

## DETERMINANTS OF THE ADOPTION OF GOOD GOVERNANCE: EVIDENCES FROM ZAKAT INSTITUTIONS IN PADANG INDONESIA

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**ABSTRACT** - Zakat is one of the fundamental principles in Islam and central to develop an economic system by enhancing socio-economic development. The importance of proper management and governance are challenges for these institutions. This study examined the determinants of the adoption of good governance practices in Zakat institutions in Padang, Indonesia. A total of 51 questionnaires were analyzed out of 135 that had been distributed. The data was analyzed using the Statistical Package for the Social Science (SPSS) for descriptive statistics and the hypothesis testing. The results showed that only size of Zakat institutions was related positively and significantly to the adoption of good governance principles in Padang, Indonesia. The age of the Zakat institution also had a positive, significant relationship with performance. The study also found that the level of adoption of good governance practices in Zakat institutions in Padang was quite low.

**Keywords:** Zakat, Governance of Zakat, Zakat institutions in Indonesia.

**ABSTRAK** – *Faktor-faktor Penentu Implementasi Tata Kelola Pemerintahan yang Baik pada Lembaga-lembaga Zakat di Padang, Indonesia.* Zakat merupakan salah satu prinsip dasar dalam Islam dan sentral untuk mengembangkan sistem ekonomi dengan meningkatkan pembangunan sosial ekonomi. Pentingnya pengelolaan dan tata kelola yang tepat adalah tantangan bagi institusi-institusi saat ini. Studi ini menguji faktor-faktor penentu penerapan praktik tata pemerintahan yang baik di lembaga-lembaga zakat di Padang, Indonesia. Sebanyak 51 kuesioner dianalisis dari 135 yang telah didistribusikan. Data dianalisis dengan menggunakan Statistical Package for the Social Science (SPSS) untuk statistik deskriptif dan pengujian hipotesis. Hasil penelitian menunjukkan bahwa hanya ukuran lembaga zakat yang terkait secara positif dan signifikan terhadap penerapan prinsip tata kelola pemerintahan yang baik di Padang, Indonesia. Zaman lembaga Zakat juga memiliki hubungan positif dan signifikan dengan kinerja. Studi tersebut juga menemukan bahwa tingkat penerapan praktik tata pemerintahan yang baik di lembaga-lembaga zakat di Padang cukup rendah.

**Kata Kunci:** Zakat, tata kelola zakat, institusi zakat di Indonesia

## INTRODUCTION

The images of “bad governance and lack of accountability” have often been presumed to be characteristic of public services organizations. Zakat institutions are no exception. As a trusted body in managing and administering Zakat, they receive much attention from the public. Maintaining a high level of transparency and good governance practices are challenges for Zakat institutions in order to achieve efficiency and good governance (Ibrahim, 2011). Essentially, governance is concerned with how an organization conducts its activities, giving direction and setting strategies in compliance with norms, regulations, and social expectations (Institute of Governance [IOG], 2003).

In other words, governance is necessarily about making organizational rules and procedures to ensure the effectiveness of an organization’s activities. Proper governance through appropriate directions and strategies for certain activities are necessarily important for enhancing socio-economic justice. Therefore, evaluation of governance is crucial for Zakat institutions to function effectively. In Indonesia and especially in Padang, for instance, no official statistical reports exist on the adoption of good governance principles in Zakat institutions. This is despite the fact that the potential for Zakat collection in Indonesia is almost 217 trillion rupiah or equal to 3.4 per cent of Indonesia’s 2010 GDP (Firdaus, Beik, Irawan & Juanda, 2012). Hence, this study examines the current practices of good governance in Zakat institutions in Padang, Indonesia.

The growth of Zakat institutions in Padang has attracted huge attention from the public. Despite being regarded with respect as trusted bodies responsible for managing and administering the Zakat, many issues exist with respect to the management performance of Padang Zakat institutions. First among these issues are transparency and accountability. The lack of accountability is evidenced in Indonesian Zakat institutions by difficulties in obtaining financial reports. This difficulty could be because Zakat institutions still perceive themselves as institutions similar to charity institutions that do not really need to be fully responsible or transparent to the public. Many of these institutions would argue that most of their work deals with issues pertaining to the soul that are not easily measured or reported (Afifuddin & Nabiha, 2010).



**Table 1. Number and Percentage of Poor in Padang**

Years	Poverty Line	Poor People	
		Total (000)	Percentage (per cent)
2011	326,705	51	6
2010	306,108	53	6
2009	272,329	47	6
2008	237,999	52	5
2007	197,554	40	5
2006	289,273	42	4

Source: Statistics of Indonesia (2013)

The second issue is related to the efficiency of Zakat institutions in Padang, as no evidence exists that they have achieved their goal of eradicating socio-economy problems. In spite of the fact that Badan *Amil* Zakat Daerah (BAZDA) collected Zakat in the amount of Rp 15 billion (USD=1,251,000) in 2011 and Rp 18.5 billion (USD= 1,542,900) in 2012 (Padang Ekspres, 2013), these funds were not effectively distributed to protect the social-economic interests of the rightful beneficiaries. As presented in the Table 1, Statistics of Indonesia (2013) recorded that the number of poor people in Padang increased from 47,000 in 2009 to 51,000 in 2011.

The huge gap between actual Zakat collection and effective Zakat distribution indicates that the performance of Zakat institutions in Padang remains low. The demand for accountability by the public is quite challenging for Zakat institutions because satisfying those demands is more than just collecting and distributing Zakat in accordance with *Shariah* principles. The expectations are that Zakat institutions will be managed professionally and efficiently (Ismail Ibrahim, 2006). As a result, Zakat institutions in Padang must improve management and governance practices. For the purposes of this study, the implementation of good governance is assumed to help Zakat managers in exercising power and control over institutional activities. Good governance is concerned with the responsibility of Zakat managers for governing their institutions with full integrity for stakeholders. The concept of good governance is a set of dynamic processes in an organization that determine the organization's structures and functions, giving directions and setting strategies (Shipley & Kovacs, 2008; Graham et al., 2003).

Good governance is a key element for institutions to conduct its activities in a manner that promotes good values, norms and ethics. Further, good governance



also ensures that organizational activities and operations meet public needs and expectations. The need for accountability in Zakat institutions is crucial because Islamic institutions such as Zakat are required by Islam to be fully accountable, fair, and honest and serve justice. Past empirical studies have focused mainly on proposing a framework for good governance and efficiency of Zakat institutions (e.g., Abdul Wahab & Abdul Rahman, 2011). Thus, research examining the level of adoption of good governance in Zakat institutions is lacking, and taken together with poor accountability and performance this need is the major motivation for this research. Even though the main focus of this study is to examine the determinants for the adoption of good governance in Zakat institutions in Padang, Indonesia, an investigation of performance is also conducted. Therefore, this study examines the determinants for the adoption of good governance and performance in Zakat institutions in Padang, Indonesia.

## **ZAKAT INSTITUTIONS IN PADANG**

Indonesia has the largest Muslim populations in the world. Eight-six per cent or 207 million of total the 240 million people are Muslims (Statistics of Indonesia, 2010). At this point, a huge potential exists for Indonesia to alleviate poverty and promote socio-economic development through effective Zakat institutions. In Indonesia, the existence Islamic institutions existed before the colonial period (Cammack & Feener, 2012). The development of Zakat institutions in Indonesia has changed since the introduction of Zakat Management enactment No. 38/1999. Generally, this law was enacted on 13 October 1999 to protect, regulate and service *Mustahiq* and *Amil Zakat* (Mujiyati, 2010). The enactment had several effects. First was the establishment of Zakat institutions through National Zakat Institution or Badan *Amil Zakat* (BAZ) and Lembaga *Amil Zakat* (LAZ). BAZ was by government, LAZ by private entities, NGOs, and corporations were under government regulations.

Padang is the capital city of West Sumatera. Padang residents called the “Minangkabau” people inhabit West Sumatera Island. The population of West Sumatera province was around 4,846,909 in 2010. While in Padang, the total population was approximately 833,562. The vast majority are Muslim (96 per cent) Statistics of Indonesia (2010). Because of the size of the Muslim population, the potential for Zakat collection is large. Zakat institutions should be managed effectively to enhance socio-economic development to support the



socio-economic justice. Particularly, Zakat activities in Padang, Indonesia have continuously developed into an innovative accumulation through the establishment of Zakat institutions. For example, local government has its Zakat institutions called BAZNAS, which were established in 2003, but only began operating in 2006. However, Zakat institutions in Padang are not only from the government but also from non-governmental institutions such as LAZ. Three NGOs have established in Padang, one is corporate, 104 are Islamic Co-operatives, and others are the many *Mosques*.

However, the establishment of Zakat institutions does not mean to be free from hindrances. One of the hurdles is the emergence of the preference of Muslims society to pay Zakat directly to beneficiaries. Pros and cons occur at this step, the pros of this concept are based on the conservative perspective of the understanding of *Muzakki* to pay Zakat directly (Dakhoir, Luth, Ruba & Syafa'at, 2014). Conservative perspective emphasizes on a group or person who gives the Zakat is subject to the individual. *Muzakki* argued that paying Zakat directly to *Mustahiq* is considered more safely compared to pay to the institutions. Besides, it will enhance level of satisfaction of Zakat payer through directly redistribution of their income and wealth (Ahmad, Wahid & Adnan Mohd, 2006). Ensuring Zakat distribution has been deserved by *Mustahiq*, it will create the satisfaction of *Muzakki* as they believed, Zakat will be utilized to strengthen standard of living of *Mustahiq*.

On the contrary, the dissent on pay directly Zakat to beneficiaries are emerged. The differences opinion is based on beneficiaries' perspective which is to eradicate poverty. In order to realize this objective, the implementation of conservative Zakat is still not able to optimize the utilization of Zakat. Zakat payers do not able to reach out the new potential beneficiaries as they tend to distribute Zakat into the same person. Hence, the transformation of paying Zakat to the Zakat institutions should be considered. The function of Zakat institutions is believed as the best intermediary from Zakat payers to find the potential beneficiaries. According to Abdullah (2010), receiving funds from Zakat payers is not only for the benefit of a large number of recipients but also to reach out to those who really need help in society. Thus, the end benefits of Zakat go to develop and enrich socio-economic justice of *Mustahiq* with the hope that someday the position of *Mustahiq* will be changed into *Muzakki*.

Therefore, enhancing Zakat management and operational system can be useful in managing Zakat which requires high level of accountability and good



administration to create public confidence. The degree of trust from Zakat payers is an integral element for improving the long-term sustainability of Zakat institutions to achieve the effectiveness of institutions' performance (Abioye, Har Sani Mohd, & Adnan, 2011).

## **GOOD GOVERNANCE PRINCIPLES: FRAMEWORK FOR ZAKAT INSTITUTIONS**

In particular, the broad and detailed systems of accountability and transparency are usually associated with non-for-profit organizations (Dellaportas, Langton & West, 2012). These organizations are widely presumed to be under threat and have an urgent need for improving transparency to pursue their noble objectives. Certainly, in comparison with the for-profit sector, accountability and transparency appear lacking in non-for-profit organizations including Zakat institutions. The question is inevitably raised in facing these issues is how to optimize institutional goals in line with Islamic law and the expectations of the Muslims community. Efforts are needed to overcome these difficulties so that the maximum levels of transparency and accountability can be achieved. Good governance principles enable organizations to realize their goals throughout strategic processes and practices (IOG, 2003).

Governance is defined as the authority of the organizations, countries or institutions to manage their affairs at the different levels of mechanisms and processes (UNDP, 1994). Stakeholders such as interested groups, employees and citizens are able to articulate their interests, exercise their legal rights, meet their obligations and mediate their differences through the practice of good governance. Here, governance utilizes more specifics in ensuring that the affairs of organizations are based on a broad consensus of organizational rules or any other relevant law to provide the right direction and right capacity to support effective and equitable organizational performance (UNDP, 1994; Graham et al., 2003; Bruhn, 2009).

### **Good Governance Principles for Zakat Institutions: An Islamic Perspective**

The concept of good governance principles from the Islamic perspective focuses on the existence of distinct features in decision-making premised on Oneness with Allah (SWT) (Choudury & Hoque, 2006). This aligns with the Islamic view in which the end goal is to attain *Falah* (success in this world and hereafter). Table 2 below presents governance principles from an Islamic



perspective, which is assumed to be applicable to Zakat institutions. The fundamental basis of governance in the Islamic faith is the concept of *Tawhid* (the Oneness of God) (Al-Faruqi, 1982).

In Islam, human beings are created as the vicegerents of Allah (SWT) and everything belongs to Allah. With regard to Zakat institutions, good governance would require that Zakat managers were more accountable to men and to Allah (SWT). Zakat managers should be aware of the surveillance of Allah (SWT) at every moment and in every condition and that an individual would be accountable for all his/her actions in the hereafter. Legitimacy & voice from an Islamic perspective highlight the existence of supportive democratic and human rights that are believed to be applicable for Zakat institutions (Table 2). Islam teaches Muslims to always perform acts of goodness to fellow Muslims including respect for existing rights, promoting of tolerance among others, and the absence of discrimination based on gender, race, ethnicity or religion in the decision-making process. Thus, Zakat institution should always promote the tolerance to public by the staff.

Direction for Zakat institutions have certain criteria for this principle dealing with the Islamic point of view. First, Zakat institutions should comply and be consistent with national Zakat directions and Islamic principles, the absolute source for Muslims. Second, Zakat managers must be fair, just and accountable in administering Zakat funds and establishing clear institutional regulations, for example, recording the real amount of Zakat collection and distribution on regular basis. Third, the accountability of Zakat managers is for both *Duniya* and *Akhirah*. The fourth, being accountable and transparent requires that Zakat managers must prepare clear visions, work towards creating management plans, present management planning in annual work plans and receive the formal approval of the appropriate Zakat authorities. All of these are to ensure the consistency of the objectives with respect to Zakat enactment or regulations. Zakat management plans must be reviewed and updated on a regular cycle to ensure the proper implementation of those plans. The fifth, spiritual and social accountability, are priorities for Zakat managers to create effective leadership. Effective leadership should ensure consistency of vision in line with regulations and Islamic law, provide sufficient human resources to mobilize Zakat funds and always support Zakat management planning.

Generally speaking, performance evaluation of Islamic institutions covers several criteria. The first is performing acts of goodness such as achieving cost



effectiveness. Zakat institutions must be efficient in Zakat collection and Zakat distribution. The second is the capacity of responsible management to undertake required functions. The responsibility is to the stakeholders of Zakat institutions and Allah (SWT) as the ultimate owner of wealth. The third requires high levels of accountability such as excellent coordination among all divisions to synchronize the efforts of Zakat managers. The fourth is that Zakat institutions should be transparent and provide sufficient information, so that stakeholders can assess Zakat collection, distribution and the number of Zakat recipients. The fifth means being responsive to society as a stakeholder. In order to achieve good performance, Zakat managers should have ability and inclination to deal immediately with public complaints or criticisms. Getting feedback to improve positive performance of Zakat institutions is vital. The sixth is equitable accountability to evaluate and monitor the progress of Zakat institutions. Zakat managers need a comprehensive review of direct results such as increasing the total amount of Zakat collection and distribution, effectiveness of efficiency ratio (Zakat distribution divided by Zakat collection) and others. Determining the direct result is important so that Zakat managers can take necessary actions in the future. The seventh is the social responsibility for risk management. A good leader in a Zakat institution must have the capacity to identify potential institutional problems. This capacity will prevent poor performance because they are prepared for the existence of the problems.

**Table 2. Islamic Perspective of Good Governance Principles**

<b>Governance Principles</b>	<b>Islamic perspective of governance principles</b>
Legitimacy and voice	Perform of goodness to other fellow Muslims Degree of decentralization for both local authority bodies and Islamic law Spiritual and social orientation Participation of all local levels of citizens and independent media should be in line with Islamic law Accountability not only to stakeholders but also to God, the ultimate owner
Direction	Comply and consistent with national or international direction and sole priority to Islamic principles Fairness, justice and accountability values Islamic accountability for both <i>Duniya</i> and <i>Akhirah</i> aspect Accountability and transparency of value Spiritual and social accountability
Performance	Perform goodness Responsibility for both stakeholders and God, ultimate owner High levels of accountability Transparency values Society as stakeholders





	Equitable accountability of evaluation and monitoring Social responsibility
Accountability	Transparency for stakeholders and God Accountable and responsible for both stakeholders and God
Fairness	Sufficient judicial context based on Islamic law Religious obligations Achieving a favourable balance of costs and benefits accordance to Islamic principles

Source: Author's model adopted and adapted from IOG (2003) and UNDP (1997).

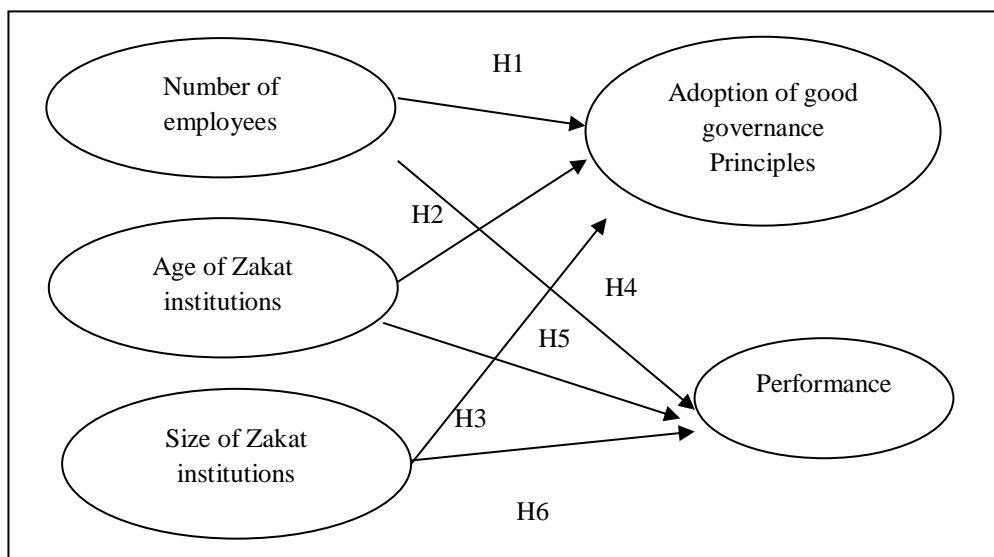
The uniqueness of this principle in Islamic view emphasizes on the performance of transparency and accountability to stakeholders of Zakat institutions (e.g., Zakat payers, Zakat recipients and Muslim community) and God. As for stakeholders, Zakat managers must provide relevant information to public. This gives a positive capacity for public to access, analyse and report the information. In Islam human beings are vicegerents of Allah (SWT), the concept of the Oneness of God (*Al-Tawhid*) become the foundation for them to always perform accountable to achieve the *Mardhatilah* of Allah (SWT) (seeking for blessings from Allah SWT). This is because Muslims believe the surveillance of Allah (SWT) always monitors their duties. Further, accountability is also concerned with the issue of transparency. Open the access to public, media and other affected parties towards the relevant information of the institutions.

Fairness refers the existence of a supportive judicial context based on Islamic law. It emphasize on being fair and impartial for enforcement of Zakat rules, including the transparency of the rules and the absence of corruption in Zakat institutions. Fairness also means perform the religious obligation. The appropriate balance to protect the other fellows of Muslim society is being important such as, practicing the law of Zakat and fair in distributing the Zakat funds. Last but not least, fairness means achieving a favourable balance of costs and benefits should be accordance to Islamic principles. Because as Zakat managers, they have to behave ethically, considering what is good and what is bad in order to promote the justice in Zakat institutions. It means Zakat managers should be dealt with equitable distribution of Zakat funds into the rightful recipients. There is no discrimination issue regarding with Zakat collection and distribution because in Islam all the human being is same and they are vicegerents of Allah (SWT).



**CONCEPTUAL FRAMEWORK AND HYPOTHESIS DEVELOPMENT**

As for purpose of the study, there are six hypotheses were developed (e.g., Figure 1). Dependent variable is governance which is often used as a proxy for five governance principles (e.g., legitimacy and voice, direction, performance, accountability and fairness). This current study uses governance as a dependent variable to how well Zakat institutions in Padang are directed and managed. In line with the *Shariah* perspective, the primary objective of a Zakat institution is to enhance efficiency and become more accountable and transparent to the public and before Allah (SWT). Moreover, the second dependent variable is performance of Zakat institutions. Performance is seen as better when the managers can increase the efficiency ratio for Zakat distribution. A good ratio implies the total amount of distribution does not differ much from collection. Further, the performance of Zakat institution is views as good, when the number of Zakat recipients increases year over year. In this study, the measurement of performance in Zakat institutions is measured by two indicators. One of them is from calculating the efficiency ratio of Zakat funds and another by measuring from the total number of Zakat recipients. The determinants factors (e.g., employees, Zakat age, size of Zakat institutions) as independent variables are measured by a different proxy.



**Figure 1. Theoretical Framework**



## **HYPOTHESIS DEVELOPMENT**

There are three determinants factors (e.g., employees, Zakat age, size of Zakat institutions) have been selected as independent variables. These independent variables are considered because this study wants exploring the other factors that might influence to better good governance of Zakat institutions in Padang, Indonesia. The independent variables seem different with the commonly used variables in corporate governance. This is because the study is conducted in Zakat institution rather than in corporate. As in Zakat institutions there are no absolute factors to measure the adoption of good governance. It could be different with corporate governance. As for details discussion on the selection of the independent variables is given in the following sections below: Numbers of Employees and Governance (H1), Age of Zakat Institutions and Governance (H2), Size of Zakat Institutions and Governance (H3), Numbers of Employees and Performance of Zakat institutions (H4), Age of Zakat Institutions and Performance of Zakat Institution (H5) and Size of Zakat institutions and Performance of Zakat Institutions (H6).

### ***Numbers of Employees and Governance***

Good governance in Zakat institutions can be associated with the accountability of leaders (Abdul Wahab & Abdul Rahman, 2011). Accountable and effective leadership will adopt management concepts to enhance the management of Zakat funds (e.g., collecting, distributing and administrating) that may help an institution improve its performance. According to Abdul Rahman (2007), institutional performance can be measured based on economy concepts representing the ratio between resources expended or budgeted for an activity and what has been received.

The assumption has been made, that a higher total number of staff involved in a Zakat institutions positively influences governance due because that staff can help an institution to improve its administrative and operational affairs (e.g., identifying potential Zakat recipients, monitoring the effectiveness of Zakat disbursement, etc.). According to Fauver and Fuerst (2006), coordination and full monitoring of employee involvement produce greatly impacts the effectiveness of governance. For example, the adoption of good governance helps provide a clear direction, where to go, who should be involved, and in what capacity staff should be involved (Graham et al., 2003). It is expected that the higher the total number of staff involved in Zakat institutions in Padang,



Indonesia the more likely it is that good governance principles will be adopted. Thus, H1 is formulated as follows:

*H1: There is a significant positive relationship between the number of employees and the adoption of good governance principles.*

### ***Age of Zakat Institutions and Governance***

Kyereboah and Biekpe (2007) argued the governance system seems to get better as organizations get older. In the case of Zakat institution, age is defined as the number of years since the institution reported managing Zakat. The older a Zakat institution is the more likely that this institution is to have adopted good governance. Older institutions tend to improve over time and adopt new innovations to increase efficiency. This is because the longer an institution manages Zakat, the more experiences are obtained. The process of adopting new innovations can be improved by implementing principles of good governance. This means trying to build a better bureaucracy, that adheres to the rules of Zakat, increases transparency, enhances the number of recipients and the number of recipients to who funds are distributed. All of these show how age directly affects adoption of good governance rules. New-born Zakat institutions are still learning but as time goes by and Zakat institution grow older, they can become better and more innovative. Therefore, H2 is formulated as follows:

*H2: There is a significant positive relationship between the age of Zakat institutions and the adoption of good governance.*

### ***Size of Zakat Institutions and Governance***

Considerable evidence suggests that firm size plays an important role in enhancing performance by adopting corporate governance. Larger organizations seem more likely to adopt good governance systems as they have more resources at their disposal compared to smaller ones. For larger organizations, the benefits derived from the implementation of good governance far outweigh the costs of its implementation (Al-Haddad et al., 2011; Fiador, 2013; Moorhead, 2007). Al-Haddad et al. (2011) found a positive relationship between the company size and corporate governance in Jordanian industrial companies. The study used a logarithm for total assets (Log TA) as a proxy for firm size. Following this logic, size of a Zakat institution could be associated with the adoption of good governance principles.



The total amount of Zakat collection can be used as a proxy for Zakat institution size. The bigger the size of Zakat institutions, the higher accountability to the stakeholders should be given. Bigger Zakat institutions as measured by collections institution will be expect to apply better good governance principles to their activities compared to those that have smaller Zakat collections. The expectation is that as Zakat institutions become larger in size, their better their accountability will become because accountability is the result of a clear institutional strategy that helps improve efficiency. Thus, the formulated H3 is stated as follows:

*H3: There is a significant positive relationship between size of Zakat institutions and the adoption of good governance.*

#### ***Numbers of Employees and Performance of Zakat institutions***

Organizations will survive if they can obtain good resources including hiring good human resources. According to Buck, Filatotchev, Wright and Zhukov (1999), one factor for improving company performance is usually associated with increased labour and capital inputs. The more correct strategic actions for labour are observed the more a firm is able to compete with other competitors in the market. Moreover, in the case of Zakat institutions in Padang, the more staff involved the more a comparative performance advantage will be obtained. The participation and the involvement of Zakat managers in decision-making will represent the voice of society. This implies that the more Zakat managers or staff there are in Zakat institutions, the more information will be obtained for the decision-making process.

Widely obtained information can be used as an input for Zakat institutions to evaluate and improve their performance. For example, the different living locations of Zakat institutions staff can be used to get information regarding location of newly identified poor and needy people in the new areas or suburb. Managers can distribute Zakat to those needing these funds to support their lives and education. Further, when staffs in Zakat institutions have different educational backgrounds, the possibility exists to create a bigger idea for improving institutional performance. For these reasons, performance is assumed to have relationship with the total number of staff. As a result, The H4 is formulated as follows:

*H4: There is a significant positive relationship between the number of employees and performance of Zakat institutions.*



### ***Age of Zakat Institutions and Performance of Zakat Institution***

Age can be used as a proxy for organizational performance (Loderer & Waelchli, 2009) and few studies have argued that firm age is the important explanatory variable for firm growth. (MacPherson, 1996) studied manufacturing industries of advanced countries and showed that there were relationships between firm growth (performance) and firm size and age.

The age of Zakat institutions could be possibly related to performance. Over time, age perhaps help an institution gain momentum for increasing performance. That is because over time if an intuition is to survive, it must necessarily develop a better understanding and knowledge of the law, strategy and the duties of Zakat. Understanding of these becomes integrated to increase institutional performance. Thus, better performance does not solely depend on increasing collections or distributions, but upon a variety of factors including increased stakeholder services. Among these are providing honest advice, becoming fully transparency and assisting Zakat donors in all matters related an update annual report and fulfilment of Zakat dues. Thus, the age of Zakat institutions may affect the performance of its managers in serving society at large. As a result, H5 is formulated as follows:

*H5: There is a significant positive relationship between the age of Zakat institutions and performance of Zakat institutions.*

### **Size of Zakat institutions and Performance of Zakat Institutions**

Firm size has been used widely as a variable to measure firm performance. Many researchers have discussed the positive impact of firm size on overall financial performance or growth. (Ha-Brookshire, 2009) found that size affected longevity in small and medium-size enterprises. In parallel with previous study, (Lun and Quaddus, 2011) pointed out that larger firms tend to adopt innovation electronic commerce at a higher level of sophistication than smaller firms. The result of this study also showed that increased firm size is positively related to firm growth; hence firm growth affects profitability. Similarly, (Guo and KGA Kumara, 2012) argued the firm size significantly impacts firm performance.

Regarding Zakat institutions, size is also considered to be a factor influencing institutional performance. Larger sizes would enable Zakat institutions to work more effectively through facilitate of new innovations and the application of



good governance. Such will lead to a clearer and more effective flow of information. As long as the new concepts or strategies that are undertaken are based on *Shariah* principles and meet religious and social obligations, Zakat institution can use the chosen that concept. In larger Zakat institutions, the tendency is to have many recipients and collect more funds. This implies that the more complex that these institutions are in their functioning, the greater opportunity is for them to adopt new, clear for enhancing performance. Thus, the H6 is formulated as follows:

*H6: There is a significant positive relationship between size of Zakat institutions and performance of Zakat institutions.*

## METHODOLOGY

The research uses primary data, collected through a self-administered survey. In order to secure sufficient data, the researcher administered the questionnaires by hand. This is because the researcher could explore more information to fulfil the research objectives and bring the researcher closer to the Zakat institutional environment. In addition, the advantages of self-administered survey are that it can cover wider populations, provides a higher response rate, and saves time in the sense it is quicker to get the participants' answers to the questions. The respondents were managers working in Zakat institutions. The respondents were those involved in Zakat management (e.g., Zakat distribution, Zakat collection, etc.) or the manager who had knowledge about his institution.

**Table 3. Measurement of Variables**

Variable	Measurement	Expected Association
Employee	The total number of staff in Zakat institutions	+
Zakat Age	The age of institutions managing Zakat	+
Size	Total amount of Zakat collection	+
Governance principles	Five governance principles	+
Performance	Efficiency ratio The total number of Zakat recipients	+

Population of this study was Zakat institution currently operating in Padang, Indonesia that is the capital city of West Sumatera. The data for Zakat institutions was obtained from BAZNAS and the local government of Padang City. There were two government-owned Zakat institutions. One of them was



established in 2003 and effectively began operating in 2006. In addition, several non-governmental Zakat institutions also have been established in Padang. These include those from NGO, corporate entities, Islamic Co-operatives and *Mosques*. There were three NGOs in Padang, one corporate organization, 104 Islamic Co-operatives and several *Mosques*.

**Table 4. Population of Zakat institutions in Padang**

Types of Zakat institution	Population	Sample Study
Government	2	2
Non-Governmental Organization	3	3
Corporate	1	1
<i>Mosque</i>	25	20
Islamic Co-operative	104	25
Total	135	51

This study targeted 135 respondents drawn from organizations presented in Table 4. The total of population was chosen based upon it represents almost the total numbers of Zakat institutions in Padang, Indonesia. The number of population is obtained from BAZNAS and local government in Padang, Indonesia. Thus, targeted 135 respondents are considered appropriate to this study.

## RESULTS AND DISCUSSION

Table 5 below summarizes the findings for the top ten ranking of Zakat institutions in adopting good governance principles in their institutions. The level of adoption of Zakat institutions was determined by the average of the score on good governance principles questions in a specific factor, which was presented in Section C of the questionnaire. The Likert-scale used to measure the level of adoption of good governance was: strongly disagree= 1, disagree= 2, neutral= 3, agree= 4 and strongly agree= 5. Overall, the average of the level of adoption of good governance principles was quite low at 2.98. This implies the level of adoption of good governance practices in Zakat institutions in Padang should still be considered low as it is below neutral which is 3. The possible reason behind this may be due to the lack of awareness and knowledge of good governance principles. Thus, the Zakat managers are not really sure about the practice of governance in their institutions.





**Table 5. Top Ten of Level Adoption of Good Governance**

Type of Zakat institution	Mean	Rank
NGO	4.86	1
Government	4.56	2
Government	4.51	3
NGO	4.33	4
<i>Mosque</i>	4.2	5
NGO	4.04	6
Corporate	4.04	7
Islamic Co-operative	3.78	8
<i>Mosque</i>	3.61	9
Islamic Co-operative	3.56	10

Moreover, Table 5 basically shows that the NGOs have the highest level of adoption of good governance from among the institutions. There are three NGOs in Padang Zakat institutions, and one of them achieved the highest level of good governance principles in its institution with an average 4.86. This indicated that the institution almost perfectly adopted the good governance principles, including respect for existing rights, promote of tolerance among others, and the absence of discrimination based on gender, race, ethnicity or religion in the decision-making process or the institution requires viable administration and establishing clear regulations and authority to set out its objectives and others. The second and third highest were governmental Zakat institutions with an average of adoption of good governance 4.56 and 4.51 respectively. These two almost strongly agreed with the adoption of good governance in their institutions. For example, these institutions had a clearly written vision and have relevant objectives, prepared a Zakat annual report and followed adequate institutional procedures.

Further, the fourth highest average was another NGO with an average of 4.33 for the adoption of good governance principles in the institution. The good adoption of good governance principle did not always come from the larger or smaller institutions. Though *Mosques* were the second smallest of Zakat institutions, obtained the fifth position with an average 4.2. This indicates that



an important point about property management is the ability of Zakat institutions to behave responsibly to its stakeholders for maintaining trust (*Amanah*) from public. This finding is supported by Al-Nasser and Muhammed (2012), who noted that the nature of Islamic institutions was unique; they are different from for-profit institutions because they serve Muslim needs by building upon the concept of trust (*Amanah*) for any activity in comply with *Shariah* law.

Furthermore, they were followed by NGO and the corporation in a tie for number six with a mean of adoption of good governance of 4.04. This implies, that on average, these institutions agreed with the statements in section C related to governance principles. Next, Islamic Co-operatives is obtained a number eight ranking with mean 3.78, showing that of the 25 Islamic Co-operative, some governed their institutions following the concepts of good governance. The ninth-ranked institution was a *Mosque* with a mean of 3.61, although this *Mosque* was the second smallest institution in terms of collections. Further, rank number ten was achieved by the smallest Zakat institution, which was Islamic Co-operative with an average score of 3.56. Islamic Co-operative adoption of legitimacy and voice, accountability, direction, performance and fairness principles still showed good governance practices.

## CONCLUSION

The study found that the level of adoption of good governance practices in Zakat institutions in Padang was quite low. The possible reason behind this may be due to the lack of awareness and knowledge good governance principles and concepts. However, not all Zakat institutions in Padang had a low adoption of good governance principles. Some of them such as NGOs and government show a high adoption rate of good governance principles. Six hypotheses were developed. The results show that the determinant of the adoption of good governance principles in Zakat institutions in Padang is only influenced by size of Zakat institutions. Meanwhile, the determinant performance of Zakat institutions in Padang is positively influenced by age of Zakat institutions. Although the establishment of Zakat institutions in Padang is quite large in number, however most of these institutions have not adopted good governance principles. This based upon the level of adoption of good governance principles.



Thus, these issues are big challenges for Zakat institutions in Padang in adopting good governance principles. In addition, based on the statistical result, several issues were related to the adoption of good governance, include; five good governance principles were identified had a difference implementation towards age and size of Zakat institutions. Meanwhile, only legitimacy and voice were significantly related to the total number of employees in Zakat institutions in Padang, Indonesia. This implies that the wide range of Zakat institutions' size and age in Padang, Indonesia will create differences in adopting good governance. However, the total number of employees in Zakat institutions will not much affect Zakat institutions in adopting good governance. Overall, the findings of the study highlight the urgency for the relevant authorities such as BAZNAS, local and national government to initiate governance improvements of Zakat institutions to ensure the achievement of socio-economic justice.

For example, enlarging the size of Zakat institutions and encouraging older Zakat institutions to adopt the good governance practices is important. Previous literature supports this finding and leads to the conclusion that larger Zakat institutions are more likely to adopt good governance because they have more available resources such as employee skills, facilities, and others to support the smooth adoption of good governance. Further, the longer Zakat institutions have been managing Zakat the more commitment and accountability they are assumed to have in satisfying stakeholders' expectations. Another policy implication for government or religious council authority is that they should develop a conceptual model for a governance framework for Zakat institutions. It will be easier for Zakat institutions to follow such a model, which, In turn, would lead to better performance in the future.

Some issues were beyond the researcher's control with respect to this study. Thus, several limitations existed. Some Zakat institutions had just been established at the time this study conducted. The scheme of good governance was still in its early stages for those institutions and most Zakat managers are unaware of those principles. For future research, it also would be interesting to compare the level adoption of good governance of Zakat institutions between Muslim countries and non-Muslim countries. Moreover, future research is also suggested to test the effect of good governance toward the performance of Zakat institutions.



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