Whitney and logit regression analysis. Then, the interview data provided in-depth understanding about respondents' *zakat* attitude and opinion on role of *zakat* administrator. The results show the majority (72.3 percent) of the respondents paid business *zakat*. The factors that influence *zakat* business compliance were the business owners' *zakat* attitude and business profitability. The interview data supported the findings; respondents who paid *zakat* understood the responsibility and importance of business *zakat* payment. However, some of them regularly paid *zakat* directly to the poor and needy because they have doubts on *zakat* administrator's credibility in distributing *zakat* to *asnaf*. On the other hand, respondents who did not pay *zakat* declared that they did not know other types of *zakat* other than *zakat fitr*. This shows that the role of *zakat* administrator

in promoting business *zakat* should be made more extensive. *Zakat* administrator also can introduce a scheme where *zakat* payers can personally distribute *zakat* to *asnaf* using the money they paid to *zakat* administrators. This could encourage entrepreneurs to pay *zakat* and increase the numbers of *zakat* payers.

Keywords: Business *zakat*, *zakat* compliance, small and medium enterprise

INTRODUCTION

Zakat compliance is a critical issue to *zakat* administrators. A viable, efficient and sophisticated *zakat* collection and distribution system that has been implemented by a *zakat* administrator may not be successful if *zakat* payers do not cooperate. Understanding *zakat* payers' compliance behaviour is important for *zakat* administrators to strategize its resources according to *zakat* payers' needs and overcome any weaknesses in their administration. One of *zakat* payers that require attention by *zakat* administrator is business owners. In a developing country like Malaysia, the government encourages business development especially among Muslims residents. The number of Muslim entrepreneurs in Malaysia is increasing every year (Khamis et al., 2011). Accordingly, business *zakat* collection also has increased by 50 percent (Alias, 2013). However, there is still a big

gap between the numbers of business *zakat* payers with the numbers of companies owned by Muslims. The gap shows that there is an issue of *zakat* compliance among entrepreneurs.

Studies of entrepreneurs' *zakat* compliance behavior are dearth, particularly to the small and medium entrepreneurs. Some scholars have tested several variables that influenced business *zakat* payer's compliance behavior, for example, knowledge, law enforcement and length of business establishment (Al-Jaffri, 2010; Md Arif et al., 2011). However, the studies show different results which require further studies. Furthermore, a majority of the studies used quantitative methodology, which limits the respondents' true opinion. This study examines internal and external factors (i.e. role of *zakat* administrator, business profitability, length of business establishment and entrepreneurs' *zakat* attitude) that influenced business *zakat* compliance among small and medium entrepreneurs. The study adopts mixed methods approach. 47 Muslim small and medium entrepreneurs participated in the study. Each entrepreneur completed a survey and explained his/her business *zakat* compliance experience through interviews.

This study contributes to the limited literature on *zakat* compliance among small medium entrepreneurs. The *zakat* administrators can better understand *zakat* payers' behavior and identify weaknesses in administering *zakat* collection. Improvement in promoting business *zakat* and educating entrepreneurs, particularly in calculating business *zakat*, are essential to increase business *zakat* compliance level. Increase in *zakat* collection can benefit *asnaf* in improving their standard of living.

LITERATURE REVIEW

Business Zakat

Zakat is one of the pillars in Islam and described by Allah in the holy Quran. The obligation to pay *zakat* is linked with the order to perform prayer as stated in surah At-Taubah:

خُذْ مِنْ أَمْوَالِهِمْ صَدَقَةً تُطَهِّرُهُمْ
وَتُزَكِّيهِمْ بِهَا وَصَلِّ عَلَيْهِمْ
إِنَّ صَلَاتَكَ سَكَنٌ لَهُمْ
وَاللَّهُ سَمِيعٌ عَلِيمٌ (١٠٣)

"Of their goods take alms, that so thou mightiest purify and sanctify them; and pray on their behalf, verily thy prayers are a source of security for them".

(9:103)

Zakat is an act of distributing one's wealth to the lawful beneficiaries, who are the *asnaf*. It is essentially an act of worship through which Muslims can purify their wealth, cleanse their souls and benefit themselves as well as others. Muslims who pay *zakat* are expected to get returns not just in the present life but in the hereafter as well (Abu Bakar and Abd Rahman, 2007).

Malaysia is one of the Muslim countries that require Muslim entrepreneurs to pay business *zakat* when they have fulfilled certain conditions. Obligation to pay business *zakat* is based on the evidence in the Quran:

يَا أَيُّهَا الَّذِينَ آمَنُوا أَنْفِقُوا مِنْ طَيِّبَاتِ
مَا كَسَبْتُمْ وَمِمَّا أَخْرَجْنَا لَكُمْ مِنَ
الْأَرْضِ وَلَا تَيَمَّمُوا الْخَبِيثَ مِنْهُ تُنْفِقُونَ
وَلَسْتُمْ بِتَاخِذِيهِ إِلَّا أَنْ تُغْمِضُوا فِيهِ
وَأَعْلَمُوا أَنَّ اللَّهَ عَنِّي حَمِيدٌ (١٦٧)

"O you who have believed, spend of the good things which you have earned and from which We have bring forth for you from the earth. And do not aim toward the defective there from, to spend thereof in charity while you would not take it [yourself] except with closed eyes. And know that Allah is free of need and Praiseworthy".
(2:267)

This is supported by a hadith: Jundap r.a. said *"Whereas Prophet urged us to pay zakat on products that we offer for sale"* (narrated by Abu Daud).

Business is defined as the process of property development by way of sale and purchase to obtain gains and accompanied with the intention of trading. It also includes every transaction (i.e. contract) using the exchange system with the purpose of making a profit with participation intentions. Business *zakat* is calculated based on the business assets obtained from business transactions (Othman & Adnan, 2014). This means that business *zakat* is payable irrespective of whether the business operation is running at loss or profit as long as the company has a positive working capital. Business owners (i.e. sole-proprietors, partnerships, cooperatives) are liable to pay business *zakat* when they fulfil the following conditions:

1. Muslim. *Zakat* only can be imposed on Muslim. If the business' shares consist of Muslim and non-Muslim contributions, only the Muslim's share is subjected to *zakat*.
2. Compulsory on halal asset only. *Zakat* is not only assessed based on the profit gained by owner, but also assets of the business. Assets that are subjected to

zakat must be *halal* and acquired through the right method that has been specified in sharia principle.

3. *Haul*. *Haul* can be defined as the periodic term of the income or the asset subjected to *zakat*. *Haul* is based on asset calculated from the initial inception or start of business until the completion of one whole year, according to *Hijrah* (355 days) or Gregorian (365 days) calendar or in the other word the asset or the income must reach one year of its periodic term to be subjected to *zakat*.
4. *Nisab*. *Nisab* can be defined as the minimum amount of fully owned wealth possessed by a person.
5. Full ownership (*al-Milk at-tam*). Assets subjected to *zakat* are either it is fully owned physically (*hiyazah*) or the person has full management control of the assets (*tasaruff*). Fully owned physically can be defined as any asset possessed by the owner and it is in the hand of the owner to be subjected to *zakat*. Some assets may not be directly possessed or owned but the person has full management.
6. Compulsory for productive assets (*an-Nama'*). The assets must have growth potentials. The wealth should be of a productive nature, from which can be derived profit or benefits such as merchandise for business, gold, silver and livestock.
7. Intentions to do business (*urud at-tijarah*). The intention or purpose for business must be made when an asset becomes part of the business that is conducted in order to gain profit. Assets that are used other than business purposes are not subjected to *zakat* (Alias, 2013, Othman & Adnan, 2014).

In general, there are two business *zakat* calculation methods – *urfiyyah* and *syariyyah*. *Urfiyyah* method is also known as the adjusted growth capital, which considers the equity of ownership in a particular company and other financial sources. While the *syariyyah* method, which is also known as the adjusted working capital, considers current assets and deducts current liabilities and the necessary adjustments by adding or deducting clarified items, for example, dividends received from subsidiaries and donations at the end of the *zakat* assessment period (*haul*) (JAKIM, 2001; Hamat, 2009). Most of the states in Malaysia use the *syariyyah* method.

SME in Malaysia

SMEs in Malaysia play an important role in the country's economic development. SMEs are a source of input for large companies, account for about 99 percent of total business establishment and contribute to approximately 31 percent of the Malaysia's domestic product (SME Corp., 2011). SMEs business activity is diverse including services, manufacturing and construction. In general, Malaysian SMEs can be defined according to size, turnover and activity that fall into two categories:

- a) Manufacturing, manufacturing-related services and agro-based industries, which have either:

- fewer than 150 full-time employees; or
- An annual sales turnover of less than RM25 million.

- b) Services, primary agriculture and information and communication technology (ICT), which have either:
 - fewer than 50 full-time employees; or
 - An annual sales turnover of less than RM5 million (Saleh & Ndubisi, 2006).

The number of SMEs in Malaysia is increasing every year. Statistics from the Companies Commission of Malaysia (CCM) shows 332,723 new businesses (i.e. sole-proprietors and partnerships) registered in 2014 compared to 329,895 new businesses in 2013 (CCM, 2015). The increasing number of new SMEs reflects the country's economic stability which subsequently should increase the amount of business *zakat* collection in Malaysia.

Business Zakat Compliance

Business *zakat* collection in Malaysia is gradually increasing. **Table 1** shows business *zakat* collection in Malaysia from 2010 to 2012. It seems that business *zakat* collection in 2012 (RM469.39 million) has increased by 50 percent since 2010 (RM301.78 million).

However, Alias (2013) argued only 0.17 percent of Muslim entrepreneurs in Wilayah Persekutan Kuala Lumpur (WPKL), which is

Table 1:
Business Zakat Collection in Malaysia from 2010-2012

Year	2010	2011	2012
Business Zakat Collection (RM Million)	301.78	389.92	469.39

Source: Alias (2013)

one of 3 federal territories in Malaysia, contributed to the business *zakat* collection based on the average net of assets collection (i.e. business *zakat* payment in WPKL/ payer of the year). 99.83 percent potential business *zakat* payers in WPKL are still reluctant to pay business *zakat*, particularly the small and medium entrepreneurs. Low rate of business *zakat* non-compliance is also happening in other states in Malaysia like Selangor (Saad, 2008) and Terengganu (Baharom & Saidu, 2005). In Selangor, only 817 from 14,000 active Muslim entrepreneurs paid business *zakat* that accounts for 5.83 percent compliance rate (Saad, 2008).

Factors that Influence Business Zakat Compliance

Studies on factors that influence business *zakat* compliance among small and medium entrepreneurs are dearth. Many researchers have been focusing on relationship between *zakat* payers' compliance behaviour with other types of *zakat*, for example, *zakat fitr* and employment *zakat* (e.g. Md Idris, 2005; Sapigin et al., 2011) and the majority of the research adopted the quantitative research method.

Khamis et al. (2014) examined whether small and medium entrepreneurs pay business *zakat* and relationship between religious and business *zakat* compliance behaviour. Religiosity is one of the factors that explain human behaviour and in Islam it refers to individual practices or actions based on three basic principles of life – sharia (Islamic law and regulation), *aqidah* (basic belief) and *akhlak* (morals and values). Good Muslims with *akhlak* based on *aqidah* and sharia will be compliant with Islamic obligations including payment of *zakat*. Khamis et al. (2014) adopted a quantitative approach in this study; they collected 276

questionnaires from respondents in Selangor and analysed the data using the Rasch Measurement Model. The study found that the majority of SMEs paid business *zakat*. However, religiosity does not influence *zakat* business *zakat* compliance behaviour.

Al-Jaffri (2010) and Jogeran et al. (2015) have similar research objectives; they explored factors that influence business *zakat* among small and medium entrepreneurs. Both studies adopted quantitative research method and focused on two different states; the former study was conducted in Kedah, while the latter study was conducted in Malacca. The authors distributed questionnaires to small and medium entrepreneurs in the respective states and analysed the data using the binomial logit model. Al-Jaffri (2010) found that knowledge, self efficacy (both are the internal factors) and interaction with *amil* (the external factor) influenced business *zakat* payment. Jogeran et al. (2015) supported Al-Jaffri's (2010) result maintained that knowledge has significant relationship with business *zakat* payment behaviour. They also found that business ownership significantly influenced small and medium entrepreneurs' *zakat* compliance. The authors suggested that *zakat* collection authority should adopt a public approach more often in delivering business *zakat* information. Another factor that has not been widely tested is the role of *zakat* administrator. Al-Jafri (2010) examined a slightly similar factor, which was the interaction with *amil*. He found that interaction with *amil* was a significant factor that influenced *zakat* compliance.

Rather than focusing on small and medium entrepreneurs, Md Arif et al. (2011) examined business *zakat* payment by sharia

listed companies in Bursa Malaysia. 281 companies were selected and the following information were abstracted from the companies' annual reports - percentage of Muslim directors in the company, majority of shareholder in the company, type of industry, profitability of the company and size of the company. A Mann-Whitney test and logistic regression were used to determine if there were any significant differences between the variables with the companies' payment/non-payment of business *zakat*. The study found percentage of Muslim directors and types of industry have a significant relationship with business *zakat* payment. However, there is no further research to support the findings.

Scholars suggest other factors that may influence business *zakat* compliance. Alayuddin (2008) mentioned entrepreneurs may avoid paying business *zakat* during the first three years of business operation as those are the most critical time in managing business activities. Tax incentives such as rebate or higher percentage of allowable expenses from payment of business *zakat* may motivate entrepreneurs to pay business *zakat* (Syed Adwam Wafa, 2013). Currently, the government allows only 2.5 percent of deduction from company's aggregate taxable income for *zakat* paid to *zakat* authorities in Malaysia. *Zakat* scholars suggest that the government should allow higher business *zakat* deduction to encourage more companies to pay business *zakat* (Othman, 2013). While the accounting scholars urge government for an accounting pronouncement that would improve the comparability of reported financial information on *zakat* (Abdul Kadir, 2013; Syed Adwam Wafa, 2013).

Understanding *zakat* payers' compliance behaviour is important for *zakat* administrator to strategise its resources according to *zakat* payers' needs and overcome any weaknesses in its administration. The limited number of studies on business *zakat* compliance shows that more studies should be conducted particularly involving the small and medium entrepreneurs. While the internal and external factors that had been tested need to be justified, new factors that may influence business *zakat* compliance should be explored to better understand the entrepreneurs' *zakat* compliance behaviour. Furthermore, prior studies have adopted only the quantitative method that may not provide respondents' true view. As such, this study aim to examine internal and factors that influence business *zakat* compliance among small and medium entrepreneurs using the mixed-method research approach.

RESEARCH METHOD

This study examines internal and external factors that influence business *zakat* compliance among small and medium entrepreneurs. The internal factor is entrepreneurs' *zakat* attitude and the external factors are role of *zakat* administrator, business profitability and length of business establishment. To achieve the objectives, this study adopted the mixed-method research approach. The quantitative methodology was adopted to examine the relationship of all variables with entrepreneurs' *zakat* compliance behaviour. Questions from the literature (i.e. Jaafar et al., 2011; Arif et al., 2011) were adopted to construct the questionnaire. Measurements of each variable are shown in Table 2 below:

Table 2:**Variable Measurement**

Variable	Measurement
Entrepreneurs' attitude	Entrepreneurs' responsibility, prioritisation and willingness to pay <i>zakat</i> .
Role of <i>zakat</i> administrator	Entrepreneurs' opinion on role of pusat <i>zakat</i> to inculcate and promote business <i>zakat</i> .
Business profitability	Net income or loss in 2013 for the company.
Length of business establishment	Length of business establishment, from newly established company to more than 20 years of establishment.
<i>Zakat</i> compliance	Paid business <i>zakat</i> or has never paid business <i>zakat</i> .

The questionnaire was divided into three parts – Part A, B and C. Part A consists of three questions on business *zakat* payment. Part B contains 9 items for 2 factors, which are entrepreneurs' attitude and *zakat* administrators' role. The respondents had to indicate their agreement to the statement from the Likert of "1" (strongly disagree) to "5" (strongly agree). Part C contains demographic variables including respondent's education background, 2013 business profitability, length of business establishment and type of ownership. For the qualitative methodology, semi-structured interview questions were constructed to understand respondents' opinion and experience on business *zakat* particularly on the role of *zakat* administrator and respondent's attitude.

Convenience sampling method was adopted in this study. Enumerators approached small and medium entrepreneurs around Nilai, Negeri Sembilan for their agreement to participate in this research and meeting dates were set. During the meeting, the respondents

completed the questionnaire and explained their opinions and experience on business *zakat*. Upon the respondents' approval, the enumerators received a copy of their 2013 business income statements.

Data Analysis

Quantitative Data

The Business *Zakat* Compliance Model for this study is explained as follows:

$$\text{Logit}_i = \ln [p / (1-p)] = b_0 + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4$$

(1)

where:

$p = 1$ for paid *zakat* (yes) and 0 for did not pay *zakat* (no)

x_1 = entrepreneurs' *zakat* attitude

x_2 = role of *zakat* administrator

x_3 = business profitability

x_4 = length of business establishment

As the distribution data of this study are ordinal, a Mann-Whitney test was used to determine if there are any significant differences between the independent variables. Consequently, a logit regression

Table 3:**Demographic Information**

Information	Frequency	Percentage (%)
Gender		
Male	35	74.5
Female	12	25.5
Type of Business Ownership		
Sole-proprietor	30	63.8
Partnership	1	2.1
Sdn. Bhd.	16	34.0
Level of Education		
Secondary school	18	38.3
Bachelor Degree	24	51.1
Master Degree	4	8.5
PhD or Professional Qualification	1	2.1
Business Profit in 2013		
Loss – RM 0	6	12.8
RM1 – RM100,000	28	59.6
RM100,001 – RM200,000	5	10.6
RM200,001 – RM300,000	5	10.6
RM300,001 – RM400,000	1	2.1
More than RM500,000	2	4.3
Length of Business Establishment		
1 – 5 years	18	38.3
6 – 10 years	17	36.2
11 – 15 years	5	10.6
16 – 20 years	2	4.3
More than 20 years	5	10.6
Business Zakat Payment		
Yes	34	72.3
No	13	27.7

analysis was used to test the theoretical model of the equation. Logit regression analysis is suitably used in this study because the number of respondents for each variable is more than 10 (Peduzzi et al., 1999).

Qualitative Data

The interviews were tape-recorded and transcribed. The data were analysed using the content analysis, which is a “technique for making inferences by objectively and systematically identifying specified characteristics of message” (Holsti, 1969). The researcher focused on three factors that

may influence *zakat* compliance which are respondents’ attitude, knowledge and opinion on the role of *zakat* administrator. The interview data were categorised into common points. Subsequently the researcher compared notes and reconciled any differences that show up on the notes. Finally, revisions of the categories tightened up the point that maximizes mutual exclusivity and exhaustiveness (Weber, 1990).

Results and Discussions

47 small and medium entrepreneurs participated in this study. Table 3 shows the

demographic information of the respondents. The table shows the majority of the respondents were male (74.5 percent), sole-proprietors (63.8 percent) and had a bachelor degree (51.1 percent). The respondents' business industries include retail, food and beverages and services. The majority of the respondents made a profit between RM1 to RM100,000 in 2013 (59.6 percent) and their businesses have been established more than 5 years (61.7 percent). A total of 34 respondents (72.3 percent) paid business *zakat* in 2013 that shows high *zakat* compliance among the SMEs.

Results for relationship analysis between the independent variables and dependent variable using the Mann-Whitney test are shown in **Table 4**. The results show that there was no significant differences on the independent variables between entrepreneurs who paid and did not pay business *zakat*.

The logit regression analysis was carried out to maximum likelihood estimating

procedure; it applies a logarithmic transformation to the dependent variable and summarizes the Business *Zakat* Compliance Model. The results from the Hosmer and Lemeshow Test (**Table 5**) show that the model is fit and reliable with chi-square value of 6.748 with a significant level of .456. This value is larger than .05, therefore indicating support for the model.

The results show that the major factors that influenced business *zakat* compliance were entrepreneurs' *zakat* attitude and profit earned by the company with a .10 significant level. The positive B-value shows that the factors have positive relationship with business *zakat* compliance among small-medium entrepreneurs. It means that the more *zakat* responsibility attitude among entrepreneurs, the more likely the entrepreneurs pay business *zakat*. The result is consistent with studies by Baharom & Saidu (2005), Kamil & Ayob (2002) and Sapengin et al. (2011) which found that attitude as one the significant factors influencing Muslim individuals to pay *zakat*.

Table 4:
Results for Mann-Whitney Test: Differences on Independent Variables between Entrepreneurs Who Paid and Did Not Paid Business Zakat

Independent Factors	Mann-Whitney U	Wilcoxon W	Z	Asymp. Sig. (2-tailed)
Entrepreneur's Attitude	87.000	178.000	-3.209	.001
Role of <i>Zakat</i> Administrator	182.500	273.500	-.925	.355
Length of Business Establishment	166.500	257.500	-1.371	.171
2013 Business Profit	90.500	181.500	-3.504	.000

Table 5:
Results for the Hosmer and Lemeshow Test

Step	Chi-square	df	Sig.
1	6.748	7	.456

Table 6:

Summary of Variables in the Business *Zakat* Compliance Model
Variables in the Equation

	B	S.E.	Wald	df	Sig.	Exp(B)	95% C.I. for EXP(B)	
							Lower	Upper
Step 1 ^a Attitude Paying Zakat	2.447	.946	6.692	1	.010	11.549	1.809	73.725
Role of Zakat Administrator	.334	.515	.421	1	.516	1.397	.509	3.834
Length of Business	.682	.550	1.534	1	.215	1.977	.672	5.815
2013 Profit	2.375	1.130	4.413	1	.036	10.746	1.172	98.493
Constant	-16.690	5.657	8.705	1	.003	.000		

Notes: ^a Variable(s) entered on step 1: AttitudePayingZakat, RoleofPusatZakat, RIYear, RIIIncome

The business profit variable result also show that high business profit encourages entrepreneurs to pay business *zakat*. The result is inconsistent with a study by Md Arif et al., (2011). The inconsistency may due to different respondent groups. Md Arif et al. (2011) examined corporate taxpayers' *zakat* compliance which the authors collected 281 companies financial data from the Bursa Malaysia's website. The authors found that profitability of the company was not a significant factor that influenced business *zakat* payment. The same result was initially expected in this study because business *zakat* was not calculated based on profit earned every year. Instead, business *zakat* is calculated on surplus wealth-based either the growth capital method or the working capital method (Ismail et al., 2013).

Therefore, the *Zakat* Business Model can be written as follows:

$$\text{Logit}_i = \ln [p / (1-p)] = -16.690 + 2.447x_{i(1)} + 0.334x_{i(2)} + 0.682x_{i(3)} + 2.375x_{i(4)} \quad (2)$$

where:

$p = 1$ for paid *zakat* (yes) and 0 for did not pay *zakat* (no)

x_1 = entrepreneurs' *zakat* attitude
 x_2 = role of *zakat* administrator
 x_3 = business profitability
 x_4 = length of business establishment

The model summarizes the determinants of small and medium entrepreneurs on business *zakat* compliance. The role of *zakat* administrator and length of business establishment are not statistically significant influence entrepreneurs' business *zakat* compliance. Nevertheless, entrepreneurs' *zakat* attitude in paying *zakat* and business profit are significantly related to business *zakat* compliance among small-medium entrepreneurs.

Results of the content analysis from the interview data show that "awareness" and "difficulties" on business *zakat* explained respondents' behaviour in business *zakat* compliance. Some respondents who did not pay business *zakat* explained that they were unaware of business *zakat* responsibility. The only *zakat* that they pay every year is *zakat fitr*. On the other hand, respondents who paid business *zakat* explained *zakat* calculation methods were difficult to understand and confusing.

Hence, they regularly obtained help from friends, accountant, tax consultants or *zakat* administrator to calculate business *zakat*. Difficulties to understand business *zakat* calculation also had contributed to late payment of business *zakat* or non-payment of business *zakat* for several accounting cycles.

This study also further examined the role of *zakat* administrator in influencing *zakat* compliance. The quantitative and qualitative data analysis found that role of *zakat* administrator was a not significant that influence entrepreneurs' business *zakat* compliance. However, from the interviews, the researcher found that some respondents paid business *zakat* directly to *asnaf* (i.e. poor and needy) instead of paying to the *zakat* administrator. A respondent said:

"I always paid zakat to the poor people in my hometown, Kelantan. I feel more satisfy to pay zakat directly to them. Sometimes, I just don't understand why there are still many poor people in our society despite of millions of dollars zakat collected every year."
(Respondent 15).

The content analysis results show that "trust to *zakat* administrator" explained the respondents' compliance issue. Some respondents had doubt on *zakat* administrator's credibility in distributing *zakat* to *asnaf*. They were in the opinion that *zakat* administrator fails to distribute *zakat* to *asnaf* efficiently. Furthermore, they believed that many unfortunate families still do not receive financial support from *zakat* administrator due to red tape issues.

Other than the role of *zakat* administrator, other factor that also does not have signifi-

cant influence on business *zakat* compliance was the length of business establishment. The factor is inconsistent with Alayuddin's (2008) suggestion – length of business establishment is a factor that influenced on business *zakat* compliance. This study suggest that entrepreneurs may pay business *zakat* during the first three years of establishment, which is the critical time for entrepreneurs to manage their business; and entrepreneurs may not pay business *zakat* even though their businesses have established for many years.

CONCLUSION

This study adopted mixed-method approach to examine factors that influence small and medium entrepreneurs on business *zakat* compliance. While the quantitative data provided logical conclusion according to their confidence level, the qualitative data provided in-depth understanding on the respondents' respondents' opinion and experience on role of *zakat* administrator. The study found high business *zakat* compliance among entrepreneurs. Factors that significantly influenced business *zakat* compliance were entrepreneurs' attitude and business profitability. Further analysis found that many respondents regularly paid *zakat* directly to the poor and needy because they had doubts regarding *zakat* administrator's credibility in distributing *zakat* to *asnaf*. Some respondents also highlighted the issue of difficulties to understand business *zakat* calculation that contributed to late payment or non-payment of business *zakat* for several accounting cycles. On the other hand, some respondents declared that they did not know other types of *zakat* other than *zakat fitr*.

The results suggest that the role of *zakat* administrator in promoting business *zakat* should be widened. *Zakat* administrator also can introduce a scheme where *zakat* payers can personally distribute *zakat* to *asnaf* using the money they had paid to *zakat* administrator. This could encourage entrepreneurs to pay business *zakat* and increase the numbers of business *zakat* payers. The *zakat* administrators also should resolve the issue different interpretations and understanding of business *zakat* calculation. Difficulties to calculate business

zakat contribute to late payment or non-payment of *zakat* resulting to less *zakat* collection and less distribution to the *asnaf*.

Generalization of the findings from this study need to be treated with caution due to specific group of business *zakat* payers (i.e. small and medium entrepreneurs). Future study should re-examine the same factors from a larger group of respondents and examine other internal and external factors, for example, religiosity and enforcement.

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