

Do Religious Practices Influence Compliance Behaviour of Business Zakat among SMEs?

Mohd Rahim Khamis^{a*}, Rohani Mohd^b, Arifin Md Salleh^c, Abdol Samad Nawi^d

^{a, b} *Universiti Teknologi MARA, Shah Alam Selangor, Malaysia,*

^c *Associate Professor, Universiti Teknologi Mara, Melaka, Malaysia*

^d *Rector, Universiti Teknologi Mara, Terengganu, Malaysia*

Abstract

Religious value is one of the factors determining compliance behavior of zakat as revealed by a number of studies. However, lack of study focused on religious practices and compliance behavior of zakat especially in the business zakat scenario. Hence, the main objective of this study is to determine whether religious practices influence compliance behavior of business owners towards business zakat. 276 questionnaires managed to be collected from SMEs entrepreneurs in Selangor. Rasch Measurement Model was employed to analyze the data. The construct was found reliable with Cronbach Alpha of 0.98. The statistical indicators such as mean square (MNSQ), Z-standardized (ZSTD), point measure correlation (PtMea Corr) and Person Item Distribution Map (PIDM) revealed that among 276 respondents, 106 respondents who performed religious practices meet the business zakat compliance. Interestingly 132 respondents did not comply with business zakat payment even though they perform business practices. The implication of this paper provides evidence of the usefulness of Rasch Measurement Model in identifying the compliance behavior of zakat payment among businesses. It is also able to explain that religious practices really influence Muslim business community to comply with business zakat payment.

Keywords: Zakat; Compliance; Business Zakat; Rasch Measurement Model

1. Introduction

Zakat is one of the pillars of Islam and part of the *ibadah* required of all Muslim individuals. Throughout the years, the concept of zakat has been revolutionized and it is now considered as one of the important sources of Islamic economic development, acting as a source of financial seed to jump-start the economy of the Muslim community (Anita Md Sharif, Wan Noor Hazlina Wan Jusoh, Norudin Mansor, & Kamaruzaman Jusoff, 2011). As such, it is mandatory that every Muslim individual who satisfies the required conditions pays zakat, to ensure that zakat is able to fulfil its role in the development of the economic Muslim community. Generally, Muslims pay a serious attention to the obligation to pay zakat *al-fitr* (Hasan Baharom & Sahnaz Saidu, 2004; Mohd Shah Che Ahmad, 2011, December 28) and readily

*Corresponding author. Mohd Rahim Khamis, +019-6699221 E-mail address: mohdrahim.khamis@gmail.com

fulfil this obligation since it has long been associated with the traditional practices of *Ramadhan* (Mohamed Abdul Wahab et al., 1995). However, the same cannot be said about paying zakat on wealth, especially for business zakat as there are various issues which are still hotly debated among zakat practitioners (Ram Al-Jaffri Saad, 2010a). Among the issues that need to be clarified include law enforcement of zakat payment, the company status or entity, the rules and regulations especially *fatwa* and other matters related to business zakat. Even though the obligatory payment of business zakat is clearly stated in the Holy Qur'an and other sources, some Muslims business community still lack awareness or are still confused about the subject of zakat obligation. Hence, the prevailing question that needs to be answered is why the Muslim community appears to be resisting payment of business zakat. It also begets the question why this could happen in Malaysia as the obligation to abide by business zakat is explicitly stated in the Holy Qur'an (Halizah Md Arif, Kasumalinda Alwi, & Agoos Munalis Tahir, 2011) and religious experts (*ulama'*) concord on the obligation.

In Malaysia scenario, there have various factors influence Muslim individual to comply pay zakat as revealed by previous studies (Kamil Md Idris, 2002, 2004, 2009; Raedah Sapngin, Noormala Ahmad, & Marziana Mohamad, 2011; Sanep Ahmad, Nor Ghani Md Nor, & Zulkifli Daud, 2011; Sanep Ahmad & Zulkifli Daud, 2010; Zainol Bidin & Kamil Md Idris, 2008; Zainol Bidin, Kamil Md Idris, & Faridahwati Mohd Shamsudin, 2009; Zulkifli Daud, 2011). The familiar factors frequency discussed in the scenario of zakat is religious values since the factors and human behavior are interrelated and they can influence social behavior among individuals (Michell & Al-Mossawi, 1999). Various studies have been conducted to describe the relationship between religious factors and zakat compliance behavior. For instance, Nur Barizah Abu Bakar and Hafiz Majdi Abdul Rashid (2010) examined the effect of religiosity as a factor in influencing payment of zakat on income in Malaysia. The study revealed that the religious factor becomes the main factor in influencing payment of zakat on income in Malaysia and that it demonstrates a positive relationship. Other studies have revealed that the religious factor has a positive effect on zakat compliance (Hairunnizam Wahid, Sanep Ahmad, & Mohd Ali Mohd Nor, 2007; Mohd Ali Mohd Noor, Hairunnizam Wahid, & Nor Ghani Md Nor, 2003; Muhamad Muda, Ainulashikin Marzuki, & Amir Shahrudin, 2005; Ram Al-Jaffri Saad, 2010a; Sanep Ahmad & Zulkifli Daud, 2010; Zainol Bidin, 2008; Zulkifli Daud, 2011). This establishes that when the level of religiosity among individuals is high, the level of zakat compliance behavior also increases. The explanation in previous studies is consistent as mentioned by Aidit Ghazali (1998) who also suggests that it is not easy to discuss the issue of zakat evasion as it related to the level of religiosity of each Muslim individual. The discussion from various studies revealed that religious factor is an important factor in influencing human behavior including zakat compliance behaviour.

Based on previous discussions regarding the religious factor and human behavior in zakat compliance behavior, the issue need to further clarification either religious factor influence Muslim business community to comply pay business zakat since lack of study focused on this issue. This is because the subject of religiosity in previous studies is usually related with Muslim individual behaviour compared the religious value that practices by Muslim individual. So that, this study mainly focused on the practices the Islamic values in the organizational environment such as conducting Islamic regular activities, implementing Islamic rules and regulations in the management style, providing an Islamic environment for the staff and others as recommended in Islam. Consequently, this study assumes that organizations foster Islamic religious values if they perform the obligatory deeds, recommended deeds and avoid the prohibited deeds as stipulated in Islam. Hence, when the organization applies or practices Islamic values, it is believed that it will also develop a good identity by regularly practicing the precepts of Islam such as complying to pay business zakat. This is because zakat is one of the pillars of Islam and is obligatory upon all Muslims who satisfy the necessary conditions. As such, this study assumes that the religious practices among organizations have a positive influence on compliance behavior of business zakat. Yet, the

relationship has not been empirically investigated due to the scope of studies by previous researchers that mainly focused on zakat on income. Hence, the purpose of this study is to identify either religious practices influence compliance behaviour of business zakat among SMEs.

2. Religious Practices

In explaining the subject of religiosity, Pope and Raihana Mohd Ali (2010) categorized it into two perspectives consisting of religious affiliation and religious commitment. Religious affiliation refers to a particular group of religions which is abided by individuals such as Islam, Christianity, Buddhism and Hinduism. While religious commitment refers to the individual's state of commitment to the religion and its teachings. In addition, according to Glock (1962) religiosity can be divided into five dimensions consisting of the ideological dimension which refers to the followers complying with a certain set of beliefs. Secondly, the ritualistic dimension refers to the specific religious practices such as praying, fasting and meditation. Thirdly, the experiential dimension refers to the depth of experience in religion as a measurement of religiosity. The fourth dimension is the intellectual dimension where explanations regarding religion and religious knowledge is sought and utilized by followers to strengthen their beliefs. Lastly, the consequential dimension identifies the results of the action taken by followers in complying with the first four dimensions as behavior guidelines.

In Islam, religious practices are related to individual practices or actions based on the three basic tenets of life namely *Shariah* (Islamic law and regulation), *Aqidah* (basic belief) and *Akhlak* (morals and values) (Kamil Md Idris, Zainol Bidin, & Ram Al-Jaffri Saad, 2012; Ram Al-Jaffri Saad, 2010a; Rusnah Muhamad & S.Susela Devi, 2006). *Syariah* refers to Islamic law guiding the actions of human beings through four major areas likes *ibadah*, *muamalat*, *munakahat* and *jenayah*. *Aqidah* on the other hand delivers the concept of faith and belief to Allah, His Angels, books of revelation, His prophets, Afterlife and destiny/divine decree (Ram Al-Jaffri Saad, 2010a). Rusnah Muhamad and S.Susela Devi (2006) state that *aqidah* is all forms of human faith in Allah which is demonstrated in actions. This suggests that *Aqidah* is not just verbal or oral faith but requires implemented action (Zakaria Stapa, 1998). Lastly, *Akhlak* refers to the attitude of human beings in life, moral behavior and also ethics (Kamil Md Idris et al., 2012). As such, *Akhlak* impacts greatly on daily life and behavioral situations in terms of beliefs, thoughts and actions (Rusnah Muhamad & S.Susela Devi, 2006). All the elements are interrelated and together they mould individuals with high levels of religiosity.

Most of the studies have revealed the relationship between religious factors and individual behavior in a number of situations such as saving behavior (Naziruddin Abdullah & M.Shabri Abd Majid, 2009), decision making behavior (Rusnah Muhamad & S.Susela Devi, 2006), consumer behavior (Haque, Rahman, & Haque, 2011; Khraim, 2010; Nazlida Muhamad & Mizerski, 2010; Sood & Nasu, 1995; Swimberghe, Sharma, & Flurry, 2009; Vitell & Paolillo, 2003; Wilkes, Burnett, & Howell, 1986) and compliance behavior (Hairunnizam Wahid et al., 2007; Kamil Md Idris, 2002, 2005, 2009; Muhamad Muda et al., 2005; Ram Al-Jaffri Saad, 2010a; Sanep Ahmad & Zulkifli Daud, 2010; Torgler, 2003; Zainol Bidin, 2008; Zulkifli Daud, 2011). This demonstrates that, religious factors have been recognized as one of the critical elements in discussing human behavior (Hunt & Vitell, 1986; Sood & Nasu, 1995) and that it has a huge influence on human behavior due to its close connection to spiritual belief (Ahmad Munawar Ismail, Mohd Yusof Othman, & Jawiah Dakir, 2011).

Since, the religious factor is one of the important aspects in explaining human behavior; it is not surprising that religiosity also influences zakat compliance behavior especially as zakat is an obligatory tenet for all Muslims. As good Muslims with beliefs (*Akhlak*) based on *Aqidah* and *Syariah*, they will be compliant with Islamic obligations including the payment of zakat. This is because by principle, a Muslim with more than enough wealth for his or her consumption, need to pay zakat at only 2.5 per cent of his or

her wealth to community to purify the wealth so that it continues to grow sacredly. The purifying wealth is seemed rational when they relate this good deed to the concept of “what goes around comes around”. Thus, when making a decision to pay zakat, a good Muslim is willing to share their wealth with the community without force at the same time, forgo a part of their personal consumption. This is supported by Khurshid Ahmad (2007) who describes human being fulfilling needs for personal consumption as based on a concept of *maslahat* or public welfare rather their personal instinctive desires. As such, the decision made is still considered a rational act because the goal of the decision is to reach the highest level of satisfaction (present life and afterlife (*al-Falah*)). This is clearly described in the Holy Qur’an, Al-Qasas (28:77) noted that:

"But seek, with the (wealth) which Allah has bestowed on thee, the Home of the Hereafter, nor forget thy portion in this world: but do thou good, as Allah has been good to thee, and seek not (occasions for) mischief in the land: for Allah loves not those who do mischief."

This is synchronized with the rational choice theory that described individuals as actors who will make choices based on the logic of consequences and rationale based on their calculation of expected subsequences (Mai & Ofori, 2010). The theory explained the concept of rationality in decision making to maximize utility. Sanep Ahmad and Zulkifli Daud (2010) referred to rationality as a process to maximize utility (satisfaction) based on a set of constraints. This is because, individuals frequently have alternatives and they need to make a decision among the alternatives based on their rationale. As a rational decision-maker, they measure the whole expected utility value of each potential and select the alternatives to maximize expected individual utility gain (Friedman & Savage, 1952). The whole expected utility of each potential is the total of utilities related to possible results, influenced by the probability that each result will arise. As such, the obligation to pay zakat is not a burden to the Muslim community but it can be viewed as an investment made in the present life for the afterlife as promised by the Almighty.

3. Methodology

In terms of research design, a quantitative approach was adopted for the process of data collected. These factors were measured through multi-item measurement using the five-point Likert rating scale adapted from previous studies. The population of this study consists of a group of small and medium business owners in Selangor registered with the Malaysian Selangor Malay Chamber of Commerce (DPMMNS) in nine territories and representing six major categories. The sampling technique applied in this study is the proportionate stratified random sampling technique which was conducted on the nine territories in Selangor. The population was divided into groups based on districts in Selangor. This technique was chosen due to the large numbers of small and medium entrepreneurs in Selangor and because they were geographically dispersed. After the population had been stratified based on district, a sample of members of each district was selected based on simple random sampling. This is because in simple random sampling, all respondents in the population have a chance to be selected. In collecting data for this study, the instrument used was a set of questionnaires delivered to all selected respondents. A total of 600 questionnaires were distributed. The data was then analyzed using descriptive statistics and Rasch Measurement Model.

4. Findings

Data analysis in this study involved a two-stage process. The first stage of data analysis was conducted through descriptive statistics and the second stage through Rasch Measurement Model in order to fulfil the objective of this study. Based on the 600 sets of questionnaires distributed, 315 sets of questionnaires

returned. 39 sets of questionnaires were rejected due to incomplete answers and unanswered questionnaires. As such, just 276 sets of questionnaires were analyzed. This number is satisfactory for the purposes of factor analysis as suggested by Coakes and Ong (2011) who mentioned a sample size of more than 200 as adequate.

4.1. Descriptive Statistics

Table 4.1 shows the descriptive statistics for the demographic variable presented by the business profile. This variable comprises the following: business location which is represented by nine districts in Selangor, the age of the firm which is divided into four groups, business sector which is divided into six major business sectors as classified by DPMMNS and business category which is represented by four main categories based on classification by DPMMNS. Out of 276 respondents, 22.8 percent (the majority) operated their businesses in Kuala Selangor. With regard to the age of a firm, 38.8 percent (the majority) respondents had operated their business for more than 10 years. 34.4 per cent (the most) respondents were in the services and utilities sector and 64.9 per cent (the majority) respondents operated their businesses as enterprises compared to other business categories.

Table 4.1: Descriptive Statistics for Respondents' Profile

Business Profile	Frequency	Percent
Business Location		
Sabak Bernam	22	8.0
Kuala Selangor	63	22.8
Klang	56	20.3
Petaling	52	18.8
Kuala Langat	15	5.4
Sepang	8	2.9

Hulu Selangor	22	8.0
Hulu Langat	26	9.4
Gombak	12	4.3
Age of Firm		
Below 3 years	78	28.3
4 years to 6 years	36	13.0
7 years to 9 years	55	19.9
Above 10 years	107	38.8
Business Sector		
Services and utilities	95	34.4
Agricultural	25	9.1
Property and building	45	16.3
Technology	17	6.2
Manufacturing	20	7.2
Retailing and wholesaling	74	26.8
Business Category		
Enterprise	179	64.9
Partnership	36	13.0
Sole Proprietor	56	20.3
Cooperative	5	1.8

4.2. Rasch Measurement Model

The second process of data analysis in this study employed the Rasch Measurement Model. At this stage, the analysis only focused on several aspects to achieve the objectives of this study. These include analysis on the items and persons fit. The outcomes were projected in the form of summary statistics and Person Item Distribution Map (PIDM).

4.2.1 Summary statistics

The results from the 276 respondents were tabulated and analyzed. Table 4.2 describes a total of 3180 data points from the 276 responses on the 12 items that measured religious practices. The 3180 data points explained was large enough to remain useful and stable for person measure estimates and to obtain useful and stable item calibrations. This generated a log-likelihood chi-square value of 5790.81 with 2901 degree of freedom and $p=0.000$. The Cronbach alpha (α) was at 0.88 indicating good reliability and acceptable in showing the level of consistency (Churchill, 1979; George & Mallery, 2003; Helmstadter, 1966; Marino & Stuart, 2005; Nunnally, 1967). The person reliability index was at 0.87, indicating good reliability (Fisher, 2007). This denotes that the respondents were consistent in their response. The item reliability index was given as 0.99 which is an excellent index, showing that the measurement instrument can distinguish between person ability and difficulty of the religious practices assignment. The person separation index was at 2.40, showing the spread of persons along a range and item separation index at 11.44 which is 'excellent' separation index, indicating a larger range of items than persons, and a broader range of item difficulty. The summary statistics in Table 4.2 indicates that the person and item reliability, Cronbach alpha value and separation index for the items and persons had a sufficient value.

Table 4.2: Summary Statistics for Religious Practices

Persons Measured

	Total Score	Count	Measure	Model error	Infit		Outfit	
					MNSQ	ZSTD	MNSQ	ZSTD
Mean	45.3	12.0	1.56	.47	1.00	-.2	1.05	.2
S.D	6.2	.0	1.43	.11	.89	1.6	1.09	1.6
Max	59.0	12.0	6.20	1.07	9.15	7.7	9.90	8.4
Min	27.0	12.0	-1.56	.38	.16	-3.3	.16	-3.3
Real RMSE	.55	True SD	1.32	Separation	2.40	Person Reliability	.85	
Model RMSE	.49	True SD	1.35	Separation	2.76	Person Reliability	.88	
S.E. of Person MEAN = .04								

Person RAW SCORE-TO-MEASURE CORRELATION = .99

CRONBACH ALPHA (KR-20) Person RAW SCORE "TEST" RELIABILITY = .88

Items Measured

	Total Score	Count	Measure	Model error	Infit		Outfit	
					MNSQ	ZSTD	MNSQ	ZSTD
Mean	1054.6	276.0	.00	.10	1.00	-.2	1.06	-.1
S.D	127.4	.0	1.22	.01	.27	2.8	.34	2.6
Max	1265.0	276.0	1.65	.13	1.67	5.9	1.76	4.7
Min	863.0	276.0	-2.37	.08	.67	-4.1	.67	-4.0
Real RMSE	.11	True SD	1.22	Separation	11.44	Item Reliability	.99	
Model RMSE	.10	True SD	1.22	Separation	12.22	Item Reliability	.99	
S.E. of Person MEAN = 0.24								

3180 Data points. Log-likelihood Chi-square: 5790.81 with 2901 d.f p=.000

4.2.2. Items Polarity and Misfit

Item polarity is an indicator used to show the items are in line with the construct measurement and it is also based on point measure correlation (PtMea Corr). The measurement with a positive index for all items shows correlation with the construct. Measurements with a negative index highlight the items that need to be re-examined for removal or rephrasing as it has elicited careless responses (Mohd Kashfi Mohd Jailani, 2011). In addition, the analysis to identify the misfit items, three indicators such as point measure correlation value (PtMea Corr), mean square (MNSQ) and Z-standardized (ZSTD) are utilized. According to Azrilah Abdul Aziz (2011) there are three criteria to be considered in examining the outfit data. The item are considered to be misfit with the model if the point measure correlation (PtMea Corr) is larger than 0.4 and less than 0.85 ($0.4 < \text{PtMea Corr} < 0.85$), the outfit mean square (MNSQ) is larger than 0.5 and less than 1.5 ($0.5 < \text{MNSQ} < 1.5$) and the outfit Z-standard (ZSTD) is larger than -2 and less than +2. The three criteria must be fulfilled in identifying the outfit or outliers in the data. Hence, based on the item polarity and misfit as shown in table 4.3 revealed that all 12 items constructed with the positive value of point measure correlation coefficient (PtMea Corr) indicating that all items measured were in the same direction in the development of the construct. For item misfit, none of the 12 items were identified as misfits as they did not fulfil the three criteria of misfit responses. This indicated that all the respondents' responses fit with the Rasch Measurement Model.

Table 4.3: Item Polarity and Misfit for Religious Practices

Entry No	Outfit		PtMea Corr (PMC)	Item
	MNSQ	ZSTD		
11	1.09	1.0	0.66	RP11
4	1.26	2.7	0.70	RP04
8	1.04	0.5	0.67	RP08
5	0.72	-3.1	0.71	RP05
6	0.69	-3.3	0.71	RP06
10	1.03	0.3	0.65	RP10
7	0.79	-2.2	0.69	RP07
9	0.89	-1.1	0.68	RP09
2	1.18	1.4	0.56	RP02
3	0.91	-0.6	0.56	RP03
12	1.54	3.2	0.45	RP12
1	0.87	-0.5	0.44	RP01
Mean	1.00	-0.1		
S.D.	0.23	2.2		

4.2.3. Person Misfit

Person misfit was conducted to identify any respondents in misfit situations. This analysis to ensure that the 276 respondents were in fit conditions. Based on criteria for misfit respondents; point measure correlation (PtMea Corr) is larger than 0.4 and less than 0.85 ($0.4 < \text{PtMea Corr} < 0.85$), the outfit mean square (MNSQ) is larger than 0.5 and less than 1.5 ($0.5 < \text{MNSQ} < 1.5$) and the outfit Z-standard (ZSTD) is larger than -2 and less than +2 (Azrilah Abdul Aziz, 2011), the results on person misfit revealed 38 respondents as misfit respondents since they fulfilled the three indicators of misfit persons as shown in table 4.4. This meant that the 38 misfit respondents could not have their perceptions precisely measured by the items in measuring religious practices. Thus, from the 276 respondents, only 238 respondents fit with the Rasch Model.

Table 4.4: Person Misfit for Religious Practices

Entry No	Outfit		PtMea Corr (PMC)	Person
	MNSQ	ZSTD		
1	2.54	2.7	0.16	2431
17	2.17	2.4	0.86	2361
21		Maximum Measure		2312
22		Maximum Measure		2333
33		Maximum Measure		4112
36		Maximum Measure		2111
44	2.49	2.1	0.20	4421
47		Maximum Measure		2321

48	2.29	2.4	-0.24	2321
51	2.18	2.3	-0.42	1351
61	0.21	-2.8	0.87	3241
73		Maximum Measure		4464
79	0.26	-2.4	0.88	4111
81	9.90	8.4	-0.42	4263
85	0.18	-3.0	0.87	3111
89		Maximum Measure		2461
100	2.42	2.2	-0.16	4451
122	0.18	-3.1	0.89	1411
130	0.17	-3.2	0.90	1211
134	2.10	2.2	0.89	1141
157	2.01	2.1	0.86	3462
158		Maximum Measure		3112
159	0.24	-2.4	0.87	4441
164	7.46	2.9	-0.13	3463
176	2.81	3.2	-0.23	2161
177	2.28	2.4	0.11	2461
180		Maximum Measure		2461
184		Maximum Measure		2261
187	0.16	-3.3	0.93	2461
202	3.04	3.4	-0.21	3413
204		Maximum Measure		3261
207	9.90	8.1	-0.37	4431
208		Maximum Measure		3361
218	0.21	-2.8	0.87	1312
219		Maximum Measure		1212
237		Maximum Measure		2123
242	0.22	-2.8	1.00	2211
262	2.12	2.2	0.32	3224

After the misfit persons had been identified, it is crucial to analyse the results of the summary statistics to see if better results were obtained compared to before the identification of misfit respondents or vice versa. As shown in table 4.5, the value of Cronbach alpha was at 0.89 higher than before identification of misfit respondents. Apart from that, person and item reliability index was higher than before at 0.87 and 0.99 respectively. Moreover, the persons were in 'fair' index and the items were in 'excellent' index (Fisher, 2007), with both persons and items showing higher index value than before. Thus, the analysis highlights that the measurement instrument used to measure religious practices was reliable and valid and formed a good measurement.

Table 4.5: Final Analysis for Religious Practices

	Before identifying misfit respondents	After identifying misfit respondents
Cronbach Alpha	0.88	0.89
Person Reliability Index	0.85	0.87
Person Separation Index	2.40	2.55
Person Mean	1.56	1.75

Person S.D	1.43	1.56
Person Max	6.20	6.70
Person Min	-1.56	-1.71
Item Reliability Index	0.99	0.99
Item Separation Index	11.44	12.27
Item S.D	1.22	1.42
Item Max	1.65	1.93
Item Min	-2.37	-2.81

4.2.4. Person Item Distribution Map (PIDM)

In the meantime, the appropriate calibration of person responses on the religious practices can be identified through the Person Item Distribution Map (PIDM). Table 4.5 shows that the $Mean_{item}$ was at $0.00logit$ and the $Mean_{person}$ was at $1.75logit$. The table also shows that person maximum value was $+6.70logit$ and minimum value was $-1.71logit$ while item maximum value was $+1.93logit$ and maximum value was $-2.81logit$. The length of person measurement became $+6.70logit - (-1.71logit) = 8.41logit$ and the scale for item at $+1.93logit - (-2.81logit) = 4.74logit$. It indicates that the scale of person measurement was larger than the scale of item measurement and the lack of scale item measurement against respondents who were to be measured was at $8.41logit - 4.79logit = 3.62logit$. The $8.41logit$ differences between maximum and minimum persons were over a standard deviation of 1.56. This illustrates a small spread of respondents being on target with expected compliance behavior over the small standard deviation. It also describes that the SME entrepreneurs' capability in measuring level of religiosity was almost within a similar range. On the other hand, the $4.74logit$ differences between maximum and minimum items were over a standard deviation of 1.42, indicating that the assessment task of measuring religious practices had off target items since none of the respondents gave a response which is otherwise known as being person free. This is illustrated through the person item distribution map as in figure 1.

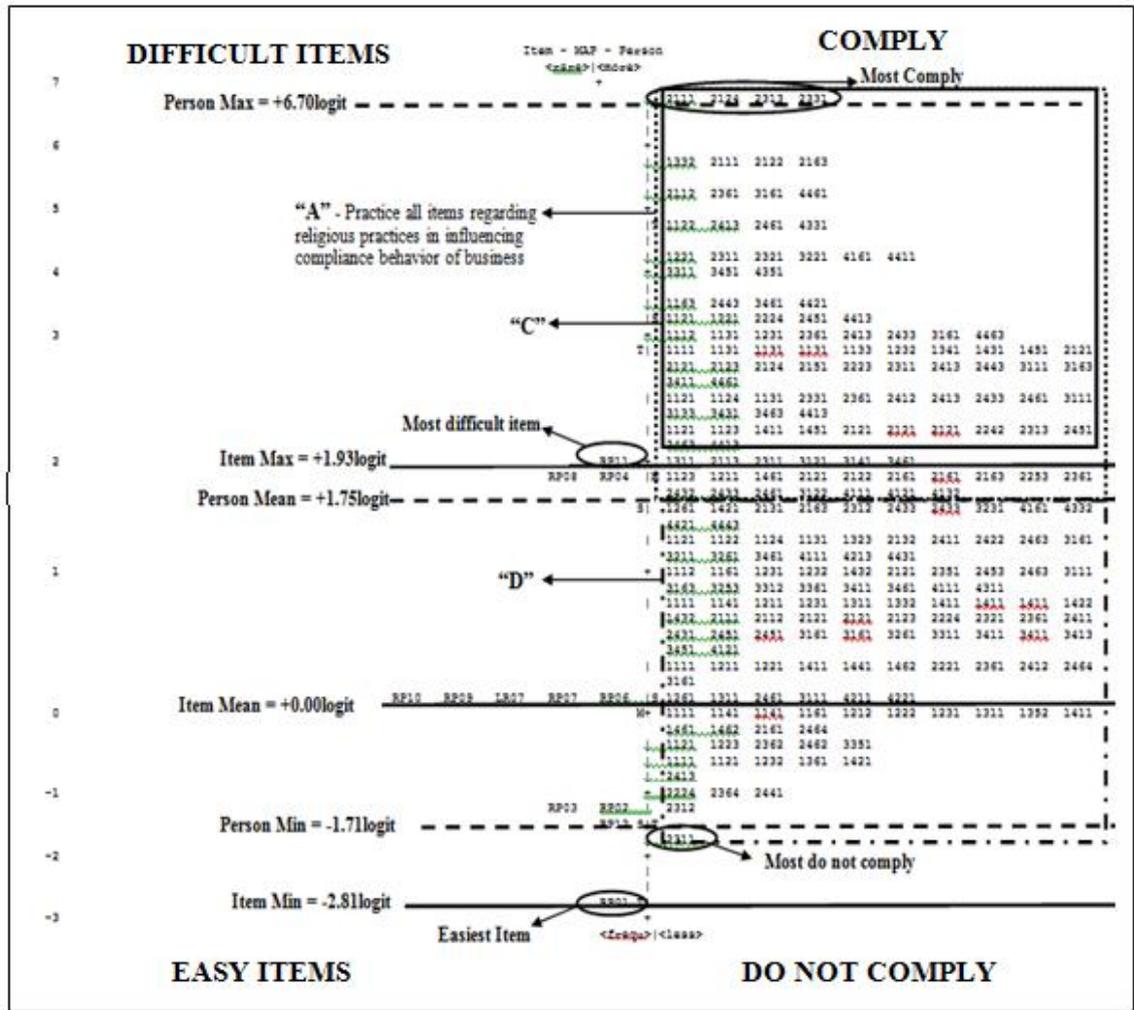


Figure 1: Person Item Distribution Map for Religious Practices

Figure 1 reveals that the SME entrepreneurs are divided into two groups; those who comply or do not comply with paying business zakat based on the $Person_{Mean}$. SME entrepreneurs who are above the $Person_{Mean}$ in the group comply with paying business zakat (**group “C”**) and those below $Person_{Mean}$ in the group did not comply with paying business zakat (**group “D”**). The SME entrepreneurs’ response behavior showed that 106 respondents or 44.6 percent ($106/238 \times 100$) complied with paying business zakat as stated in group “C” and 132 respondents or 55.4 percent ($132/238 \times 100$) did not comply with paying business zakat as stated in group “D”. Group “C” illustrates that four SME entrepreneurs (**16-2331, 54-2111, 183-2313, 261-2124**) were located at the highest ability *logit* for agreeability on the items measuring religious practices with $+6.70logit$. They also had a high level of compliance to pay business zakat influenced by religious practices. All the four SME entrepreneurs operated their business in the Western area. Meanwhile, one SME entrepreneur (**86-2311**) was located with low agreement ability on the items measuring religious practices with $-1.71logit$ and was one of the respondents that did not comply with paying business zakat. Religious practices did not influence the entrepreneurs to comply with paying

business zakat. This shows that more SME entrepreneurs did not comply with paying business zakat and religious practices did not influence them to comply.

Identifying the common practices in measuring religious practices can be done through item endorsability which represents the SME entrepreneurs' tendency to agree on the items measured. From the 12 items measuring religious practices, eight items (**RP11, RP04, RP08, RP05, RP06, RP07, RP09, RP10**) showed low endorsability with high *logit* measures and were located at above $Item_{Mean}$. Item **RP11** was at 1.93*logit*, indicating difficulty in agreement amongst SME entrepreneurs, with low item endorsability at 717. From the group of difficult items that measure religious practices, five items (**RP05, RP06, RP07, RP09, RP10**) were located in between $Item_{Mean}$ and $Person_{Mean}$. While the items which were located in this area are considered achievable by SME entrepreneurs in measuring religious practices, this depends on the respective SME entrepreneur's individual capability. Besides, four items (**RP02, RP03, RP12, RP01**) had high item endorsability and were located below $Item_{Mean}$. Among these four items in the easy to agree group, item **RP01** was at -2.81*logit* with high item endorsability at 1100, indicating **RP01** as the easiest item for agreement in measuring religious practices. Of the 12 items measuring religious practices, 38.7 percent ($92/238 \times 100$) of the SME entrepreneurs regularly practiced all items, thus influencing compliance behavior of business zakat as shown in group "A".

In summary, the Person Item Distribution Map (PIDM) showed that items measuring religious practices can be classified into two groups; difficult and easy items based on the $Item_{Mean}$ measure. Eight (**RP11, RP04, RP08, RP05, RP06, RP07, RP09, RP10**) items in the group achieved low item endorsability as they were located above $Item_{Mean}$ while four (**RP02, RP03, RP12, RP01**) items achieved high item endorsability as they were located below the $Item_{Mean}$. Meanwhile, persons were categorized into those who comply and do not comply based on the value of $Person_{Mean}$. Four respondents (**16-2331, 54-2111, 183-2313, 261-2124**) were categorized as having very high ability to agree and very high level of compliance influenced by religious values and one respondent (**86-2311**) with lack of ability to agree, does not comply with paying zakat on business, and was not influenced by religious values at all in doing so.

5. Discussion

In fulfilling the objective, the Person Item Distribution Map (PIDM) was constructed to show the group of SME entrepreneurs and the items construct. The map gives an early indication of the group of respondents that need to be identified; whether they comply or did not comply with the business zakat payment. The result shows that religious practices do not influence SMEs entrepreneurs to comply with business zakat payments. This is evidenced from the low agreeability scores on these factors in relation to the compliance of business zakat payment. The findings indicated that SMEs entrepreneurs who perform religious practices in their organization do not pay business zakat. This is contradicting with the previous studies that have shown the link between religious values and the Muslim individual's compliance behavior of zakat on income. This means that the religious practices applied in the organization does not necessarily influence compliance of business zakat payment. This also shows that religious practices are not the criterion for business owners to comply with the Islamic obligation of business zakat payment. This new finding conflicts with previous studies that discovered high levels of religiosity among Muslim individuals increased their level of compliance (Muhamad Muda et al., 2005; Nur Barizah Abu Bakar & Hafiz Majdi Abdul Rashid, 2010; Zainol Bidin, 2008; Zulkifli Daud, 2011). However, the new findings is consistent with the study of Kamil Md Idris (2002) who revealed that level of religiosity is negatively related to payment of zakat on income. In his findings majority of Muslim individuals had high levels of religiosity, yet did not pay zakat on income by official channels. It is the only study noticeably uncovering the negative relationship between level of religiosity and compliance behaviour of zakat on income.

The result is unsynchronized with previous results may be due to different types of zakat that was chosen in the study. For income zakat, an individual person who is religious would feel obligated to pay income zakat as it is directly involved with their personal income and paying zakat would free them from paying tax. However, in business, despite their high religious belief, an owner would focus more on tax payment. Furthermore, they usually have spent much on donations. No tax exemption for those paying business zakat may also contribute to no compliance. Thus they are concerned more with paying tax rather due to their financial constraints. As part religious practices, some firms might have paid donations, wakaf, provided hajj incentives to their employees or other contributions which inadvertently affect the firms' incomes.

Another possible explanation, the companies that perform religious practices are not necessarily owned by an owner who understands religion much as religious practices are not difficult to establish in a firm. So, entrepreneurs who want to be seen as Islamic might have not fully understood the concept of business zakat. They might perform religious practices and yet not pay business zakat due to their lack of understanding of zakat. Thus, future research can focus on the level of religiosity of an owner in relation to the religious practices of firm. It may also be the case that the inculcation of religious practices in their organization is based on the requests or the initiatives of the staff rather than the business owners'.

More importantly, even though the results of this study showed a different scenario with previous studies, it was found to be significant. This highlights the relevance of religious practices as a variable and the necessity to discuss it with regard to the obligatory practices of Islam such as zakat. Issues regarding non compliant behavior of zakat are also challenging due to their delicate nature and their interdependence with the Muslim individual's level of religiosity and awareness. Low levels of religiosity will cause Muslim individuals to ignore the obligation to pay zakat (Aidit Ghazali, 1998). Given this, the findings of this study are the first to provide valuable insight into and empirical evidence on the relationship between religious values and compliance behavior in business zakat.

While these findings provide valuable implications, the limitations could be associated with the issue of generalizability. This is because the study was conducted only in Selangor and among small scale SMEs. Therefore, future study should endeavour to cover other business groups, specifically big scale organizations garnering high income business activities. From an organizational perspective, it would be interesting to compare the effects of the religious practices on zakat compliance behavior of larger business groups. In addition, it is also useful to broaden the scope of the current study on other factors of compliance behaviour, such as religious orientation of business owners, religious environment and culture, to produce more valuable findings and deepen our understanding on compliance behaviour of business zakat among Muslim entrepreneurs throughout Malaysia and in other Islamic countries.

6. Conclusion

In general this study can be concluded that majority of SMEs do comply with business zakat payment but religious practices are not the criterion of business zakat compliance behavior. Based on Rasch Measurement Model provides information about the how many respondents stated in the misfitting, how many items measured in what supposedly to measured, respondent's response patterns through the Person Item Distribution Map (PIDM). All the information shows how the religious practices are not located in the area of high agreement level thus indicating as factors that do not influence compliance behavior of business zakat among SMEs.

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