



EXPLORATORY STUDY OF NIGERIAN  
ZAKAT INSTITUTIONS AND ROLE OF  
GOVERNANCE ON ZAKAT PAYERS' TRUST

BY

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## ABSTRACT

There is a growing lack of trust in zakat institutions across Muslims countries as a result of allegations regarding allocation of zakat funds to public amenities and the use of zakat funds to support terrorist groups. Although the impacts of trust of Zakat payers on their selection of a particular institution into which they pay their religious obligatory levy have been documented, there is yet to be an empirical study on how Zakat payers' trust is built. Consistent with Mayer, et al. (1995) integrative model of organisational trust and Resource Dependence as well as Stakeholders theories, this study developed a model of Zakat payers trust linking governance mechanisms to trust in Zakat institutions. Using survey data from an emerging Zakat sector, structural equation modeling software was used to test the model of Zakat payers' trust. Three components of governance, including attributes of trustees, disclosure and Zakat stakeholder management practices were found to explain variation in Zakat payers' trust. Perception of attributes of trustees was also found to have positive and significant impact on the perceptions of disclosure and Zakat stakeholder management practices. In line with sequential mixed methods tradition, the survey findings were complemented with follow-up interviews. The model of Zakat payers developed constitutes a significant contribution to Zakat management literature, and an evidence for applicability of integrative model of organisational trust as well as support for resource dependence and stakeholder theories. Similarly, the findings should provide practical guide for policy makers in the formulation of policies on selecting members of boards of Zakat institutions and appropriate direction to Zakat managers on disclosure and stakeholder management practices that will be beneficial to Zakat organisations and their stakeholders. Finally the preliminary findings from the exploratory study should serve as reference for future research on Zakat management in Nigeria.

## ملخص البحث

لقد أبدى الباحثون قديماً العناية بشأن كيف يبني أصحاب المصلحة الثقة بالمنظمات وذلك لأنّ الثقة هي العامل الحاسم في الانتقال من معاملات السوق المنفصلة إلى تبادل العلاقات المستمرّ والذي أسّ على قرّار الأفراد بالمشاركة في المنظمة. لكن تكون الثقة هي الأساس الذي تنبني عليه المنظمة الطواعيّة قصر الدّراسة التّجريبية بشأن ثقة المتبرّعين. كذلك أثبتت الدّراسة دور الثقة الحاسم في ما يخصّ قرّار دافعي الزّكاة لاختيار المنظمة المراد دفع فرائض الزّكاة لها سوى أنّه لم يكن هناك بحث منشور بشأن كيف يبني دافعو الزّكاة الثقة بالمنظمة. ولهذا استخدم واختبر هذا البحث التّموذج التكاملي للثقة التّنظيمية المقترح من قبل ماير وغيره (1995) مع ربط سمات مجلس الأمناء مع وضوح وممارسات إدارة أصحاب المصلحة للزّكاة في الثقة بمؤسسات الزّكاة. وهذا باستخدام البيانات المسحية من قطاعات الزّكاة الموجودة وتحليلها عبر برنامج نموذج الانتصاف الهيكلي لاختيار التّموذج المناسب لثقة دافعي الزّكاة. والدّافع لهذا البحث المتواضع كان بسبب نتائج الدّراسة التي تنصّ بأنّ اختيار دافعي الزّكاة للمؤسسة المراد دفع فريضة الزّكاة لها يكون بناءً على ثقة دافعي الزّكاة بتلك المؤسسة. ولذلك فتمّة ثلاثة عوامل تكوين الحوكمة بما فيها سمات الأمناء، الوضوح وممارسة إدارة أصحاب المصلحة التي بيّنت بأنّ اختلاف ثقة دافعي الزّكاة وتصوّر سمات الأمناء له أثر إيجابي على تصوّرات الوضوح وممارسات الإدارة. غير أنّ نموذج دافعي الزّكاة المطور يعتبر محاولة أولية يرجى أن تسهم في مادة مطبوعة بشأن إدارة الزّكاة، وإرشاد المشرّعين في تشكيل السياسة المتعلقة باختيار أعضاء مجلس مؤسسات الزّكاة ورسم التّوجيه المناسب للمدير في وضوح وممارسات الإدارة بما يعود لمؤسسات الزّكاة والمتبرّعين بالنّفع. وأخيراً، فالنتائج الأولية من الدّراسة الاستكشافية تكون مرجعاً للبحوث في المستقبل بشأن إدارة الزّكاة في نيجيريا.

## **APPROVAL PAGE**

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## DECLARATION

I hereby declare that this dissertation is the result of my own investigations, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

Mustafa Murtala Oladimeji Abioye

Signature .....

Date .....

INTERNATIONAL ISLAMIC UNIVERSITY MALAYSIA

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**ZAKAT INSTITUTION IN NIGERIA:  
AN EXPLORATORY STUDY OF ROLE OF GOVERNANCE ON ZAKAT  
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## **DEDICATION**

In recognition of her unwavering love and her relentless admonition which constantly echoes excellence in my heart, this humble work is dedicated to the memory of my beloved Mother.

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# **CHAPTER ONE**

## **INTRODUCTION**

### **1.1 BACKGROUND TO THE STUDY**

Researchers have long time being showing concern on how key stakeholders build trust in organisations. Trust is a crucial factor in moving from discrete market transactions to continuous exchange relationships (Dwyer, Schurr and Oh 1987). Indeed, it is an essential resource that firms can make use when dealing with relationship between firms or between firms and consumers (Castaldo, 1995 cited in Sargeant and Lee, 2002). Although there is unanimity on the fundamental role of trust in the management of relationships, there is yet to be complete agreement about the conditions that determine its development.

‘Trust’ is recognized as the underpinning concept of a corporation (Tricker, 2009, Abdul Rahman, 2006). According to Abdul Rahman (2006), trust is a critical factor in an individual’s decision to participate in an organisation through the provision of financial capital or expertise in expectation of a fair share of the organisational returns. Trust is a valuable contributor to many forms of exchange. It is the foundation on which voluntary organisations are built (Seligman, 1997). The crucial role of trust in the types of institutions into which Zakat payers pay their religious obligatory levy has been documented to the effect that the issue of trust is perhaps the very foundation for the existence of charities.

Although studies on trust are rising (Baldvinsdottir, Johansson and Marton, 2011), charity researchers have observed the need to give special consideration for context within charitable setting in research on trust (Sargeant and Lee, 2002).

Accordingly, attention is now being paid on peculiar context in the current study which is investigating the antecedents of trust in Zakat institutions (charitable institutions based on Islamic worldview). The study involves two groups of respondents, management staff of eight purposely selected Nigerian Zakat institutions and Nigerian working class Muslims resident in Kano, Zamfara, Lagos and Oyo states as well as the federal capital territory.

The importance of this study is further emphasized by worsening poverty situation in Nigeria which has become perennial problem despite the country's immense wealth. Official statistics show that the national (average) poverty incidence was 28.1 per cent of the population in 1980 and has steadily risen to 54.7 per cent in 2004 (Nigerian Bureau of Statistics, 2010). Assessment of spread of poverty across geopolitical zones further revealed that, in 1980, 38 per cent, 36 per cent, and 32 per cent of the people in the north west, north east, and central lived below moderate poverty line respectively while the southern part of the country was relatively less affected (Ogwumike, 2002). According to the report, by 1985, poverty became pervasive in all the zones with the northern zones still maintaining a higher share of poverty and the poverty situation had not only become intensified but its distribution showed very little variation among the zones in 1996 (Ogwumike, 2002; Akanji, 2002). The implication of above statistics is that states that are predominantly populated by Muslims had the high degree of poverty incidence.

By 1999, poverty situation became worrisome as it was estimated that about 70 per cent of Nigerian lived in poverty and government had to dedicate N470billion to relieve poverty and ,of this amount allocated, N10billion was approved for immediate poverty relieve programmes before year 2000 budget was passed (Ogwumike, 2002). In the same 1999, Zamfara state, one of the states with highest poverty incidence,

established Zakat board as a socio-economic institution under Islamic legal system which was adopted by the state. By the end of 2003, nine additional governmental Zakat institutions emerged in the northern part while two nongovernment Zakat institutions had been established in the western part of the country.

Although government in the states where Islamic law has been introduced spend a reasonable amount of money to support the newly established Zakat institutions, empirical studies, however, suggest that Zakat collection by these institutions is poor and that they need to embark on aggressive campaign in the mass media, organize Zakat seminars and workshop, expand the members of committees to include active people with different backgrounds, and open more offices in the local governments in the state (Abubakar, 1997; Aliyu, 2002). Besides, Maidugu (2003) also observes unwillingness of Zakat payers to disclose their worth for fear of tax repercussion and finds that majority of Zakat payers distribute their Zakat directly to the poor indicating poor public acceptance of formal Zakat institution in the state.

Furthermore, a study by the oldest private Zakat institution; Kano State Islamic Council for Zakat (not to be confused with the Kano State Zakat and Hubs Commission), supported the view that the performance of Kano State Islamic Council for Zakat was below the Zakat payment potential of Kano State. The council engaged the services of Aminu Ibrahim and Co Chartered Accountants from Kano, Nigeria, to conduct a feasibility study to assess the potential of the institution in regards to Zakat collection. The study concluded that Zakat collection by the council was less than one percent of total Zakat potential of the Kano State Zakat Council which was conservatively estimated to be one billion, nine hundred and sixty million and twenty five thousand Naira (₦1, 960,025,000). At an exchange rate of N 120 to a dollar, it approximates to \$16,333,541.

A careful review of the annual reports of the four leading Zakat institutions in Nigeria buttressed the poor Zakat collection performance across the emerging Zakat sector in Nigeria. In 2008 for instance, the Zakat and Sadaqah Foundation recorded a Zakat collection of eighty two thousand four hundred and fifty six dollars at an exchange rate of ₦120 to a dollar (\$82,456). This is an increase of 103.7 percent over the forty thousand four hundred and sixty two dollar (\$40,462) recorded in the preceding year. The two results reflect the performance of the Zakat and Sadaqah Foundation despite its presence in five states through branch networks. The performance of the Muslim Welfare Fund, Lagos Nigeria MUWELF in the year 2005 and 2006 respectively, is another indicator of poor Zakat collection by the Zakat institutions. Total Zakat collection for the years 2005 and 2006 amounted to thirteen thousand dollars.

Zakat and Sadaqah Foundation and MUWELF are nongovernment Zakat institutions; there is however, no significant difference in their performance and the performance of the government institutions. For example, Zamfara State Zakat and Endowment Board, the pioneer government Zakat institution in Nigeria, collected an aggregate of one hundred and fifty seven thousand two hundred and fifty three dollars (\$157,253) in both 2005 and 2006. This represented the contributions from individuals and organisations and, interestingly, is also less than one percent of the yearly Zakat collection potential of the Kano State Zakat Council.

Notwithstanding absence of empirical support, based on information from the social media, an intelligent guess suggests that a reasonable percentage of Nigerian Muslim Professionals, who are active in Islamic activities, pay Zakat. However, going by the review of the accounts of four leading Zakat institutions, it appears a small proportion of this group pay Zakat to these institutions. Media reports also support this view. It is, therefore, not a mystery that collections by Zakat institutions have not been

encouraging. The potential contributions which effective Zakat institutions can make to poverty eradication highlight the need to understand how wealthy Nigerian Muslims can develop trust in a particular Zakat institution to facilitate payment of their Zakat through such institution.

Although a considerable body of research has explored various antecedents of trust, a limited number of empirical research has examined factors influencing trust in a particular charitable institution (Sargeant and Lee, 2002). For instance, Sargeant, West and Ford (2001) find causal relationship between perception of any exchange benefit that may accrue to donors, quality of service provided by charitable organisation and trust in a particular charity. Similarly, Sargeant and Lee (2002a) discover that attitude to philanthropy, judgement, role competence and service quality influence donor trust in a particular charity whereas Sargeant and Lee (2002b) suggest that attitude to beneficiaries, familiarity, satisfaction, attitude to philanthropy, judgement, role competence, motives and service quality impact on the degree of trust donors have in a particular charitable institution.

Furthermore, Performance of organisation and communication have also been found to impact on trust in a particular charity Sargeant and Lee (2006) while relationship investment, mutual influence, communication acceptance and forbearance from opportunism equally identified as factors influencing trust in a charity ( Sargeant and Lee, 2004). In the same vein, Torres-Moraga et al., (2010) discover that organisational reputation and donor's familiarity directly influence trust while communication positively influence trust indirectly through reputation and familiarity whereas perceived opportunism impacts on trust negatively.

Evidently, a number of antecedents of trust in a particular charity have been identified. However, majority of the factors are product of decision processes within

the charities. In charitable institutions, attributes of members of board of trustees are expected to have influence on the nature and quality of decision outcomes. Indeed, it has been argued that the key to better governance lies in competence, integrity and constructive involvement of individual directors Nadler (2004) and that competence of board members and behavioural characteristics of individual board members are significant determinant of board effectiveness. Despite the fact that there is a link between board and majority of antecedents of trust in charity there is yet to be any empirical study that has investigated the possible link between board and trust. The current study attempted to bridge this gap by exploring the relationship between Zakat payers' perception of attribute of members of trustees and their trust in a Zakat institution. In addition to the attributes of trustees, the study further investigated the impact of Zakat payers' perception of disclosure practices as well as management of Zakat stakeholders on Zakat payers' trust.

## **1.2 STATEMENT OF THE PROBLEM**

There is a lack of consensus on what constitute antecedents of trust in organisations, including charitable organisations. According to Mayer et al. (1995), this problem can be attributed to lack of universal definition for trust, absence of clarity between risk and trust and confusion between trust and its antecedents and outcome. Consequently, previous studies have identified factors such as ability (Good, 1988); expertise and reliability, (Johnson-George and Swap, 1982; Giffin, 1967); benevolence, integrity, and honesty (Mayer et al., 1995) accounting information (Tomkins, 2001; Velez et al., 2008) governance (Farber, 2005) as determinants of trust.

Although a great deal of interest in trust has been shown by researchers, there are limited studies on how donors build trust in charitable organisations (Sargeant and