

Presenter's Abstract

**COMPLIANCE BEHAVIOR OF FARMERS TOWARDS THE PAYMENT OF  
PADDY ZAKAT: CASE STUDY IN KUALA MUDA, KEDAH.**

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The issue on compliance behavior of zakat payment on income and business has been discussed frequently by both academicians and practitioners, however there is little research specifically on paddy zakat. In fact, collection of paddy zakat at department of Zakat of Kuala Muda from 2009 to 2011, also indicate the decrease trend of collection of paddy zakat. Therefore, the purpose of this research is to examine relationship between the levels of religiosity, level of knowledge and organization's factor towards compliance behavior and to identify the most influence factor towards compliance behavior. The target population is paddy farmers whose are fulfilling the criteria to pay paddy zakat in District of Kuala Muda, the largest area of paddy field in Kedah. In order to examine the relationship between the variables, this study will utilize Descriptive Analysis and Pearson Correlation meanwhile, the Multiple Regression analysis will be used to quantify the significant factor.

*Keyword: Paddy Zakat, Compliance Behavior, Level of Knowledge, Organization Factor, level of Religiosity.*

## COMPLIANCE BEHAVIOR OF FARMERS TOWARDS THE PAYMENT OF PADDY ZAKAT: CASE STUDY IN KUALA MUDA, KEDAH.

### CHAPTER 1

#### INTRODUCTION

##### 1.0 INTRODUCTION

Zakat is one of the five pillars in Islam and a part of *ibadah* for Muslim. Linguistically, zakat means growth, increase and purification. In Syariah, zakat is defined as the amount of money or good taken from specific types of wealth when it reaches a specified amount at a specific time and must be spent on specific categories in specific ways (Rohila and Zulkifli, 2012). Zakat is strongly urged among Muslim as the term zakat has been mentioned 58 times in the Al-Quran. Zakat has been mentioned 32 times in separation and 26 times together with prayers (Mahyuddin, 2011). The obligatory of zakat as an order from Allah can be seen as stipulated in the Qur'an, where Allah s.w.t decrees:

*“Take of their riches a donation to purify them and to cleanse them thereby”*

*(At- Tawbah :103)*

*“O ye who believe! Give of the good things which you have honorably earned and out of that which we bring forth for you from the earth of the fruits of the earth which we have produced for you”.*

*(Al-Baqarah : 267)*

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The enforcement of zakat has been started from Prophet Muhammad s.a.w. and then continued by four caliphates. Saidina Abu Bakar As-Siddiq, the first Caliphate in Islam had declared war for those people who refused to pay zakat. Currently, zakat institutions in Malaysia are controlled by Islamic Council in all thirteen states and one Federal Territory. Each Islamic council reports directly to the Sultan or Ruler of the state since religious affairs are under the respective states' jurisdiction. The National Council for Islamic Affairs under Federal Government, on the other hand, acts as an intermediary between the Federal Government and various State Islamic Councils and concerns matters that only affect the whole nation. In Kedah, zakat falls under responsibility of Department of Zakat of Kedah.

Zakat is divided into two which are *Zakah al-Fitr* and *Zakah al-Mal*. *Zakah al-Fitr* is an obligatory payment based on the basic foods and the obligation comes during the celebration of *Eid Fitr*. Meanwhile *Zakah al-Mal* is an annual payment based on the amount of wealth owned by a Muslim individual or organization. There are eight (8) types of *Zakat al-Mal* income, gold and silver, saving, Kumpulan Wang Simpanan Pekerja (KWSP), paddy (crop), share, business and livestock (Department of Zakat of Kedah, 2012). *Zakat al-Mal* is an obligatory for any Muslim individual or organization that has fulfilled the requirement of Nisab and Haul. Basically, most of states in Malaysia call paddy zakat as zakat on crop. Department of Zakat of Kedah names zakat on crop as paddy zakat as paddy zakat is the main source of the collection for the zakat on crop. Paddy zakat is zakat collected from paddy production that has reaches a specific amount and specific time.

The primary objective of zakat is to eradicate poverty among Muslims (Mahyuddin, 2011). From the statistic provided by Department of Statistics, 61.3% of citizens in Malaysia are Muslims, shows that Muslim is the largest citizens (Population Distribution and Basic Demographic Characteristic, 2010). Therefore, zakat can act as cure in the economic growth among Muslim with the sharing of wealth from the rich people to poor people.

## **1.2 PROBLEM STATEMENT**

The issue on compliance behavior of zakat payment has been the subject of much discussion among both academicians and practitioners (Rahim, Ariffin and Samad, 2011). According to Department of Zakat of Kuala Muda, the collection of paddy zakat decrease as shown by the data from the year 2009 to 2011 which are RM417 thousand to RM385 thousand. Hence, this shows the collection of paddy zakat decrease year by year which are in the year 2009 until year 2011 the amount decreasing until 8%. Besides, according to Secretary from Department of Zakat of Kedah, Datuk Sheikh Ghazali Yaakub, the area for paddy field in Kedah enables collection of paddy zakat to be collected is RM38 million (Bernama,2011). However, the collection of paddy zakat only obtained merely 10% as compared with the supposed amount collected which is RM3.7 million. This clearly shows there are problems in collection of paddy zakat. In consequences, this problem will bother the role of the institution of zakat in assisting poor people (Sanep and Hairunnizam, 2005). In the recent studies, it has been denoted that action of payer to fulfill their obligation to pay zakat are influence by compliance behavior (Rahim, Ariffin and Samad, 2011; Kamil, 2010; Ram, 2010; Zulkifli and Sanep, 2010). According to Sanep and Zulkifli (2010), level of religiosity is one of factors determining compliance behavior of zakat payment. Besides, Sanep & Hairunnizam (2005) stated the low level of religiosity is

significant with reluctance of zakat payment especially without provisions by law. While, Hasan and Sahnaz, (2005) found, organization factor, attitudes and awareness and level of knowledge influence the payment of zakat. Other than that, good management of zakat institutions especially in distribute the zakat is the one of the factor can influence the payer to pay zakat to the formal zakat institution (Sanep et. al, 2010). Therefore, the main issue regarding on this situation is what is the factors that influencing compliance behavior of farmers towards obligation to the payment of paddy zakat?

### **1.3 RESEARCH QUESTION**

1. What are the relationships between the levels of religiosity, level of knowledge and organization's factor towards compliance behavior of farmers?
2. What are the most influence factor that control compliance behavior towards payment of paddy zakat.

### **1.4 RESEARCH OBJECTIVE**

1. To examine relationship between the levels of religiosity, level of knowledge and organization's factor towards compliance behavior of farmers.
2. To identify the most influence factor that control compliance behavior towards payment of paddy zakat.

## **1.5 SCOPE OF THE STUDY**

The study will cover paddy farmers whose are fulfilling the criteria to pay paddy zakat paddy in Kuala Muda Region. This is because Kuala Muda Region has the largest area of paddy field in Kedah. The area of Kuala Muda includes, Segantang Garam, Kampung Bujang, Bendang Dalam, Sungai Pial, and Pangkalan Kakap.

## **1.6 SIGNIFICANCE OF THE STUDY**

Compliance of zakat is different with compliance of tax, it is because zakat is one of the Islamic obligations compulsory who satisfy necessary conditions to achieve purity and goodness of soul. Therefore, it is important to know and understand the compliance behavior among farmers group in order to create positive behavior. More than that, most of past researches more focus on income zakat and business zakat. Hence, by doing this research, hopefully can contribute towards new knowledge and could embark a new beginning of research about paddy zakat in Malaysia to other researcher. Besides that, department of zakat can find a strategic process and activity to create a center of attention of the farmers to pay paddy zakat and at the same create awareness and understanding this obligation among them. So that, the target of the zakat department towards zakat paddy in Malaysia can be achieve and increase year by year. Therefore, wealth can be shared and at the same time contribute towards improving economy of the country.

## **1.7 DEFINITION OF TERMS**

### **1.7.1 Compliance Behavior**

Compliance behavior is a concept where the action (compliance) in order to meet instruction and order from Almighty for getting the willingness (Rahim, Ariffin, Samad, 2011). According to Kamil (2000), “Zakat compliance refers to the payment of zakat according to the fatwa and regulation gazetted by zakat authority”. Therefore, zakat compliance is depend on the reason why Muslim individual taking a decision to comply or to avoid with command of Allah, Islamic obligation and the rules issued by zakat authority (Ram, 2010).

### **1.7.2 Zakat**

According to Raedah, Noormala and Marziana (2011), “Zakah is the third fundamental pillar of Islam, which specifies that an individual Muslim is obliged to pay zakah with certain preconditions. Legally it means ‘a prescribed amount of a specific property paid for a specific category of people’. In other words, zakah is the amount of money or its equivalent taken from a specific type of wealth that must be spent on specific categories or group of people in specific ways (pay to amil directly), when the particular wealth reaches a specific amount at a specific time”.

### **1.7.3 Zakat Al-Fitr**

*Zakat al-Fitr* is the zakat, which need to be paid by Muslims once a year during the month of Ramadhan before the Muslims festive season celebration known as Eid Mubarak. *Zakat al-Fitr* is also being referred as a zakat of an individual.

#### **1.7.4 Zakat Paddy**

Zakat paddy is the one of *zakat al-Mal* which an annual payment based on the amount of wealth owned by a Muslim individual or organization. Eight types of *zakat al-Mal* are income, gold and silver, saving, KWSP, paddy (crop), share, business and livestock (Department of Zakat of Kedah Darul Aman, 2012). *Zakat al-Mal* is an obligatory for any Muslim individual or organization that has completed the requirement of *Nisab* and *Haul*. This shows that paddy zakat is one of *zakat al-Mal*. Therefore, paddy zakat is zakat collected from paddy production that has reaches a specific amount and specific time.

#### **1.7.5 Level of Religiosity**

Level of religiosity is the main factor influencing paying zakat in Malaysia. With the high level of religiosity, it becomes an easy way for the Muslim individual to understand the true concept of zakat which is social obligation towards Muslim development and true concept of wealth in Islam where every wealth and property that are owned and achieved must be shared along with those who need them (Rahim, Ariffin, Samad, 2011).

#### **1.7.6 Level of Knowledge**

According to Sanep and Zulkifli (2010), level of knowledge refers to understanding of payers about zakat that will affect them to pay zakat. More than that, level of knowledge also can be defines as the higher the knowledge of zakat, the Muslim individual will be more tends to pay zakat (Ali, Hairunnizam and Ghani, 2004).



### **1.7.7 Organization Factor**

Organization factor is the function of the organization, effectiveness and efficiency of human resource, mission and structure of operation of the organization (Halim, Salidin and Hassan, 2006). It's supported by Ram, Kamil and Zainol (2009), administration and management of zakat department becomes the attraction of the community directly, influencing compliance behavior of the people.

## CHAPTER 2

### LITERATURE RIVIEW

#### 2.0 INTRODUCTION

Kamil (2002) explains zakat compliance from the perspective of tax compliance. Even though both of zakat and tax are same in the aspect of giving out wealth, both of them have their own characteristic in term philosophy, features, base, source, target, division, measurement, principles, aims, and guarantee (Sanep and Zulkifli, 2010). In fact, there are differences between compliance behaviour of zakat and tax. As explained by Kamil (2002), zakat compliance means “the payment of zakat according to the fatwa and regulation gazetted by zakat authority.” Besides that, Ram (2010) pointed out that zakat compliance is rely on “the reason why Muslim individual taking a decision to comply or to avoid with command of Allah, Islamic obligation and the rules issued by zakat authority.”

However, Zulkifli and Sanep (2011) discussed on zakat compliance with the idea of making the payment of zakat through official channel. The concept of zakat compliance is about the human behavior of Muslim community in making a decision whether comply or avoid to pay the zakat by using official or unofficial channels according to enactment and law implemented to achieve satisfaction in the present life and hereafter.

NurBarizah and Abd Rahim (2007), as cited by Mohd Rahim et al. (2011) mentioned that zakat is paid not only to get return during the lifeafter but also in the hereafter as long as Islamic obligation is obeyed by the Muslim. The decision to comply or to avoid pay the zakat can be evaluate as a measure the degree of a believer’s worship to Allah and it is an indication of

thankfulness to Allah (Ahmad Bello, 2008), as cited by Mohd Rahim et al. (2011). Hence, the compliance of zakat is more towards performing the Islamic obligation to ensure better life in both in lifeafter and hereafter for Muslim community.

## **2.1 Factors of Compliance Behaviour of Zakat Payment**

As explained by Mohd Rahim (2011), there are few studies proving that the amount of zakat collection increase, however the studies do not specifically mentioning the increase of the number of zakat payer. There are various factors determining compliance behaviour of zakat payment shown by previous studies.

According to Mohd Rahim et al. (2011), who studied on compliance behaviour of zakat on business and exposed the economic approach as an alternative explanation in the issue of zakat compliance have identified several factors that influence compliance behaviour. The factors that are extracted from the previous studies are level of religiosity, level of knowledge, length of business operation, organization factor, government incentive and law enforcement. There is no finding made on the relationship of the factors as this study does not intend to test the relationship of the factors with the zakat compliance.

Besides that, Hasan and Sahnaz (2005) as cited by Mohd Rahim et al. (2011), studied on the entrepreneur group in Terengganu found several factors was proven to influence paying the zakat on business. The factors comprise of organization factor, attitudes and awareness and level of knowledge. Attitudes and awareness are indentified as the significant factors influencing paying the zakat on business.

Moreover, Muhammad Muda et al. (2006) studied on the factors affecting individual decisions in zakat contribution besides provided an understanding of their motivation. From the study, five factors have been identified hence enable to provide an understanding which are altruism, level of faith, self-satisfaction, organization, and utilitarian factors. Altruism becomes the main most influential factor from the analysis conducted as it obtained the highest score among all the five factors. The initial finding of this study has found that people are motivated to pay zakat not merely by religious factor but also self-satisfaction and organizational factors.

Furthermore, Mohd Ali et al. (2004) studied on professional staff of National University of Malaysia regarding on the awareness of paying zakat on income. The researchers have proposed level of religiosity, gender, level of education, number of dependants and level of knowledge regarding zakat on income as the factors influencing the professional staff to pay zakat on income. As a result, the study showed that iman and religious education are the most significant factors for them to pay zakat on income.

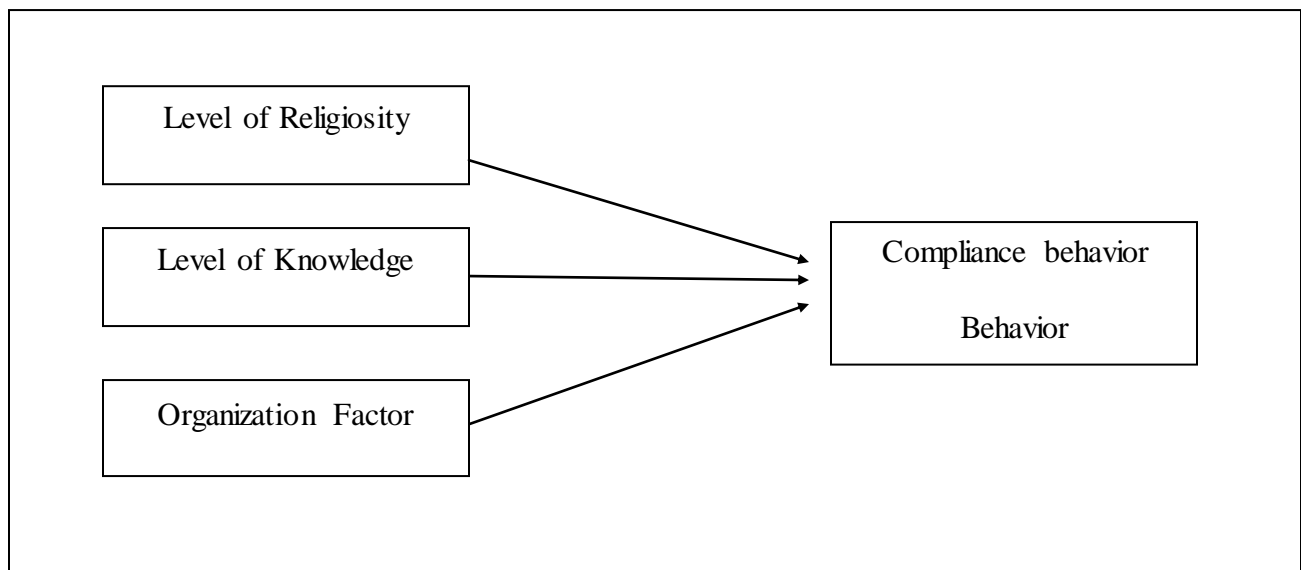
Sanep and Zulkifli (2010), explained that zakat compliance is influenced mainly by the faith factor and cannot be questioned. However, organization factors started to become an influential factor when the responsibilities of collecting and distributing of zakat under zakat institution. Satisfaction factor to efficiency of zakat institution especially in zakat distribution will influence zakat compliance to pay zakat at zakat institution. The higher satisfaction towards zakat distribution, the higher level of zakat compliance to pay zakat at zakat institution. However, Mohd Ali et al. (2004) found that organization factor is not significant with zakat compliance.

According to Sanep and Zulkifli (2010), law enforcement on zakat considered as necessary in ensuring zakat compliance toward zakat payment. People will realize that zakat is an obligation to religion and society should be complied by all Muslim community. Kamil (2002), law enforcement has direct relationship with probability to pay zakat.

To sum it up, there are various factors that influencing the payment of zakat are identified. In order to conduct this study, the researcher has chosen three most influential factors which are level of religiosity, level of knowledge and organization factor.

## 2.2 CONCEPTUAL FRAMEWORK

Figure 2.1 Conceptual Framework for the Compliance Behavior of Farmers Towards Obligation of Paddy Zakat



### **2.2.1 HYPOTHESIS**

H1: The level of religion influences the compliance behavior of farmers to pay paddy zakat.

H2: The higher the knowledge of farmers, the higher the compliance behavior to pay paddy zakat.

H3: Organizational factor significantly influence towards compliance behavior of farmers to pay paddy zakat.

## **CHAPTER 3**

### **RESEARCH METHOD**

#### **3.1 RESEARCH DESIGN**

Zakat has been introduced in Malaysia since Islam started to be spread out. Supposedly, zakat is familiar to every Muslim as paying zakat is an *ibadah* and failing to pay zakat considered as committing sin. However, the amount of zakat collected shows that there are many people still not paying zakat. In order to study the compliance behavior of farmers towards obligation of paddy zakat, an exploratory study will have to be conducted. An exploratory study is undertaken when not much is known about the situation at hand, or no information is available on how similar problems or research issues have been solved in the past (Sekaran, 2009).

Research design will tells precisely how data is to be collected and analyzed in order to answer research question and research objectives (Sekaran, 2009). For the purpose of this study,

the research design will be cross-sectional survey. This study will only collect and analyze one set of data. This is because, the data collection will happen just once and over short period of time. There will no second data collection process as the study intends to study compliance behavior of farmers towards payment paddy zakat. Data collected will be analyzed and the finding is made.

### **3.2 UNIT OF ANALYSIS**

As this study will address the issue of compliance behavior of farmers toward paddy zakat payment, therefore the unit of analysis will be individually farmer of paddy in Kuala Muda which eligible to pay paddy zakat. Thus, data will have to be collected from each individual farmer and reflecting each farmer's response as an individual data source.

### **3.3 SAMPLE SIZE**

Selecting an appropriate sample size is a critical aspect in research with particular reference to this study. Since by using the snowball technique take time to find the respondent and at the same time population of respondent are so many, 74 of farmers is convincing enough as a true representative and this was considered for the purpose of this study. This study makes use of the formula provided by Tabachnick (1996) for calculating sample size requirements, taking into account the number of independent variables to be used:  $N > 50 + 8m$  (where  $m =$  number of independent variables). Given the research involve are three independent variable, hence, the sample size of the respondent is 74 farmers in Kuala Muda, Kedah. Sample size of 74 is in conformity with Roscoe's (1975) rule of thumb, sample size between 30 and 500 being sufficient.

### **3.4 SAMPLING TECHNIQUE**

Study will be conducted among farmers at area Kuala Muda, Kedah as Kuala Muda are the larger region in Kedah state, and besides Kedah is the larger paddy producer. Therefore, as research study relates to the paddy zakat, thus the decision to conduct research at this area will be correct as the farmers have high exposure on this study. So that each respondent can provide answer that able to satisfy the questionnaire that will be distributed.

This study will use judgment sampling which one of type of purposive sampling. Purposive sampling is confined to specific types of people who can provide the desire information, either because they are the only ones who have it, or conform some criteria set by researcher. While, judgment sampling involves the choice of subjects who are most advantageously placed or in the best position to provide the information required (Sekaran, 2009). Therefore, Muslim farmers of paddy are chosen because they fulfill all the criteria of the study in order to find out the compliance behavior of payer towards zakat paddy.

Besides that, in order to distribute questionnaire to respondent the snowball technique will be conducted. The researcher will be identified address of each respondent by one respondent to other respondent based the name was given by Department of Zakat.



### **3.5 MEASUREMENT/ INSTRUMENT**

The variables and their measurement are outlined in the following as referring to the questionnaire. The questionnaires are divided into five sections which are section A, B, C, D and E.

#### **3.5.1 Demographic**

The demographic section consists of 3 questions such gender, age and education level. The purpose of section A to know the profile of the respondent. This section is used nominal scale.

#### **3.5.2 Dependent Variable**

Section B discussed about dependent variable of research which is compliance behavior of farmers. This section is used nominal scale which consist 2 questions such as the respondent paid paddy zakat or not and where the respondent paid paddy zakat.

#### **3.5.3 Independent Variable**

Independents variable are divided into 3 sections, which are section C, D, and E which discusses about level of religiosity, level of knowledge and organization factor. To measure level of knowledge, level of religiosity and organization's factor the respondent will be asked by using likert scale. Five point scale range are used from "Strongly Agree" (5 point), "Agree" (4 point), "Not Sure" (3 point), "Disagree" (2 point) and "Strongly Disagree" (1 point).

### **3.6 DATA COLLECTION**

Data collection is collected through primary and secondary sources. Primary source is information that obtained firsthand by the researcher on the variables for the specific purpose of this research. Secondary data refer to the information gathered by someone other than the researcher conducting the current study.

#### **3.6.1 Primary Data**

During this research, researchers conduct interview session in order to get more detail information about payer of paddy zakat in Kuala Muda at Department of Zakat Kuala Muda. The information such as total of collection paddy zakat and number of eligible payer of zakat are important to know in order to conduct this research. Other than that, set of questionnaire will be distributes to the list of Muslim farmers which eligible to pay paddy zakat.

#### **3.6.2 Secondary Data**

The information is collected through book, article and journal from the internet regarding zakat. There are some recommended websites that can provide the information such as Emerald and IEEE. Besides that, data also is collected from official website Department of Zakat Kedah and Muda Agriculture Development Authority (MADA).

### **3.7 DATA ANALYSIS**

Data will be analyzed by using SPSS version 16.0 for Windows. SPSS is used to process the data from the information that has been gathered. After processing the data, SPSS will show the result of the data by performing statistical test. This result will be used by the researcher to test the evidence of the research. The SPSS make the result of data more accurately from the statistical test compare from manual calculation.

#### **3.7.1 Cronchbach's alpha**

It is a reliability coefficient that indicates how well the items in a set are positively correlated to each other. Cronbach's Alpa is computed in terms of average intercorrelation among the items in measuring the concepts. The closer Cronbach's Alpha is to 1, the higher the interval consistenct reliability, (Sekaran, 2009)

#### **3.7.2 Inferential statistic**

In Inferential Statistic, the researcher uses Pearson Correlation to see the strength of interrelated of variables. The correlation act as indicator to test the significance of the test. In Pearson Correlation, it can be analyzed by using the value of  $p > 0.05$ . When the value of  $p > 0.05$ , it shows that there is significance relationship between the variables. But when the  $p < 0.05$ , it shows that there is no significant relationship (Sekaran, 2009).

### 3.7.3 Descriptive statistic

The researcher wants to know and discuss about the background of the respondents which consist such age, gender, education level and period of operating field of farmers. This is because the researcher wants to know the frequency of respondent, (Sekaran, 2009).

No	Objectives	Variables	Scale	Measurement	Statistic
1	Profile of respondent.	Age, gender, education level, period of operating paddy field.	Nominal scale, ordinal scale	Interval	Descriptive analysis
2	To identify the factors influencing compliance behavior towards payment of paddy zakat.	1)Level of Religion 2)Level of knowledge 3)organization factors	Likert scale, Nominal scale	Interval	Mean, Correlation, Frequency

3	To identify the most influence factor that control compliance behavior towards payment of paddy zakat.	1)Level of Religion 2)Level of knowledge 3)organization factors	Likert scale, Nominal scale	interval	Mean, Correlation, Multiple regressions
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