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Economic and Behavioral Predictors of Zakah Compliance Among Muslim Entrepreneurs

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ABSTRACT

Objective: The objective of this study is to investigate the predictors of zakah compliance behavior of Muslim entrepreneurs by combining 3 dimensions: regulatory, religious, and perceptual.

Methods: This study employed a quantitative cross-sectional design in which structured questionnaires were used to collect primary data from 300 Muslim entrepreneurs. The study applied (PLS-SEM) to examine law complexity, law enforcement, religiosity, financial literacy, and perception fairness of zakah distribution on zakah compliance behavior.

Results: The results show a deleterious effect of law complexity in zakah compliance but a positive and significant impact of religiosity, financial literacy and perceived justice of zakah distribution on zakah compliance behaviour. However the other variables and no effect on law enforcement. With an adjusted R² of over 60%, the model indicated that internalized values and perceptions played a more significant role in zakah compliance than formal regulative mechanisms.

Novelty: The present study brings together economic and behavioral theories of zakah compliance and also introduces the perceived fairness of distribution as an important predictor which has not been addressed in the prior literature.

Implications: These findings highlight the essentiality of integrated zakah governance reforms that promote religious knowledge and dynamics by increasing the funds allocation transparency, through learning and training, and raising the funds efficiency through financial literacy education though non-permanent zakah institutions. These findings substantiate a practical roadmap for policymakers and zakah institutions on how to best increase compliance and maximise zakah potential to better achieve the socio-economic outcomes desired.

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1. Introduction

The global resurgence of Islamic philanthropy has again kindled debates arguing for and against zakah as an instrument of economic redistribution and poverty alleviation. But even with this fresh call to action, zakah compliance rates are shockingly low in most Muslim-majority countries. However, recent empirical studies have suggested that zakah compliance by entrepreneurs has significant room for improvement (Bin-Nashwan, Abdul-Jabbar, Aziz, & Haladu, 2020; Mohd Nor et al., 2021). Despite Muslims contributing to 24% of the global population (Taylor, 2023), zakah collection in many countries captures only a fraction of what could be contributed. In Indonesia, for instance, the potential zakah fund is around USD 13 billion while in reality it only collected less than 3% from its potential (Adnan & Ajija, 2015; Al-Bawwab, 2023). This gap emphasises the necessity of understanding what economic and behavioral drivers account for zakah compliance among Muslim entrepreneurs.

The notable contemporary issues such as the zakah administration system that can be seen as complex and inefficient with a common denominator for being implemented by weak legal enforcement and limited institutional



trust (Bin-Nashwan, Abdul-Jabbar, Aziz, & Sarea, 2020; Bin-Nashwan, Abdul-Jabbar, Aziz, et al., 2021). Studies showed that legal uncertainty and lack of trust in fairness of zakah distribution are among the primary factors led to low compliance rates (Bin-Nashwan, Abdul-Jabbar, & Aziz, 2021; Bin-Nashwan, Abdul-Jabbar, Aziz, & Sarea, 2020; Bin-Nashwan, Abdul-Jabbar, Aziz, et al., 2021). Besides, the absence of digital infrastructure and public awareness over zakah laws in many regions worsen the problem especially for micro to small entrepreneurs (Laila et al., 2022; Uddin & Mohiuddin, 2020). In another sense, the current economic uncertainty exacerbate such a situation as business owners have to secure their liquidity and operational costs rather than use it for religious-based needs (Basri & Hill, 2020). Hence, grasping zakah compliance in this multi-dimensional framework is essential and crucial for improving the effectiveness of zakah in promoting economic development (Khan et al., 2022).

Building upon an economic model of tax compliance, this study incorporates behavioral aspects and develops a multi-theoretical framework. Economic deterrence theory posits that compliance with laws and regulations is a function of their perceived costs and benefits, which take into account factors like the complexity of rules and the efficiency (or not) of enforcement (Macdonald & Pyle, 2018). Religiosity is calculated accordingly to the Theory of Planned Behavior (Ajzen, 2020) according to which attitudes as moral norms have a significant effect on behavioral intentions. At the individual level, a Standard Human Capital Theory perspective is adopted in which financial literacy represents informed economic decision-making or voluntary compliance (Becker, 1998). The equity theory proposed (SMITH & STALANS, 1991) builds on this, stating that compliance is more likely to be observed 'when individuals perceive a fair distribution of costs and (Bin-Nashwan, Abdul-Jabbar, Aziz, & Viswanathan, 2020; Fochmann & Kroll, 2016), ergo quid pro quo. These theoretical lenses allow us to study the phenomenon of zakah compliance among Muslim entrepreneurs through rationalizing and normative levels.

Despite growing literature on zakah behavior, significant inconsistencies and research gaps remain. For instance, while (Bin-Nashwan, Abdul-Jabbar, Aziz, et al., 2021) found law enforcement to have no significant effect on zakah compliance in Yemen, Rosly & Khalid (2020) reported the opposite in Malaysia. Similarly, Saad & Haniffa (2014) confirmed the importance of religiosity, whereas (Alosaimi et al., 2016), found no such impact in Saudi Arabia's corporate zakah context. Furthermore, financial literacy has been linked to general tax compliance (Lusardi, 2014), but remains underexplored in the domain of religious tax obligations like zakah. The perceived fairness of zakah distribution, while theoretically important, is rarely included as a measurable construct in empirical models (Heikal, 2014; Putra et al., 2023). These contradictions highlight the lack of consensus on which economic and behavioral predictors most influence zakah compliance. Additionally, past studies tend to emphasize either behavioral or economic dimensions, but seldom integrate both. This study addresses this critical gap by constructing an integrated model that examines five distinct predictors: law complexity, law enforcement, religiosity, financial literacy, and perceived fairness of zakah distribution. In doing so, it contributes novel insights into the mechanisms driving zakah compliance, particularly in entrepreneurial settings where formal enforcement mechanisms may be limited and moral reasoning may take precedence. This integrative approach also allows for testing the boundaries of conventional compliance theories within the context of Islamic social finance.

The purpose of this exploratory research is to identify economic and behavioral determinants of zakah compliance among Muslim encashers. In particular, it investigates the impact of complexity of law, law enforcement, religiosity, financial literacy and perceived fairness of zakah distribution on compliance behavior. The present study based on five hypothesized factors rooted in economic, behavioral, and equity theories contributes to the literature on zakah compliance by enhancing theoretical richness. The results are assumed to have applications for zakat management authorities, policymakers, and Islamic financial institutions by demonstrating effective ways to increase compliance rates and utilize zakah as a sustainable method for poverty alleviation and overall inclusive economic growth in Muslim nations worldwide.

2. Critical review

2.1 Law complexity and zakah compliance behavior



The complex legal frameworks set up due to this confidentiality, in turn, creates uncertainty and costly perception amongst zakah payers and even allow room for ambiguities. If zakah laws are unclear, complicated and ambiguous it will be hard for entrepreneurs to specify their full obligations of zakah accurately (Bin-Nashwan et al., 2020). Furthermore, legal complexity hampers voluntary participation, especially in cases of poor legal literacy (Saad et al., 2020). Thus, certain degree of simplicity in zakah regulations may create greater transparency and better compliance behavior among Muslim business owners.

H1: Law complexity negatively affects zakah compliance behavior.

2.2 Law enforcement and zakah compliance behavior

For Telangana, the scope of enhancing zakah compliance may largely depend on effective law enforcement that enhances perceived risk of non-compliance and legitimacy of zakah obligations. Transparent and consistent enforcement mechanisms make entrepreneurs more accountable to the system and less likely to engage in avoidance behaviors (Rosly & Khalid, 2020). Other research findings also support the the argument that institutional frameworks such klit and official sanction affect compliance behavior against fiscal or religious financial obligation among individuals (Muktiyanto et al., 2021). Hence, law enforcement should have a positive effect on the enforcement of compliance zakah.

H2: Law enforcement positively affects zakah compliance behavior.

2.3 Religiosity and Zakah Compliance Behavior

Religiosity is a major factor influencing the ethical and financial behaviors of Muslims, its implications on meeting of zakah obligations. Said zakah to be more of a religious obligation and less of financial duty where the larger their religiosity the higher level of spiritual experience embedded in this kufur that made them actualize obedience manifestation to God commandments (Saad & Haniffa, 2014). Studies before this research have consistently proven that religiosity affects zakah compliance considerably, since it can boost internal motivation and ethical responsibility (Andam & Osman, 2019). Therefore, the researchers predict that stronger religiosity will improve zakah compliance behavior among this group of Muslim entrepreneurs.

H3: Religiosity positively affects zakah compliance behavior.

2.4 Financial literacy and Zakah compliance behavior

A basic level of financial literacy will enable them to better understand, calculate and manage zakah obligations leading to a higher compliance. Entrepreneurs who are financial literate, Frame zakah as a certain amount of money he/she has to pay and make it into his business plan since they consider Zakah is part of their structured financial duty (Lusardi & Mitchell, 2014). For instance, when individuals understands the impact of zakah on wealth distribution and spiritual accountability (Putra et al., 2023), it will lean them towards being compliant to fiscal and religious obligations as financial literacy has been shown to positively relate with a better compliance. Therefore, it is hypothesized that financial literacy has a positive influence on zakah compliance behavior.

H4: Financial literacy positively affects zakah compliance behavior.

2.5 Perceived Fairness of Zakah Distribution and Zakah Compliance Behavior

Financial literacy can help individuals to understand, calculate and manage Zakah obligations correctly facilitating in compliance adherence. Given the importance of zakah as a systemic financial obligation, entrepreneurs who are financially literate should be more likely to perceive it, and integrate it into their business planning (Lusardi and Mitchell 2014). High financial literacy in individual genius has been proven to have better compliance with fiscal and

religious obligations, particularly if they understand the implications of zakah related in economic wealth redistribution and spiritual accountability. (Putra et al, 2023) Thus we hypothesize that financial literacy positively affects zakah compliance behavior.

H5: Perceived fairness of zakah distribution positively affects zakah compliance behavior.

3 Method Innovation

3.1 Researcher design

This study used a quantitative research design with data collected through a structured self-administered questionnaire. This method is appropriate for hypothesis-testing and has the capacity to assess relationships between variables with statistical methods. Cross-sectional survey was selected since it can capture a picture of Muslim entrepreneurs at an instant in time and collect data on their perceptions (thoughts), attitudes (feelings), and behaviors towards zakah compliance efficiently. The quantitative design (Creswell, 2014) lends itself to generalizable findings that you could then test using structural equation modeling (SEM), evaluating the role of multiple independent variables simultaneously. This design provides the confluence of these strands as they converge in the proposed model, based on more than one established approaches disciplinary field: behavioral, economic, and religious offering methodological rigor.

3.2 Source of population data

This research population is all Muslim entrepreneurs of Indonesia, especially for micro, small and medium enterprises (MSMEs). Indonesia offers a pertinent context as the largest Muslim populated country in the world to study zakah compliance (Badan Pusat Statistik, 2022). MSMEs contribute more than 60% to the total GDP in Indonesia (Bank Indonesia, 2021), and therefore are significant groups of zakah payees. Respondent selection was purposive so as to guarantee the participants would be entrepreneurs in practice and aware of their zakah responsibilities. This is consistent with past zakah obedience research in kindred contexts (Ascarya & Yumanita, 2021).

3.3 Variable data instrument

The development of the questionnaire was initiated from validated scales available in previous studies. Measuring Zakah compliance behavior (ZC) using Bin-Nashwan et al. (2020). Law complexity (LC) and law implementation (LIM): These were proposed by Saad et al. Religiosity (R) was measured with items adapted from Andam & Osman (2019); and FL items were adopted from Lusardi & Mitchell (2014), where as latent variables for measures used in perceived fairness of zakah distribution (PFZD) are built with the inspiration from Heikal (2014) and Alosaimi(2018). For all items, a 5-point Likert scale from 1 (strongly disagree) to 5 (strongly agree) was used. The reliability and the clarity of the instruments were established by pre-testing among 30 respondents before distributing to all.

3.4 Data analysis

The data was analyzed through the Partial Least Squares Structural Equation Modeling (PLS-SEM)–Smart PLS software. PLS-SEM was used because it is most appropriate for this type of exploratory research, the use of small to mid-sized sample sizes; and complex model estimation that includes multiple latent constructs (Hair et al., 2019). This analysis was done in a two-stage procedure: the measurement model was evaluated in terms of reliability, convergent and discriminant validity. In the second step, the structural model was assessed by checking path coefficients, R-square values and significance levels through bootstrapping for hypothesis testing.

4 Result

4.1 Descriptive statistics and respondent profile

Demographic characteristics of respondents Table 2 presents the demographic profile of the 300 study participants. The sample was competitively male (70.0%) with female entrepreneurs representing 30.0 %. Most of the participants (41.7%) were aged 31–40 years old, followed by those aged 20–30 years old (31.7%), 41–50 years old (20.0%), and the over-50 age group accounted for only 6.6% of the participants; This is in line with the national MSME structure in Indonesia, where (3) micro enterprises was the most making up 46.7%, followed by (2) small which consists of 40.0% and (1) medium has only 13.3%. Dominantly, 85.3% affirmed having knowledge of their zakah repayments and 14.7% said they were little aware or perhaps unaware of it. This distribution indicates a rather young and active entrepreneurial community with high zakah awareness that in turn supports the focus of this study in elucidating some of the main behavioral and economic predictors of zakah compliance. The inclusion of micro and small businesses also strengthens the reasoning behind this study chooses to emphasize that zakah compliance behavior can be improved through ease the legal and financial frameworks.

4.2 Measurement Model Evaluation

Outer loadings and construct reliability for all Latent Variables – Table 3 shows the results of outer loadings and construct reliability. This shows that all the items are reliable and over 0.70, as suggested by Hair et al., (2019). The Cronbach's Alpha values of all constructs vary from 0.81 to 0.89, indicating the great well reliability/enthusiasm. The composite reliability (CR) scores are also well above the standard criterion (>0.70), affirming the reliability of Zakah Compliance (0.90); Law Complexity (0.88); Law Enforcement (0.88); Religiosity (0.91); Financial Literacy (0.89); and Perceived Fairness of Zakah Distribution (0.92). All constructs have an AVE above 0.50, ranging from 0.65 to 0.74 (Table B.4). This is in line with satisfying convergent validity, which suggests that the constructs accounted for a reasonably large amount of variance in their corresponding indicators. High of the reliability and validity indicators show that the properties of the measurement model are statistically sound, enabling further structural analysis.

4.3 Discriminant validity (HTMT)

Table 4 shows the Heterotrait-Monotrait Ratio (HTMT) values for discriminant validity checks among six constructs. Although all the HTMT values are below 0.85 (Henseler et al., 2015), which is a conservative threshold, the highest value being 0.66 between Zakah Compliance (ZC) and The Perceived Fairness of Zakah Distribution (PFZD). The inter-construct correlations among others fall in the range of 0.29 to 0.62, implying that every construct is empirically discernible and captures a distinct unit of analysis within the zakah compliance behavior model * Law Complexity (LC)–moderately related to ZC [0.52] but definitely its own dimension * Religiosity (R)–discriminates strongly from both LE [0.29] and FL [0.45] This set of results provides evidence on the validity of the measurement model and suggests that all constructs measure distinct concepts within this research.

4.4 Collinearity Statistics

Multicollinearity among the predictor variables were checked by calculating the Variance Inflation Factor (VIF) values are reported in Table 5. Further, the VIF values are in the range of 1.69 to 1.94, which fall well below the accepted threshold of 5.0 (Hair et al., 2019), indicating that there would be no issues multicollinearity within the structural model. Each independent variable Law Complexity (1.82), Law Enforcement (1.75), Religiosity (1.69), Financial Literacy (1.88) and Perception of Fairness of Zakah Distribution (1.94) has a distinct explanatory power to measured the Zakat Compliance Behavior without increasing standard errors of the statistics model (Table 3). Low VIF value suggests model stability that boosts the trustworthiness of path coefficient estimates in later hypothesis testing step. These results provide evidence for the model's statistical adequacy, and indicate that the predictors work independently to explain variance in zakah compliance.

4.5 R-Square and Effect Size

Results for the structural model the coefficient of determination (R^2) and effect size (f^2) were shown Table 6: Table 6 Effect Size R. For this dependent variable, Zakah compliance, the R^2 value is 0.612 which means that the law

complexity (LC), law enforcement (LE), religiosity®, financial literacy (FL) and perceived fairness of zakah distribution with R² value amounting to 61.2% can explain variance in zakah compliance behavior. Such strength of factor loadings is substantial per PLS-SEM norms (Hair et al., 2019). The effect size (f²) analysis shows that PFZD makes the greatest individual prediction to the model (f² = 0.168), followed by Religiosity (f² = 0.144) and financial literacy (f² = 0.092), with moderate effects'. On the other end of the spectrum, Law Complexity (f² = 0.058) and Law Enforcement show less considerable effects. Our results show that the behavioural and perceptual aspects have more significant effect on compliance rather than legal enforcement, which indicates zakah policy development should be centred in internal motivations and fairness perceptions.

4.6 Hypothesis testing (bootstrapping results)

The results of hypothesis testing are reported in Table 7. using bootstrapping with 5,000 resamples. Results, Four of five of the hypotheses are statistically supported. This means that complexity of zakah regulation increase non harmonising behaviour($\beta = -0.211$, t: 2,982, Sig. At stage of Law Complexity (H1-playingits role andsignificant negative mediator betweenlaw complexity→zakah compliance): 0.003 This is consistent with previous research indicating that uncertainty as to procedure suppresses voluntary compliance. The impact of H2, Law Enforcement, was however, not significant ($\beta = 0.112$, t = 1.876, p = 0.061), suggesting that the law alone may not be able to uplift zakah compliance in this dimension. In line with the research showing weak effects of punishment (41, 42), settings of religious compliance are largely characterized by intrinsic motivation [although some of the predicted factors operate as well (28-fashioned suppression mechanism in prosocial behavior promotion).

Contrary to Hypothesis 3, Religiosity was a positive and significant predictor ($\beta = 0.294$, t = 4.563, p < 0.001), indicating that religious beliefs may internalized as zakah compliance is higher among this managers group) LinearLayout top margin Similar with Financial Literacy (H4) positively significantly contribute to compliance behavior ($\beta = 0.226$, t = 3.128, p = 0.002), which proved that the greater the understanding of financial principles in entrepreneurs, the more compliant they are with zakah imposes. The highest role is played by zakah perceived equity (H5) as it shows the highest effect, ($\beta = 0.308$, t = 5.102, p < 0.001), thus indicating the trust in zakah management and the equity in zakah distribution to provide the basis for tax compliance. Collectively, these findings emphasize the importance of behaviour, perception, and education-based literature that explains zakah compliance among Muslim entrepreneurs.

4.7 Discussion

This study has provided some important implications in understanding the economic and behavioral predictors of zakah compliance behavior of Muslim entrepreneurs. Based on a multi-theoretical approach, findings suggest that zakah compliance is influenced not just by external legal mechanisms, but perhaps more significantly by internalised beliefs, cognitive beliefs and fairness perceptions. These results are in line with earlier studies explain that zakah as a religious financial obligation requires mixed understanding of economic behaviour and spiritual commitment (Saad & Haniffa 2014; Bin-Nashwan et al., 2020).

Among others, one of the findings highlight that the complexity of the law could lead to negative compliance on zakah. This corroborates previous studies which found that more complex regulation results in reduced voluntary compliance, especially in developing economies where many entrepreneurs have little knowledge of the law (Saad et al., 2020; Muktiyanto et al., 2021). Zakah laws can discourage participation and trigger ambiguity over zakah calculation methods, eligible assets, or payment timelines when they are considered complex or too technical. But this set of unclear guidelines can be detrimental in Islamic finance, where zakah is seen not only as a legal obligation but also as a form of worship, potentially disrupting religious motivation. Policy implications are apparent: simplifying and standardizing zakah calculation and reporting can promote wider compliance, particularly for small and medium-sized

enterprises. These potentially streamlined systems, facilitated by digital tools, could also alleviate the administrative burden and increase the transparency of zakah management (Putra et al., 2023).

Interestingly, as per the results, law enforcement does not significantly affect zakah compliance behavior. This consistency with the results of Bin-Nashwan et al. In the Yemeni context Stacher (2020) argues that this coercive mechanism could be ineffective to enforce because coercion is ineffective when it comes to religious obligations. Zakah is unlike other taxes in which its intention is to fulfill the spiritual obligation, as opposed to simply paying the tax due to fear of punishment. Furthermore, for religious financial systems, enforcement must be based on trust and legitimacy as pointed out by scholars like Alosaimi (2018). When the body enforcing zakah is not widely regarded as appropriate, or when the public view zakah authority close to a legal authority and they are perceived to be inefficient or corrupt, this is where enforcement will not have much effect. Thus, regulatory emphasis has to move away from control mechanisms to the establishment of institutional legitimacy, transparency, and community involvement.

Religiosity is one of the most powerful and significant drivers of zakah compliance, pointing to the spiritual nature of zakah behavior. This concurs findings of previous studies which centered on religiosity as a key motivator for the performance of zakah obligations (Andam & Osman, 2019; Saad & Haniffa, 2014). The more religious the entrepreneur, the more they tend to see zakah as a God-given order and a means to spiritual soul building. However, the internalisation of strong religious values creates obligations more powerful than external coercive regulations – compliance is an act of faith, not a legal shortest path. This finding underlines the need for religious education and community-based awareness programs that do not just explain zakah mechanics, but also provide the reading between the (Islamic) lines: zakah is spiritual. It also demonstrates the importance of zakah institutions partnering with spiritual leaders or scholars to educate the masses on zakah compliance through sermons, campaigns, and community-based faith-driven financial literacy programs.

The study also found that zakah compliance behavior is significantly affected by financial literacy. This aligns with the abundant literary work which links financially literate destructive of actions and doing (Lusardi & Mitchell, 2014). When entrepreneurs possess a good understanding of the basic financial principles, they are more prone to keep correct zakah accounts, calculate the zakatable properties correctly and smoothly factor zakah payments into the business practice. In addition, financial literacy, can equip the individual to identify which assets are eligible and non-eligible for zakat, evaluate the amount of nisab threshold, so one does not under-pay due to lack of knowledge. This discovery indicates a policy lesson – the need for zakah-specific, financial literacy to be incorporated into larger financial inclusion efforts. As suggested by Putra et al. (2023), zakah literacy which are customized can assist in narrow the deficit in zakah understanding that help wealth circulation based on zakah compliance payment.

The most significant determinant of compliance behavior among individual donors is the fairness in zakah distribution, which underlines the key role of the institutional trust and perceived justice in Islamic philanthropy. Voluntary participation by most entrepreneurs is driven by their faith that distribution of zakah is conducted in a fair, about zakah. This is consistent with equity theory, which states that individuals are likely to comply with social systems when they feel that procedural and distributive justice are established (Adams, 1965) Heikal (2014) and Alosaimi (2018) also reached similar conclusions, revealing that trust towards zakah authorities and satisfaction regarding zakah fund allocation directly affect compliance intention. These results highlight the critical importance for zakah institutions of proper governance, transparent reporting and demonstrating the social impact of zakah programmes. When institutions indicate how zakah funds are used to support education, healthcare and poverty alleviation publicly, they can earn credibility and enhance the perception that zakah plays its intended socio-economic function.

The combined results, therefore, demonstrate that zakah compliance behavior and its correlates may not be sufficiently understood via a specific theoretical lens but rather through mimicking the multi-level nature of the behavior itself, encompassing legal, psychological, religious and social elements. Legal reform and law enforcement have some role to play, but they need to be supported by driving religious conviction, improving financial literacy, and

strengthening the integrity of institutions. If zakah-goers are not addressed on moral and spiritual grounds, then solely punitive or regulatory measures will come up short. Consequently, our findings suggest that improved zakah compliance among Muslim entrepreneurs is best achieved through a holistic approach combining education, religion, and policy initiatives. This can have wider implications for not only zakah institutions but also Islamic finance regulators and those in non-profit and policy-making roles who are interested in using zakah as a means to promote sustainable development and poverty alleviation.

5 Conclusion

This study contributes empirical evidence of zakah compliance behavior among Muslim entrepreneurs to the growing stream of research that indicates the role of a combination of economic and behavioral factors in this behavior. In the opposite direction, malevolent legal complexity results in lower compliance, whereas religiosity, financial literacy, and perceived fairness of zakah distribution are all positive predictors of high compliance. Even in cases of law enforcement, the result is not really significant to compliance, hence showing that coercive mechanism is not very significant in the ways that religious obligations has been fulfilled by such people. The above findings underscore the importance of a comprehensive approach that is not only limited to the legal enforcement side but also covers faith-based education, financial literacy improvement, and a proper and transparent zakah distribution system. For zakah to serve its purpose as a vehicle for equality and socio-economic development, institutions should encourage trust, reduce regulatory complexity, and leverage religious incentives. An integrated approach can bolster the effectiveness of zakah governance, and help strengthen its role towards social and economic justice within the Muslim communities.

6 Policy Implications and Conclusion

These findings present important policy implications for improving zakah compliance behaviour among Muslim entrepreneurs. Regulatory bodies, in particular, need to focus on minimizing the confusion surrounding the zakah laws in order to encourage voluntary compliance. We can develop clear set of guidelines, and especially business zakah, in consultation with Islamists, accountants and lawyers. Moreover, some digital tools and mobile applications will ease the zakah calculation and payment processes and enhance the accessibility and efficiency. Governments need to also institutionalize financial literacy programs targeted to micro, small, and medium-sized enterprises (MSMEs), but matching general financial skills with zakah-specific securities in the surrounding of Islamic finance.

In addition, the findings confirm the importance of religiosity and perceived justice in zakah compliance. Community based awareness campaigns, more emphasis on zakah as worship and social responsibility, initiated by the religious institutions and zakah authorities should be conducted. Public disclosure of zakah collection and distribution outcomes to reinforce trust and to forge the perception among payers that the system is fair and effective would be essential to achieve transparent governance. In a nutshell, the reform of zakah compliance needs a multifaceted approach of regulatory reform, financial inclusion, religious engagement and institutional accountability in order to maximize the impact of zakah on equity, poverty reduction, and economic inclusion in our Muslim societies.

7 Data Table Research

Table 1. Research variables and measurement indicator

Variable	Code	No. of Items	Source	Measurement Scale
Zakah Compliance Behavior	ZC	4	Bin-Nashwan et al. (2020)	5-point Likert
Law Complexity	LC	3	Saad et al. (2020)	5-point Likert
Law Enforcement	LE	3	Saad et al. (2020)	5-point Likert
Religiosity	R	4	Andam & Osman (2019)	5-point Likert
Financial Literacy	FL	4	Lusardi & Mitchell (2014)	5-point Likert



Variable	Code	No. of Items	Source	Measurement Scale
Perceived Fairness of Zakah Dist.	PFZD	4	Heikal (2014); Alosaimi (2018)	5-point Likert

Source; author 2024

Table 2. respondent demographics

Variable	Category	Frequency	Percentage (%)
Gender	Male	210	70.0
	Female	90	30.0
Age	20–30	95	31.7
	31–40	125	41.7
	41–50	60	20.0
	>50	20	6.6
Business Type	Micro Enterprise	140	46.7
	Small Enterprise	120	40.0
	Medium Enterprise	40	13.3
Zakah Awareness Level	Aware	256	85.3
	Unaware	44	14.7

Source; author 2024

Table 3. Outer Loadings and Construct Reliability

Construct	Item Code	Loading	Cronbach' s Alpha	Composite Reliability	AVE
ZC	ZC1	0.83	0.87	0.90	0.68
	ZC2	0.82			
	ZC3	0.84			
	ZC4	0.79			
LC	LC1	0.80	0.81	0.88	0.65
	LC2	0.82			
	LC3	0.81			
LE	LE1	0.78	0.83	0.88	0.66
	LE2	0.84			
	LE3	0.79			
R	R1	0.85	0.88	0.91	0.72
	R2	0.84			
	R3	0.87			
	R4	0.80			
FL	FL1	0.81	0.86	0.89	0.68
	FL2	0.83			
	FL3	0.82			
	FL4	0.78			
PFZD	PFZD1	0.84	0.89	0.92	0.74
	PFZD2	0.87			
	PFZD3	0.89			
	PFZD4	0.85			

Source; author 2024

Table 4. Heterotrait-Monotrait Ratio (HTMT)

Constructs	ZC	LC	LE	R	FL	PFZD
ZC	—					
LC	0.52	—				



Constructs	ZC	LC	LE	R	FL	PFZD
LE	0.47	0.55	—			
R	0.62	0.33	0.29	—		
FL	0.58	0.41	0.34	0.45	—	
PFZD	0.66	0.44	0.39	0.49	0.51	—

Source; author 2024

Table 5. Variance Inflation Factor (VIF)

Construct	VIF Range
Law Complexity (LC)	1.82
Law Enforcement (LE)	1.75
Religiosity (R)	1.69
Financial Literacy (FL)	1.88
Perceived Fairness (PFZD)	1.94

Source; author 2024

Table 6. Coefficient of Determination (R²) and Effect Size (f²)

Dependent Variable	R ²	Predictor	f ²
Zakah Compliance	0.612	LC	0.058
		LE	0.034
		R	0.144
		FL	0.092
		PFZD	0.168

Source; author 2024

Table 7. Hypothesis Testing and Path Coefficients

Hypothesis	Path	(β)	t-Statistic	p-Value	Result
Law complexity negatively affects zakah compliance behavior.	LC → ZC	-0.211	2.982	0.003	Supported
Law enforcement positively affects zakah compliance behavior.	LE → ZC	0.112	1.876	0.061	Not Supported
Religiosity positively affects zakah compliance behavior.	R → ZC	0.294	4.563	0.000	Supported
Financial literacy positively affects zakah compliance behavior.	FL → ZC	0.226	3.128	0.002	Supported
Perceived fairness of zakah distribution positively affects zakah compliance behavior.	PFZD → ZC	0.308	5.102	0.000	Supported

Source; author 2024

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Author Contributions

Dr. Rini Setiawati contributed to the conceptualization, research design, data collection, data analysis, and manuscript writing. The author reviewed and approved the final version of the manuscript.

Data Availability Statement



The data that support the findings of this study are available from the corresponding author upon reasonable request.

Conflict of Interest

The author declares no conflict of interest.

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