

FACTORS DETERMINING COMPLIANCE BEHAVIOR OF BUSINESS ZAKAT AMONG SMES: A LOGISTIC REGRESSION ANALYSIS APPROACH

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Abstract

The dearth of study on the factors determining compliance behavior of business *zakat* among SMEs are hardly found in literature and empirical evidence as well. Due to that, this study aims to identify the relationship between factors determining compliance behavior of business *zakat* among SMEs. 276 questionnaires managed to be collected from SMEs in Selangor. Logistic regression analysis was presented to predict compliance behavior of business *zakat* among SMEs from selected factors determining. Six factors were identified and included in the model; religious practices, level of knowledge, length of business operation, government incentives, organization factors and law enforcement. The findings of logistic regression analysis revealed that full model which considered all the six factors are significant and perform well in explaining the factors determining compliance behavior of business *zakat* among SMEs. Four factors (religious practices, level of knowledge, organizational factors and government incentives) significantly predict compliance behavior of business *zakat* among SMEs. Based on the analysis, this study will hopefully shed some light to help *zakat* organization in implementing strategies to attract more *Muslim* entrepreneurs to comply pay business *zakat* especially among SMEs.

Research paper

Keywords: Zakat, Business Zakat, Compliance Behavior, Logistic Regression Analysis

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Introduction

Zakat is one of the pillars of *Islam* and part of the *ibadah* required upon all *Muslims* who satisfy necessary conditions. Its position as the third pillar after the *syahadat* and *solat*, illustrates its importance in *Islam*. Historically, the obligation to pay *zakat*, dates back to the second year of *Hijriyah* (624 C.E) (*Jabatan Kemajuan Islam Malaysia* (JAKIM), 2001; Mustapha, 2005; Shamsul Hamri, 2006). In the era of the Prophet Muhammad (*Pbuh*), *zakat* played a major role in the economic, political and social development of the *Muslim* community (Afandi, Zubairi, Hashim & Khamis, 2021; Khamis, Kamarudin, Hashim & Muhamad Arifin, 2018; Saad, 2010). 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 (Shariff, Jusoh, Mansor & Jusoff, 2011; Khamis et al., 2018; Saad, Farouk, Wahab & Ismail, 2019; Saad, Wahab & Samsudin, 2016). As such, it is mandatory that every *Muslim* individual who satisfies the required conditions pays *zakat*, to ensure that *zakat* is able to fulfill its role in the development of the economic *Muslim* community. The Holy *Qur'an* devotes a number of verses to the obligation to pay *zakat*. For instance, the *Al-Baqarah* urges all *Muslims* (2:43):

“*And be steadfast in prayer; practise regular charity; and bow down your heads with those who bow down (in worship)*”

Even though the obligatory payment of *zakat* is clearly stated in the Holy *Qur'an* and other sources, some *Muslims* still lack awareness or are still confused about the subject of *zakat* obligation. Many assume the obligation is fulfilled when they pay *zakat al-fitr* which is paid once a year from at any

time from the beginning of the holy month of *Ramadhan* until the first of *Syawal* (Mohd Shah, 2011) and this may be one of the reasons why some *Muslims* do not undertake full payment of *zakat*. Thus, clear explanations about the subject of *zakat* should be disseminated among *Muslims* to educate them that the obligatory payment of *zakat* does not just involve paying *zakat al-fitr* but also includes the *zakat* on wealth which is further categorized into several types.

Generally, *Muslims* pay a serious attention to the obligation to pay *zakat al-fitr* (Abu Bakar, 2016; Hasan, & Mohd Shahnaz, 2005; Mohd Shah, 2011, December 28) and readily fulfill this obligation since it has long been associated with the traditional practices of *Ramadhan* (Mohamed, Al-Junid, Mohd Azmi, Aidit, Jamil, & Arif, 1995). However, the same cannot be said about paying *zakat* on wealth, especially for *zakat* on business as there are various issues which are still hotly debated among *zakat* practitioners (Saad, 2010; Saad et al., 2016). 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 *zakat* on business (Abdul Wahab, & Borhan, 2015; Khamis & Yahya, 2015; Khamis, Mohd, Salleh, & Naw, 2014).

While previous studies have focused largely on *zakat* on income, very few have emphasized business *zakat* in Malaysia (Kamal & Hidayah, 2022; Ghazali & Ibrahim, 2022; Khamis, Salleh, & Naw, 2011; Saad, 2010; Saad et al., 2019; Saad et al., 2016), especially issues about how to increase the total collection and the total number of business *zakat* payers among *Muslim* entrepreneurs. This is because *zakat* institutions in Malaysia are still facing difficulties to raise the collection of business *zakat* (Abu Bakar, 2016; Arif,

Alwi, & Tahir, 2011) compared to *zakat* on income. As a result, the total collection of business *zakat* is still lower than that of *zakat* on income (Arif et al., 2011). There is also discrepancy between the small percentages of *zakat* payers among the *Muslim* business community compared to the total number of businesses registered with the Companies Commission of Malaysia.

Moreover, previous studies and reports also discussed the same predicament. According Abu Bakar (2016) through the report discovered the awareness regarding obligation to contribute to *zakat* on business among business owners in Terengganu still low. This is because most of the potential business owners just consent to pay the *zakat al-fitr* besides to pay the *zakat* on business. The implication on that, total collection of *zakat* on business in that state still low even though the number of individuals involved in business activities increasing. Another report by *Pusat Pungutan Zakat Wilayah Persekutuan* also discovered more than 200,000 active *Muslim* business owners in Malaysia but less than 20,000 of these business owners were eligible to pay business *zakat*. However, out of these numbers, records showed that only 500 business owners had paid out business *zakat* (*Pusat Pungutan Zakat* (PPZ), 2001). The same seems to be happening in Selangor although the state showed the highest total *zakat* collection compared to other states in Malaysia. Based on the report from the Companies Commission of Malaysia, while there are more than 14,000 active *Muslim* entrepreneurs in Selangor, only 817 (5.83%) had paid their business *zakat* (Saad, 2008). The implication is that even though total collection of business *zakat* has been on the rise from one year to another, the increase is inconsistent with the total number of *zakat* payers among *Muslim* entrepreneurs.

Besides the report, the study from Hasan, & Mohd Shahnaz (2005), in the case of the state of Terengganu, the total *zakat* collection from 2000 until 2004 had increased but the increment in the small and medium entrepreneur community was still small. Similarly, there are about 3,964 companies and co-operatives in the Federal Territory that have the potential to contribute to *zakat* on business but unfortunately almost 60 percent or 2,652 of these companies failed to do so (Abd Talib, 2010)

Based on these issues, the prevailing question that needs to be answered is why the *Muslim* business community appears to be resisting payment of business *zakat*. This is because the above explanations reveal that the small number of *zakat* payers is largely attributed to the low level of compliance behavior among *Muslim* entrepreneurs on the obligatory payment of business *zakat* (Abu Bakar, 2016; Alayuddin, 2008; Khamis et al., 2011; Saad et al., 2016). As discussed earlier, there is a lack of literature and studies focusing on compliance behavior and business *zakat*, with prior studies mainly focusing on compliance behavior and *zakat* on income (Kamal & Hidayah, 2022; Ghazali, & Ibrahim, 2022; Farouk, Idris, & Saad, 2017; Idris, 2002, 2004, 2009; Sapingi, Ahmad, & Mohamad, 2011; Ahmad, Nor, & Daud, 2011; Ahmad, & Daud, 2010; Othman, & Mohamed Fisol, 2017; Bidin, & Idris, 2008; Bidin, Idris, & Shamsudin, 2009; Daud, 2011). From the various studies regarding compliance behavior and *zakat* on income, it can be concluded that several factors influence compliance behavior of *zakat* on income. These can be divided into three main categories i.e. psychological and sociological, economic and Islamic (Daud, 2011). Due to that, it shows compliance issue is dependent upon and is influenced by a number of factors, there could be several hidden factors which are yet to be discovered (Chau & Leung,

2009; Fischer, Wartick, & Mark, 1992; Abdul Wahab, & Borhan, 2015; Idris, 2002; Saad et al., 2016; Ahmad, & Daud, 2010; Daud, 2011).

Therefore, an investigation on the factors determining compliance behavior of business *zakat* among *Muslim* entrepreneurs is much needed. Hence, the purpose of this study is to investigate the relationship between factors determining and compliance behavior of business *zakat* among SMEs entrepreneurs. Having stated the importance of this study, the relationship between factors determining and compliance behavior of business *zakat* is achieving by applying the logistic regression analysis. This paper also presents how logistic regression analysis solving the problem regarding dichotomous dependent variables and at the same how logistic analysis identify the nature or direction of the relationship and the magnitude of relationship.

Review of literature

In general, most prior studies revealed that there are various factors determining the compliance behavior in *zakat*. One of the factors is religious factor and compliance behavior in *zakat*. For instance, Bakar, & 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 compliance in *zakat* (Abdullah & Sapiei, 2018; Wahid, Ahmad, & Noor, 2007; Salamzadeh et al., 2013; Noor, Wahid, & Nor, 2003; Muda, Marzuki, & Shahrudin, 2005; Saad, 2010; Ahmad, & Daud, 2010; Bidin, 2008; Guerrero et al., 2014, 2015; Pereira et al., 2021; Daud, 2011). This establishes that when the level of

religiosity among individuals is high, the level of compliance behavior in *zakat* also increases (Amelia & Jamilah, 2022). The explanation in previous studies is consistent as mentioned by Ghazali (1998) who also conveys that it is not easy to discuss the issue of *zakat* evasion as it related to the level of religiosity of each *Muslim* individual.

Apart from the religious factor, most of the studies also revealed that the level of knowledge plays an important role in influencing compliance behavior in *zakat* amongst *Muslim* individuals since there is a positive relationship between both variables (Saad, Farouk, & Kadir, 2020; Rahman, Zakaria, Shaari, Nawi & Zain, 2019; Hasan, & Mohd Shahnaz, 2005; Idris, 2002; Alayuddin, 2008; Saad, 2010; Bidin, 2008; Daud, 2011). This shows that *Muslim* individuals with high levels of knowledge regarding *zakat* are more compliant in paying *zakat* if compared to those with less knowledge. This is because when individuals are very knowledgeable about *zakat*, their level of understanding encompasses various *zakat* conditions such as *nisab*, *haul*, types of wealth and other related subjects (Sadallah & Abdul-Jabbar, 2022). However, *Muslim* individuals with little knowledge on *zakat* will likely avoid paying it whilst trivializing the duty of paying *zakat* (Mahat, 2006). Therefore, the level of knowledge is an important aspect in influencing compliance behavior in *zakat*. For instance, the method of assessment in *zakat* on business is rather complicated if compared to the assessment of the *zakat al-fitr* (Mohamed et al., 1995). This will cause *Muslim* business owners with little knowledge on the assessment of *zakat* on business to avoid paying *zakat* on business (Syed Mohd Ghazali Wafa, 2004). Besides, Mohd Shah (2011) suggested that low knowledge levels could cause low levels of compliance with *zakat*. He mentioned that low knowledge levels will cause confusion

regarding the implementation and the obligation of *zakat*. This is because when individuals are not knowledgeable about *zakat*, most individuals will assume that *zakat* payment occurs just once a year during the period of the fasting month until the first of *Syawal*. This results in them believing that the obligation to pay *zakat* has been fulfilled. If the *Muslim* individual is knowledgeable about the subject of *zakat*, they will know that obligatory *zakat* payment is not fulfilled through one payment of *zakat al-fitr* which is compulsory during the fasting month but that there are other categories of *zakat* that need to be paid. This further demonstrates the importance of knowledge in compliance behavior in *zakat*.

Study by Alayuddin (2008) and Khamis et al. (2018) mentioned length of business operation is another factors influencing compliance behavior in *zakat*. They explained the length of business operation refers to the duration of business operations and suggested that length of business operation is an important factor determining compliance behavior in *zakat* on business. This is because as a *Muslim* entrepreneur, business is conducted not for the sole purpose of profit but it is also a practice to gain the blessings from Allah (Alayuddin, 2008).

In addition, the number of studies have found that organizational factors have a significant relationship with compliance behavior in *zakat* (Hasan, & Mohd Shahnaz, 2005; Muda, Marzuki, & Shaharuddin, 2006; Ahmad, & Wahid, 2005; Karim, Zaidi, & Wahid, 2006; Daud, 2011). For instance, Idris (2002) focused on the quality of services in the *zakat* institution and the promotional campaigns on *zakat*. The study revealed that these aspects have a positive relationship with compliance in *zakat* on income. The discussion is congruous with other studies noted that if the institution is

capable of providing better services, it will also attain a high level of satisfaction and directly affect intentional behavior (Cronin & Taylor, 1992). This shows that, even though the study did not discuss the direct influence of the organizational factors on compliance in *zakat*, it is applicable as these factors influence intentional behavior. Another study by Bidin (2008) and Saad (2010) also applied the same approach as Idris (2002).

Government incentives such as rebate and deduction can be seen as another factor motivated *Muslim* individual to comply paying *zakat* (Siswantoro, Nurzaman, Nurhayati, Munandar, Ismail & Mohamad, 2022). According to Bardai (2001) most *Muslim* businesses are compliant if they receive incentives such as rebates or deductions when *zakat* is paid on business. Thus, incentives factor in the decision-making by businesses to comply with *zakat* obligations as it also aids in maximizing utility. Mahmood (2007) mentioned that incentives such as tax rebates given by the government can be utilized to reduce the total income tax paid by *Muslim* individuals. This means that *Muslim* individuals can use this incentive to reduce their financial burden in paying income tax as well as *zakat*. At the same time, this incentive influences more *Muslim* individuals to pay *zakat*, indirectly increasing the numbers of *zakat* payers and also the *zakat* collection. Hence, government incentives factor greatly in the decision-making process of an individual to comply with *zakat* payments.

Law enforcement and compliance behavior in *zakat* frequently discussed by previous studies that mentioned there has a relationship and it is noted that law enforcement is a determining factor in compliance behavior in *zakat* (Idris, 2002, 2009; Alayuddin, 2008). As suggested by Alayuddin (2008) without specific laws on *zakat*, the already diminishing *zakat*

collection will decrease further. This emphasizes the important role that law enforcement plays in influencing compliance with *zakat* in the *Muslim* community. However, to ensure that law enforcement influences individuals comply with *zakat*, law enforcement must be implemented clearly; encompassing all types of *zakat*, fines and penalties. This is because individuals will comply with regulations if they are charged with penalties and fines if caught. As a consequence, the level of compliance amongst *Muslim* individual will increase (Idris, 2004). However, Daud (2011) revealed that law enforcement is insignificant in influencing *zakat* compliance through official channels. In his view, law enforcement cannot be viewed as the main factor in influencing compliance and may not be the best strategy to increase compliance in individuals. As it is believed most individuals are knowledgeable about the obligations of *Muslims* to pay *zakat*, knowledge on *zakat* coupled with high religiosity levels are viewed as stronger influences on compliance if compared to law enforcement. This has been supported by Saad (2010) who demonstrated no relationship between law enforcement and compliance behavior in *zakat* on business in Kedah.

Based on previous discussions, past studies mainly focused on individual characteristics such as gender, age, level of income, level of education and other aspects influencing compliance behavior with regard to the organization or the firm's characteristics. Hence, in discussing the demographic factors of organizations and compliance behavior, other aspects related to firm profile that need to be emphasized include the age of the firm (Houghton and Simon, 2009), industry structure (DeLuca, Greenland, Hennessy, Kindlon, & Stavrianos, 2004; Nielsen & Mathiesen, 1999) and industry of profession (Nkwe, 2012). For instance, Houghton and Simon (2009) emphasized factors

such as the firm age and size as control factors influencing ethical compliance behavior. Based on the hierarchical multiple regression analysis, the study revealed that organization or firm size and age strongly influenced ethical compliance behavior. The study observed that small and young firms practised less ethical compliance behavior compared to larger and older firms. This is because small and young firms are more focused on how to survive in the market. Hence, they neglect the standardized policies and regulations to guide ethical compliance behavior. DeLuca et al. (2004) mentioned that taxpayers come from different industries with different business transactions. For example, retail industries have higher business transactions compared to other industries. The implication is that, business owners involved in the retail industry experience more burdens with taxes and tax compliance.

In reviewing the relevant literature, there have a number of factors determining compliance behaviors in *zakat* such as religious practices, level of knowledge, length of business operation, organization factors, government incentives, law enforcement and several aspects of a business profile. These factors comprise various aspects such Islamic, psychological and sociological, legal and also economic.

Logistic Regression Analysis

In logistic regression there are two regressions involve. Firstly, if only two categorical outcomes are being predicted the analysis is known as binomial logistic regression analysis and if the study aims to predict more than two categories it is known as multinomial logistic regression analysis. According to Halcoussis (2005, p. 268) “logit model is based on the cumulative logistic distribution, instead of the cumulative normal distribution that the

probit model uses. For any one regression, the results from the probit and logit estimation methods are often similar in terms of statistical significance. Logit model if thought in terms of probabilities, will give probability estimates that are bounded by 0 and 1, just like a probit model. Logit model is to avoid extreme probability values that are close to 0 or 1”. According to Hair et al. (2010) logistic regression analysis is to explain and identifies the relationship between a single non-metric (binary) dependent variable and a number of metric or non-metric independent variables. Thus, this study uses binary logistic regression as only two categories of the dependent variable are to be predicted which include; compliance with paying *zakat* on business=1 and 0=non-compliance with paying business *zakat*. The general equation in explaining the binary logistic regression is as below:

$$Y_1 = X_1 + X_2 + X_3 + \dots + X_n \tag{1}$$

Where Y_1 refers to binary non-metric dependent variables and $X_1, X_2, X_3, \dots, X_n$ refer to the non-metric and metric independent variables. The basic logistic regression model for the *logit* of probability is as equation (2):

$$\text{Logit}[P(n)] = \log\left(\frac{P(n)}{1 - P(n)}\right) = \alpha + \beta x \tag{2}$$

From the logistic regression equation (2), the following equation for the probability $P(n)$ is as equation (3):

$$\log\left[\frac{Pn}{(1 - Pn)}\right] = \beta_0 + \beta_1 X_{i1} + \beta_2 X_{i2} + \dots + \beta_k X_{ik} \tag{3}$$

Where k exploratory variables and $i = 1, 2, \dots, n$

When natural log on the equation (3), the logistic regression model as in equation (4):

$$\text{Ln} \left[\frac{P_n}{(1 - P_n)} \right] = \beta_0 + \beta_1 X_{i1} + \beta_2 X_{i2} \dots + \beta_k X_{ik} \quad (4)$$

Probability Model

Based on the logistic regression analysis, in look upon the factors determining compliance behavior of business *zakat* among SMEs, the specification model can be written as follows:

$$\frac{\rho \text{ Ln } P_n}{1 - \rho n} = \beta_0 + \beta_1 RP_{1i} + \beta_2 LK_{2i} + \beta_3 LBO_{3i} + \beta_4 OF_{4i} + \beta_5 GI_{5i} + \beta_6 LE_{6i} + \varepsilon_i$$

Where;

$$\frac{P_n}{1 - P_n} \quad \text{Log "odds" ratio comply pay business zakat}$$

- RP Religious Practices
- LK Level of knowledge
- LBO Length of business operation
- OF Organizational factors
- GI Government incentives
- LE Law enforcement
- ε_i error term

In order to determine the relationship between the determining factors and compliance behavior of business *zakat* among SMEs in Selangor, this study formulated the following hypotheses to be tested.

H₁: There is relationship between religious practices and compliance behavior of business zakat among SMEs in Selangor

H₂: There is a relationship between level of knowledge on the subject of zakat and compliance behavior of business zakat among SMEs in Selangor

H₃: There is a positive relationship between length of business operation and compliance behavior of business zakat among SMEs in Selangor

H₄: There is a relationship between organizational factors and compliance behavior of business zakat among SMEs in Selangor.

H₅: Government incentive is significantly related to compliance behavior of business zakat among SMEs in Selangor

H₆: There is relationship between law enforcement and compliance behavior of business zakat among SMEs in Selangor

Methodology

Data was collected primarily through the distribution of questionnaires in nine districts in Selangor using the Malaysian Selangor Malay Chamber of Commerce (DPMMNS) database which consisted of 3,031 Malay businesses registered with the agency. From the number, 341 respondents have selected as sample size based on the table developed by Krejcie and Morgan (1970). Proportionate stratified random sampling technique will be used in this study. It begins with the identification of the total number of small and medium sized entrepreneurs in Selangor, which was obtained from the Malaysian Selangor Malay Chamber of Commerce (DPMMNS). It was reported that there were 3031 entrepreneurs in various sectors registered with the organization at the end of 2010 and these were located in nine districts in Selangor. Following this technique, 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 method was supported by Sekaran (2006) who noted that in stratified random sampling each stratum can be selected by either using a simple random sampling method or a systematic sampling procedure. After the respondents had been stratified proportionately, the selection of the respondents involved in this study was done through simple random sampling. This is because in simple random sampling, all respondents in the population have a chance to be selected. Also, the technique allows the greatest generalisation of findings besides limiting bias (Sekaran, 2006; Dana et al., 2022). The process of randomization can be done either through simple random sampling data analysis in Microsoft office excel or SPSS. Hence, the process of randomization for this study is based on simple random sampling data analysis through Microsoft Office Excel. First process all the respondents were listed in the data sheet. Every district has own data sheet. From that, every data sheet will analyze and the result from the analysis will show which respondents have been selected for every district. The same process was also applied for the other districts.

Two approaches were used in the process of data collection such as through mail distribution and self-administrated. 600 sets of questionnaires were distributed to Malays business owners. Based on the two approaches, 315 sets of questionnaires returned. However, just 276 sets of questionnaires were analyzed since 39 sets of questionnaires were rejected due to incomplete

answers and unanswered questionnaires. 276 sets of questionnaires are satisfactory and acceptable as suggested by Sekaran (2006).

Findings

Table 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, age of the firm which is divided by 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. Of the 276 respondents, 22.8 percent (63 respondents) operated their businesses in the Klang area which represents the highest percentage compared to other locations. The lowest percentage is represented by the Sepang area with 2.9 percent (8 respondents). With regard to age of the firm, most respondents had operated their business for more than 10 years (38.8%). As classified by DPMMNS, the business sector can be categorized into six major sectors. Most of the respondents were in the services and utility sector (34.4%) followed by the other sectors such as retailing and wholesaling (26.8%), property and building (16.3%), agricultural (9.1%), manufacturing (7.2%) and technology (6.2%). The category of business was also classified into enterprise, partnership, sole proprietor or co-operative. Based on the analysis, most respondents operated their businesses as enterprises (64.9%) compared to the other business categories.

Table 1. Descriptive Statistics for Respondents’ Profile (N=276)

Business Profile	Frequency	Percent
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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
Selangor	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 utility	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

Logistic Regression Analysis

Binomial regression analysis was done to assume and describe a binary variable in the formulated model. In this study the binary variable refers to comply or do not comply with paying business *zakat*. The dependent variables refer to the SME entrepreneurs complying with or not complying with paying business *zakat* while the independent variables in this study refer to the factors that were identified and explained in the previous chapter i.e. religious practices, level of knowledge, length of business operation, organizational factors, government incentives and law enforcement.

The logistic regression analysis involves the interpretation of the results and reporting of how well the model performs, assessing overall model fit and statistical significance of the coefficient. The results identify the nature or direction of the relationship and the magnitude of the relationship through examining the *exponentiated* logistic coefficient (Exp (β)). The analyses describing the factors determining compliance behavior of business *zakat* among SMEs in Selangor follows in the next section.

Omnibus Tests of Model Coefficient

An omnibus test of model coefficient in logistic regression analysis examines how well the model performs in explaining compliance behavior of business *zakat*. According to Pallant (2007) the significant value on the result of Omnibus Tests of Model Coefficient should be less than 0.05. The results of Omnibus Tests of Model Coefficients as shown in table 2 revealed a highly significant value (<0.05) at 0.000 with the Chi-square value at 83.814 with 10 degrees of freedom. With the significant value 0.000 smaller than 0.05, it can be concluded that the model in this study is significant and performs well in explaining the factors determining compliance behavior of business *zakat* among SMEs in Selangor.

Table 2. Omnibus Tests of Model Coefficients

		Chi-square	df	Sig.
Step 1	Step	83.814	10	.000
	Block	83.814	10	.000
	Model	83.814	10	.000

Other than Omnibus Tests of Model Coefficient, how much the model improved with the inclusion of various variables can also be identified through the model summary. In logistic regression analysis, the results can be divided into two, block 0 as the beginning which is the results without any variables in the equation and block 1 as method=enter indicating the results with the variables in the equation. From the analysis, how much the model improved from the block 0 to block 1 can be identified through the results in the model summary. In the model summary as shown in table 3, the $-2LL$ (log $-likelihood$) was 298.093 which is a change of 83.814 (value given by the model chi-square in the omnibus tests of model coefficients). The lower the $-2LL$ (log $-likelihood$) from the base model (block 0) the better in signifying the model fit. The value describes that the model has improved as much as 298.093 since the last block and the changes in value explained by the model is significant ($p < .0001$).

Table 3. Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	298.093	.262	.349

Assessing Overall Model Fit

In assessing the overall model fit, Hair et al. (2011) outlined three approaches in logistic regression analysis which are classification in logistic regression analysis statistical measures of overall model fit, pseudo R^2 measures and classification accuracy. Assessing the overall model fit is based on the statistical approach through the value of chi-square test for the alteration in the $-2LL$ (log $-likelihood$) value from the base model (block 0= without variables in the equation) and the $-2LL$ (log $-likelihood$) value of block 1 (with variables in the equation). A smaller value of $-2LL$ (log $-$

likelihood) indicates better model fit (Hair et al., 2011). Hence, from the analysis of logistic regression analysis in this study, table 4 revealed that the value of *-2LL* was reduced from block 0 (base model) value 381.907 to 298.093, a reduction of 83.814. The decreasing value of *-2LL* (log – likelihood) shows that the model fit remained statistically significant at the .000 levels.

Table 4. Model Summary Beginning Block and Method Enter

Step	Value -2LL (Log likelihood)
Block 0	381.907
Block 1	298.093

The second statistical approach in assessing the overall model fit is through the value of *Hosmer and Lemeshow Test* which is used based on the value of chi-square and significant level. From the results of *Hosmer and Lemeshow Test* as in table 5, the significant value was less than 0.05 indicating poor model fit with. So, to get a good model fit and to support the model in this study, the value of *Hosmer and Lemeshow Test* should be larger than 0.05 and non-significant value (Field, 2011). The value should be non-significant to show that the model does not change significantly from the observed data. Hence, the results of *Hosmer and Lemeshow Test* of this study showed that the Chi-square was at 4.324 with 8 degrees of freedom and significant value at 0.827. The results indicate that the logistic regression model fits the data in this study as the value of the significant level is larger than 0.05 ($0.827 > 0.05$) and represents a model that can be applied to the real world.

Table 5. Hosmer and Lemeshow Test

Step	Chi-square	df	Sig.
1	64.324	8	.827

The second approach in assessing overall model fit in logistic regression analysis is “*pseudo*” R^2 . In linear regression, the value of multiple correlation coefficients R and corresponding R^2 were used in describing how well the model fits with data in the study. In a logistic regression model, the model can be assessed through the estimation fit using “*pseudo*” R^2 which can be categorized by *Cox & Snell R Square* and *Nagelkerke R Square* (Hair et al., 2011) which is similar to the *R square* (coefficient of determination) in the multiple regression (Field, 2011; Hair et al., 2010; Pallant, 2007). Both analyses describe that “the value of variation in the dependent variable is explained by the model” (Pallant, 2007, p. 174). The higher the value of *Cox & Snell R Square*, the greater the model fit but it should not exceed the maximum value of 1. Accordingly, based on the results in the model summary as illustrated in table 3, the value of *Cox & a Snell R Square* was at 0.262 and the value of *Nagelkerke R Square* at 0.349. From the value it was suggested that between 26.2 percent and 34.9 percent of unpredictability is described by variables in this study.

The third approach in assessing the overall model fit is classification accuracy. Binomial regression analysis can be identified by the predicted results based on the classification table. The table describes how the model predicts the correct category. In this study, the classification model predicts the results indicating whether the SME entrepreneurs comply or did not comply with paying business *zakat*. As shown in table 6, the model predicts with

overall correct prediction at 72.8 percent. It was predicted that 150 respondents would comply with paying business *zakat* but the actual number of respondents complying with paying business *zakat* was 110 respondents (73.3%). It was predicted that 126 respondents would not comply with paying business *zakat* but the actual number of respondents not complying with paying business *zakat* was 91 respondents (72.2%).

Table 6. Classification Table

Observed		Predicted			
		Zakat Status		Percentage Correct	
		Yes	No		
Step 1	zakat status	Yes	110	35	75.9
		No	40	91	69.5
Overall Percentage			150	126	72.8

Interpretation of the Results

After the results had shown sufficient value in explaining compliance behavior (dependent variables) of business *zakat* and its determinant factors (independent variables), the binomial logistic regression as formulated at equation (5) was analyzed in the final stage of logistic regression analysis (Hair et al., 2011). Two aspects that needed to be addressed were direction of the relationships and magnitude of the relationships (Hair et al., 2011). The direction of the relationships is based on whether the sign of the original logistic coefficient (β) was positive (positive relationship) or negative (negative relationship) while, the magnitude of the relationships refers to the magnitude change in probability of each independent variable based on the value of the *exponentiated coefficient* (Exp (β)). Based on that, the analysis on binomial logistic regression model is shown in table 7

Table 7. Logistic Regression Model of Compliance Behavior of Business

<i>Zakat</i>					
	β (SE)	Sig.	95% CI for Odds Ratio		
			Lower	Exp(β)	Upper
Included					
Constant	-2.923 (1.167)				
RP	0.014* (0.010)	0.066	0.994	1.014	1.033
LK	2.718*** (0.498)	0.000	5.707	15.146	40.198
LBO	-0.066 (0.052)	0.206	0.845	0.936	1.037
OF	0.030** (0.015)	0.052	0.942	1.434	1.000
GI	0.058* (0.032)	0.066	0.886	1.943	1.004
LE	-0.001 (0.012)	0.903	0.976	0.999	1.021

Note: R2 = Significant at 0.1*, significant at 0.05**, significant at 0.01***

Based on the binomial logistic regression analysis as shown in table 7, hence the model of compliance behavior of business *zakat* among SMEs in Selangor as formulated in equation (8) is illustrated below:

$$\text{Ln} \frac{Pn}{1 - Pn} = 2.923 + 0.014*Rp + 2.718***Lk - 0.066Lbo + 0.030Of** + 0.058Gi* - 0.001Le$$

Note: Significant at 0.1*, significant at 0.05**, significant at 0.01***

As shown in table 7, the coefficient (β1) was at 0.014, indicating that religious practices are positively related with compliance behavior of business *zakat*. The direction of the relationship synchronized with the theory which mentioned more religious practices, high compliance behavior of *zakat*. Besides that, the significant value show at 0.066 is less than 0.10 (0.089<0.10), thus hypotheses 1 (***H1 = There is a relationship between religious practices and compliance behavior of business zakat among SMEs in Selangor***) is accepted. Hence, the logistic regression analysis revealed that the relationship between religious practices and compliance behavior of business *zakat* among SMEs in Selangor is positive and significant (p < 0.05).

Based on the exponentiated value ($\text{Exp}(\beta)$) was at 1.014 indicating that when religious practices were increased by one unit the log odds ratio was 1.014 times as large and therefore business owners were 1.014 more times likely to comply paying business *zakat*, assuming that other variables remained unchanged (Catteries paribus). Hence, the above findings reveal that there was a significant relationship between religious practices and compliance behavior of business *zakat* among SMEs in Selangor. Therefore, the hypothesis formulated is accepted. The analysis also clarifies that religious practice is one of the factors determining compliance behavior of business *zakat* among SME entrepreneurs in Selangor, and there was sufficient explanation to describe the relationship between the two.

The coefficient (β_2) value at 2.718 indicates a positive relationship between level of knowledge and compliance behavior of business *zakat* due to the positive value of the coefficient. The direction of the relationship is synchronized with the theory which suggested that high levels of knowledge increased tendencies to comply with paying *zakat* since they understand the whole concept and principles of *zakat*. The significant value was at 0.000 less than 0.01 as the significant level ($p < 0.01$). The analysis indicates that the formulated hypotheses 2 (***H2 = There is a relationship between level of knowledge on the subject of zakat and compliance behavior of business zakat among SMEs in Selangor***) is accepted. This signifies a positive significant relationship between level of knowledge and compliance behavior of business *zakat* among SMEs in Selangor. Based on the exponentiated value ($\text{Exp}(\beta)$) was at 15.146 indicating that when level of knowledge regarding business *zakat* was increased by one unit the log odds ratio was 15.146 times

as large and therefore business owners were 15.146 more times likely to comply paying business *zakat*, assuming that other variables remained unchanged (Catteries paribus). Hence, the above findings reveal that there was a significant relationship between level of knowledge and compliance behavior of business *zakat* among SMEs in Selangor. Therefore, the hypothesis formulated is accepted. It illustrates that level of knowledge is one of the factors determining compliance behavior of business *zakat* among SMEs entrepreneurs in Selangor and there is sufficient explanation in describing the relationship between level of knowledge and compliance behavior of business *zakat*.

The logistic regression analysis revealed the coefficient (β_3) value was at -0.066. This represents a negative relationship direction between length of business operation and compliance behavior of business *zakat* in the negative direction. The direction describes that the longer the length of business operation, the lesser the tendency to comply with paying business *zakat* among SME entrepreneurs. This result does not reflect previous studies that found that length of business operation has a positive influence on *Muslim* entrepreneurs to comply with paying business *zakat*. For these business owners, it was found that the longer the duration of their businesses, the higher their tendencies to comply with paying business *zakat*. Thus, Hypotheses 3 (***H3: There is a positive relationship between length of business operation and compliance behavior of business zakat among SMEs in Selangor***) was tested. The logistic regression analysis revealed a non-significant relationship between length of business operation and compliance behavior of business *zakat* among SMEs due to the value of significance at 0.206, higher than the significant level at 0.1 ($p > 0.1$). Thus, the formulated hypothesis is rejected.

This indicates that the relationship between length of business operation and compliance behavior of business *zakat* among SMEs in Selangor is negatively related and non-significant. Based on the exponentiated value ($\text{Exp}(\beta)$) was at 0.936 indicating that when length of business operation was increased by one unit the log odds ratio was 0.936 times as large and therefore business owners were 0.936 times less likely to comply paying business *zakat*, assuming that other variables remained unchanged (*Ceteris paribus*). The above findings show that there is a negative and non-significant relationship between length of business operation and compliance behavior of business *zakat*. Thus, the formulated hypothesis is rejected. The results also indicated that length of business operation is not one of the factors determining compliance behavior of business *zakat* among SME entrepreneurs in Selangor and there is insufficient explanation in describing the relationship between length of business operation and compliance behavior of business *zakat*.

The coefficient of organizational factors (OF) in this study is represented by β_4 . In identifying the nature of the relationship between organizational factors and compliance behavior in business *zakat*, hypotheses 4 (***H4: There is a relationship between organizational factors and compliance behavior of business zakat among SMEs in Selangor***) was formulated. The analysis revealed that the coefficient (β_4) value was at 0.030, indicating that there is a positive relationship between organizational factors and compliance behavior of business *zakat* among SMEs in Selangor. It indicates that the more strategies implemented by *zakat* organization, the more tendency to comply with paying business *zakat* among SMEs in Selangor. Other than that, the significant value was at 0.023 less than significant level at 0.05 ($p < 0.05$). As such, hypothesis 4 in this study is accepted. Based on the exponentiated

value ($\text{Exp}(\beta)$) was at 1.434 indicating that when organizational factors were increased by one unit the log odds ratio was 1.434 times as large and therefore business owners were 1.434 more times likely to comply paying business *zakat*, assuming that other variables remained unchanged (*Ceteris paribus*). The above discussion on the analysis of logistic regression analysis illustrates that there is a positive and significant relationship between organizational factors and compliance behavior of business *zakat* among SMEs in Selangor and the formulated hypothesis is accepted. Therefore, the results suggest that organizational factors one of the factors determining compliance behavior of business *zakat* and there is enough explanation in describing the relationship between organizational factors and compliance behavior of business *zakat*.

Logistic regression analysis revealed that the coefficient (β) value for government incentives was at 0.058 with positive value, describing government incentives and compliance behavior of business *zakat* among SMEs in the positive direction. The value suggests that the more incentives provided by the government, the higher the tendency to comply with paying business *zakat* among SMEs. At the same time, the significant value was at 0.066, less than 0.1 ($p < 0.1$). With the positive value of the coefficient (β) and significance at $p < 0.1$, this indicates that there is a positively significant relationship between government incentives and compliance behavior of business *zakat* among SMEs in Selangor. Therefore, the formulated hypotheses 5 (***H5: Government incentive is significantly related to compliance behavior of business zakat among SMEs in Selangor***) in this study is accepted. Based on the exponentiated value ($\text{Exp}(\beta)$) was at 1.943 as produced in the logistic regression analysis indicating that when government incentives were increased by one unit the log odds ratio was 1.943 times as large and therefore business

owners were 1.943 more times likely to comply paying business *zakat*, assuming that other variables remained constant (Catteries paribus). The above findings show that there is a positive and significant relationship between government incentives and compliance behavior of business *zakat* among SMEs in Selangor and the hypothesis formulated is accepted. Therefore, the results suggest that government incentive is one of the factors determining compliance behavior of business *zakat* and there is enough explanation to describe the relationship between government incentives and compliance behavior of business *zakat*.

The coefficient for law enforcement is represented by β_6 with a negative value of 0.001, representing a negative relationship between law enforcement and compliance behavior of business *zakat* among SMEs. The value indicates that strict law enforcement regarding business *zakat* correlated with a low tendency for SMEs to comply with business *zakat*. At the same time, the significant value was at 0.903 higher than the significance level of 0.1 ($p > 0.1$). This indicates that the relationship between law enforcement and compliance behavior of business *zakat* among SMEs in Selangor is negatively related and non-significant. Therefore, the formulated hypothesis 6 (***H6: There is a relationship between law enforcement and compliance behavior of business zakat among SMEs in Selangor***) is rejected. Based on the exponentiated value ($\text{Exp}(\beta)$) was at 0.999 as produced in the logistic regression analysis indicating that when law enforcement was increased by one unit the log odds ratio was 0.999 times as large and therefore business owners were 0.999 times less likely to comply paying business *zakat*, assuming that other variables remained unchanged (Catteries paribus). The above findings

reveal that there is a positive and insignificant relationship between law enforcement and compliance behavior in business *zakat* among SMEs in Selangor and the hypothesis formulated is rejected. Therefore, the result clarifies that law enforcement is not one of the factors determining compliance behavior of business *zakat* and there is not enough evidence to describe the relationship.

In addition, the logistic regression also produced a value of the coefficient and exponentiated values (Exp (β)) represented the indicator of the change in the log odds ratio resulting from one unit change in the independent variables. The summary explanations of the exponentiated values (Exp (β)) among independent variables in this study are shown in table 8.

Table 8. Summary of Coefficient and Exponentiated Value

Variables	Exp (β)	Explanation
Religious Practices	1.014	When religious practices was increased by one unit the log odds ratio was 1.014 times as large and therefore business owners were 1.014 more times likely to comply paying business <i>zakat</i> , assuming that other variables remained unchanged (Ceretis paribus).
Level of Knowledge	15.146	When level of knowledge regarding business <i>zakat</i> was increased by one unit the log odds ratio was 15.146 times as large and therefore business owners were 15.146 more times likely to comply paying business <i>zakat</i> , assuming that other variables remained unchanged (Ceretis paribus).
Length of Business Operation	0.936	When length of business operation was increased by one unit, the log odds ratio was 0.936 times as large and therefore business owners were 0.936 times less likely to comply paying business <i>zakat</i> , assuming that other variables remained unchanged (Ceretis paribus).
Organizational Factors	1.434	When organizational factors was raised by one unit the log odds ratio was 1.434 times as large and therefore business owners were 1.434 more times likely to comply paying business <i>zakat</i> , assuming that other variables remained unchanged (Ceretis paribus).
Government Incentives	1.943	When government incentives was raised by one unit the log odds ratio was 1.943 times as large and therefore business owners were 1.943 more times likely to comply paying business <i>zakat</i> , assuming that other variables remained unchanged (Ceretis paribus).

Law Enforcement	0.999	When law enforcement was raised by one unit the log odds ratio was 0.999 times as large and therefore business owners were 0.999 times less likely to comply paying business <i>zakat</i> , assuming that other variables remained unchanged (<i>Ceteris paribus</i>).
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Discussion and Conclusion

This study aimed to ascertain the factors determining compliance behavior of business zakat among SMEs in Selangor to achieve better understanding regarding the issue of zakat compliance behavior. Logistic regression analysis was used to examine the relationship between factors determining compliance behavior and business zakat among SMEs. The analysis of this study described that the objective was achieved, showing that the relationships between determining factors and compliance behavior of business zakat to be either positive or negative significant relationships while some factors were insignificant. This reflects findings of previous studies exhibiting different results on the relationship between determining factors and compliance behavior whether in tax (Allingham & Sandmo, 1972; Chau & Leung, 2009; Fischer et al., 1992; Mustafa, 2007; Jackson & Milliron, 1986) or zakat environments (Arif et al., 2011; Idris, 2002; Bidin & Idris, 2008; Bidin et al., 2009). From the six factors examined in this study, four of the factors significant relationships between compliance behavior and zakat on business and synchronized with previous studies. The factors such as religious practices synchronized with previous studies that discovered high levels of religiosity among Muslim individuals increased their level of compliance (Muda et al., 2005; Bakar, & Rashid, 2010; Bidin, 2008; Daud, 2011). Level of knowledge similar findings illustrated that with high level of knowledge influenced Muslim individuals to comply more with zakat payments (Idris, 2009; Alayuddin,

2008; Bidin, 2008). The result for organization factors is consistent with previous studies that explained the positive relationship between organizational factors and compliance behavior of business zakat may be attributed to the respondents' put a lot of trust in the zakat organizations' management of zakat funds based on the transparency, accountability and equality management (Mahat, 2006; Muda et al., 2005; Saad, 2010; Karim et al., 2006). The finding for government incentives consistent with the findings by Saad (2010) who mentioned tax rebates as a second order construct of perceived behavior control and has a positive, significant correlation with compliance behavior. Even though there is a difference between zakat rebate and zakat deduction, the relationship between both government incentives indicate a positive and significant relationship with compliance behavior of business zakat.

In conclusion, besides the commonly discussed factors in compliance behavior such as religious practices, level of knowledge and law enforcement other factors also needed to be emphasized in order to enhance understanding regarding compliance behavior such government incentives and government factors. This is because zakat on business has a huge potential as one of the major contributors in zakat collection in the future. This should not be the case as the obligation to pay zakat on business is clearly stated in the Holy Qur'an. These developments provided the impetus for this study. Specifically, it was necessary to identify the factors determining compliance behavior of business zakat among Muslim entrepreneurs. These factors can serve as guidelines and information so that the zakat authorities can develop and implement strategies to attract more Muslim entrepreneurs to comply with business zakat payments and in doing so, raise the total collection of zakat on business.

For future research, it is suggested that, focus should be given to the 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 variables used in this study on the zakat practices of other business groups that have not been included in this study. In addition, it is also useful to broaden the scope of the current study on compliance behavior to produce more valuable findings and deepen our understanding of compliance behavior of business zakat among Muslim entrepreneurs throughout Malaysia.

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