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**| RESEARCH ARTICLE**

## **Are Zakat Institutions Trusted To Accept Charity?**

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**| ABSTRACT**

This research aims to identify the factors that influence trust in paying zakat through zakat management organization (OPZ) or zakat institution in Indonesia. The theory in conducting this research is based on agency theory and legitimacy theory. This research is a quantitative descriptive research using primary data in the form of questionnaires distributed online using the Structural Equation Model (SEM) analysis tool. The population in the research is the Muslim population in Indonesia, who are obliged to pay zakat. Samples were taken randomly using the Simple Random Sampling method for as many as 100 respondents in 40 cities spread across Indonesia. The results showed that Muzakki's Perception of Management and Transparency Practices had a significant positive effect on trust in paying zakat through zakat institutions. Meanwhile, Muzakki's Perception of Zakat Institutions and Muzakki's Background has no significant effect on trust in paying zakat through zakat institutions. These findings are expected to be a serious concern for stakeholders in educating the Muslim community about the importance of paying zakat through zakat institutions in order to reduce income inequality and achieve economic prosperity in Indonesia. The results showed that Muzakki's Perception of Management and Transparency Practices had a significant positive effect on trust in paying zakat through zakat institutions. Meanwhile, Muzakki's Perception of Zakat Institutions and Muzakki's Background has no significant effect on trust in paying zakat through zakat institutions. These findings are expected to be a serious concern for stakeholders in educating the Muslim community about the importance of paying zakat through zakat institutions in order to reduce income inequality and achieve economic prosperity in Indonesia. The results showed that Muzakki's Perception of Management and Transparency Practices had a significant positive effect on trust in paying zakat through zakat institutions. Meanwhile, Muzakki's Perception of Zakat Institutions and Muzakki's Background has no significant effect on trust in paying zakat through zakat institutions. These findings are expected to be a serious concern for stakeholders in educating the Muslim community about the importance of paying zakat through zakat institutions in order to reduce income inequality and achieve economic prosperity in Indonesia.

**| KEYWORDS**

Muzakki's Background, Muzakki's Perception of Zakat Institutions, Muzakki's Perception of Management, Transparency Practices, Trust in Paying Zakat Through Zakat Management Organization

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### **1. Introduction**

Zakat compliance means that all activities related to receiving zakat are in accordance with the regulations set by the government zakat authority (Bin-Nashwan, Abdul-Jabbar, Aziz, & Sarea, 2020). Compliance with paying zakat through zakat management organizations (OPZ) is a fundamental issue that occurs in Indonesia. Policies and regulations have been designed so that the level of zakat compliance through OPZ can be achieved. In Indonesia, there is Law Number 23 of 2011, which regulates the management of zakat nationally through the National Amil Zakat Agency (BAZNAS). Payment of zakat through OPZ is more important and more recommended because, in the Qur'an and Sunnah, the process of withdrawing zakat involves amil or the government. Payment of zakat through official zakat institutions is more guaranteed to be on target in the allocation of zakat funds than if it is distributed alone. The collective institutional system is more effective in making zakat the economic basis of the people because funds can be collected in large amounts and allocated proportionally.

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Islam is a religion that is believed by its adherents to provide comprehensive rules in all aspects. This builds individuals in making decisions based on sharia principles. One of the important principles is the emphasis on collective prosperity and justice and against the concentration of wealth in the hands of the few (Bin-Nashwan, Abdul-Jabbar, Aziz, & Haladu, 2020). Zakat is the fourth of the five pillars of Islam that must be adhered to and is one of the mechanisms used since the time of the Prophet Muhammad to alleviate poverty and reduce income inequality by redistributing wealth from the rich to those who are less fortunate or in need (Ahmed & Salleh, 2016).

According to research conducted by the Strategic Studies Center (Puskas) of BAZNAS, the potential for zakat in Indonesia reaches 233.8 trillion, while the funds collected in 2019 amounted to 10 trillion. Based on these data, zakat collection is still low, around 5.2 percent of the existing zakat potential (Baznas, 2020).

The low collection of zakat through OPZ does not mean that it is caused by the low awareness of the Indonesian people in fulfilling their zakat obligations. Indonesia has been named the most generous country according to Charity Aid Foundation World Giving 2018. This statement is supported by the condition of the Indonesian people, who have a very strong sharing culture and tend to prefer to donate directly to close relatives or people in need who are nearby. Therefore, it can be assumed that the collection of ZIS so far, apart from being distributed to official OPZs, is also mostly through individuals or informal institutions. The magnitude of this spirit of community sharing is unfortunately not recorded in the National Zakat Report (LZN) compiled by BAZNAS. Is the zakat institution starting to be distrusted by the Muslim community (Pratiwi, 2015)?

One of the factors that influence muzakki in paying zakat through OPZ is Trust (Cokrohadisumarto et al., 2020)(Kasri & Chaerunnisa, 2020)(Ab Shatar et al., 2021). Trust is a fundamental component that makes people donate assets through OPZ. In gaining trust in the community, OPZ must have sufficient integrity and reputation. The integrity and reputation of the OPZ greatly affect the muzakki in distributing zakat through the OPZ (Shukor et al., 2018).

Perceptions of management practices affect the tendency of muzakki to donate zakat through OPZ. When a zakat institution has the right combination of members as leaders it is hoped that the board will provide strategic advice that is useful in increasing public trust in the OPZ assessment (Handy, 2000)(Certo et al., 2001).

Another factor that influences muzakki in donating through OPZ is the practice of transparency. Transparency in the disclosure of financial statements affects public confidence in making donations to OPZ(Morris, 2005)(Cordery & Baskerville, 2007). BAZNAS, as an institution that has the authority in all zakat management activities, is guided by the applicable rules. OPZ is responsible for reporting zakat activities both in terms of collection and distribution based on the Statement of Financial Accounting Standards (PSAK) 109 and Financial Accounting Standards (FAS) 9 that have been set by AAOIFI.

PSAK 109 and FAS 9 set by AAOIFI affect muzakki's trust in OPZ. PSAK 109 and FAS 9 cover the scope of zakat measurement, assessment of wealth subject to zakat, and disclosure of zakat in financial statements. Aspects contained in PSAK 109 and FAS 9 as accountability for all zakat management activities are very urgent in order to achieve the goals of zakat optimally, especially for the obligation to pay zakat on the information presented. Transparency in the financial statements of the entity's activities has a significant effect on muzakki's belief in channeling donations (Nasim & Romdhon, 2014).

However, in another study, transparency has no significant effect on zakat payments through OPZ. Based on research conducted by Thaha (2015) in Samargandi (2018), it is stated that Malaysia's zakat financial statements are not fully disclosed to the public; this has no significant effect on zakat payments through OPZ (Samargandi et al., 2018).

The payment of zakat through OPZ is strongly influenced by the background of the muzakki. Muzakki's background, in this case, includes the level of education and affordability of residence with OPZ. Research conducted by Irfan Syauqi Beik on the people of Brebes, muzakki with a high level of education and close OPZ locations affect the choice of muzakki to pay zakat through OPZ (Beik & Alhasanah, 2012). Responding to the gap both empirically and theoretically, the author seeks to fill the gap by conducting further research on the analysis of factors that affect zakat payments through OPZ.

## 2. Literature Review

The theory of legitimacy is based on the idea of the social contract. This is a set of expectations that society has about how an organization does business. The entity is expected to fulfill the expectations contained in the social contract. In the context of zakat management, Zakat institutions meet people's expectations if zakat is distributed following the Shari'a.

Alam (2006) argues that the success of modern organizations depends on sustainability (a going concern assumption) that can be achieved through effective stakeholder management. Various studies show a positive relationship between management and

stakeholder reputation. Organizational reputation means the recognition of organizational characteristics by outsiders (Dhalla, 2007). It is also considered a social awareness of the organization's integrity and concerns about its stakeholders (Doney & Cannon, 1997). Reputation serves as an indicator of an organization's ability to provide consistent performance (Torres-Moraga et al., 2010). Indeed, in Muzakki's view, companies with effective stakeholder management strategies tend to have positive reputations. Therefore, if a zakat payer considers a zakat institution to be a good administrator of a zakat recipient, the reputation of that institution will be positively affected. Nonprofits need such a reputation to stimulate the trust of donors and other stakeholders (Bennett, R. and Gabriel, 2003).

H1: The higher the perception of muzakki to the OPZ, the higher the trust in donating through the OPZ

H2: The higher the perception of muzakki to the OPZ, the higher the perception of stakeholder management.

Agency theory aims to eliminate the perception of suspicion between the principal and the agent. Muzakki's perception of OPZ is influenced by the practice of transparency and supervision by management. The zakat institution has the right combination of members on the zakat supervisory board. It is hoped that the board will provide useful strategic advice, increase the trust that the community has in it and connect the institution with wealthy Muslims. In other words, if zakat payers perceive the management of OPZ, it can affect their perception of the management of zakat recipients as well as their perception of the level of transparency of the institution when a zakat institution has the right combination of members as leaders.

H3: The higher the perception of the quality of stakeholder management practices, the higher the trust in donating through OPZ

Agency theory in this study supports research conducted by Brammer and Pavelin (2004) that disclosure of information eliminates uncertainty or agency conflict between the transacting parties and builds trust (Brammer, S. and Pavelin, 2004). Empirical studies on nonprofit organizations focus on the disclosure environment, the impact of disclosure, disclosure attributes, and determinants of disclosure (Wiedman, 2000)(Raffournier, 1995). However, studies on charity concentrate more on the information needs of users and the types of information disclosed by zakat management organizations. Therefore, there is an urgent need to conduct empirical studies on the implications of information provided by charities on muzakki.

H4: The higher the perceived disclosure practice, the higher the trust in donating through OPZ

The payment of zakat through OPZ is strongly influenced by the background of the muzakki. Muzakki's background, in this case, includes the level of education and affordability of residence with OPZ. Muzakki received relatively high levels of education, such as high school, bachelor, master's, or doctorate, because educated muzakki are easier to be invited to change their way of thinking from the habit of paying zakat directly to mustahik, to be managed by institutions. The availability of OPZ has a significant value because when an individual wants to pay zakat to OPZ, but the OPZ is not available or not functioning properly, then the individual has difficulty realizing his wishes. People who pay zakat to OPZ because around their homes, there are amil institutions, transparent financial reports, and direct socialization. This is reinforced by the results of research conducted on the people of Brebes; muzakki with a high level of education and close access to OPZ affect the choice of muzakki to pay zakat through OPZ (Beik & Alhasanah, 2012).

H5: The higher the background of the muzakki, the higher the trust in donating through OPZ

### **3. Methodology**

#### **3.1 Type of Research, Population, Sample**

This research is a quantitative descriptive research using primary data in the form of questionnaires distributed online using the Structural Equation Model (SEM) analysis tool. The population in this study is the Muslim population in Indonesia, who are obliged to pay zakat. Samples were taken randomly using the Simple Random Sampling method for as many as 100 respondents in 40 cities spread across Indonesia.

#### **3.2 Measurement Construct**

The structural Equation Model (SEM) is a type of multivariate analysis that can analyze the relationship between variables more complexly. This technique allows researchers to examine the relationship between latent variables by assessing the direct relationship between exogenous variables and endogenous variables. Latent variables are variables that cannot be observed or measured directly but must be derived and measured using indicators.

In component measurements, each variable is placed in several indicators. These indicators are measured using the Likert scale, and the score for each question is calculated as 1 "totally disagree" and 5 "totally agree" meaning. The higher the score, the greater the impact of extrinsic variables on the zakat institution's confidence in zakat payments.

## Summary Of Measurement

Items	Question	Sources
A1	I believe that OPZ / Amil Zakat Institutions can be relied on in disclosing zakat fund information honestly	Adapted From Oladimeji et al., 2013
A2	I believe that OPZ / Amil Zakat Institutions carry out activities according to sharia	Adapted From Oladimeji et al., 2013
A3	I believe that OPZ/Amil Zakat Institutions have trustworthy members	Adapted From Oladimeji et al., 2013
A4	I believe that OPZ/ Zakat Institutions do not allocate zakat funds for other services	Adapted From Oladimeji et al., 2013
B1	I believe the members of the zakat council are famous for their honesty	Adapted From Oladimeji et al., 2013
B2	I think that OPZ/Amil Zakat Institutions have charismatic management	Adapted From Oladimeji et al., 2013
B3	I think OPZ / Amil Zakat Institution has Muzakki as the Zakat Supervisory Board	Adapted From Oladimeji et al., 2013
C1	I believe that OPZ/Amil Zakat Institutions have disclosed complete financial information based on audit results	Adapted From Oladimeji et al., 2013
C2	I think OPZ/Amil Zakat Institution has disclosed achievements based on audit results	Adapted From Oladimeji et al., 2013
C3	I think that the Amil Zakat Institute conveys information fairly and well to all parties in need	Adapted From Oladimeji et al., 2013
D1	I was educated up to college	Adapted From Beik & Alhasanah, 2012
D2	I think that OPZ/Amil Zakat Institutions are easily accessible from the place of residence	Adapted From Beik & Alhasanah, 2012
D3	I think paying Zakat on income is a religious obligation that must be fulfilled	Adapted From Farouk et al., 2018
X1	I am interested in paying zakat through OPZ / Amil Zakat Institute	Adapted From Ikhwandha & Hidayati, 2019
X2	For this year and beyond, I want to pay zakat through amil zakat institutions	Adapted From Ikhwandha & Hidayati, 2019
X3	I believe that paying zakat through Amil zakat institution is the best choice	Adapted From Ikhwandha & Hidayati, 2019

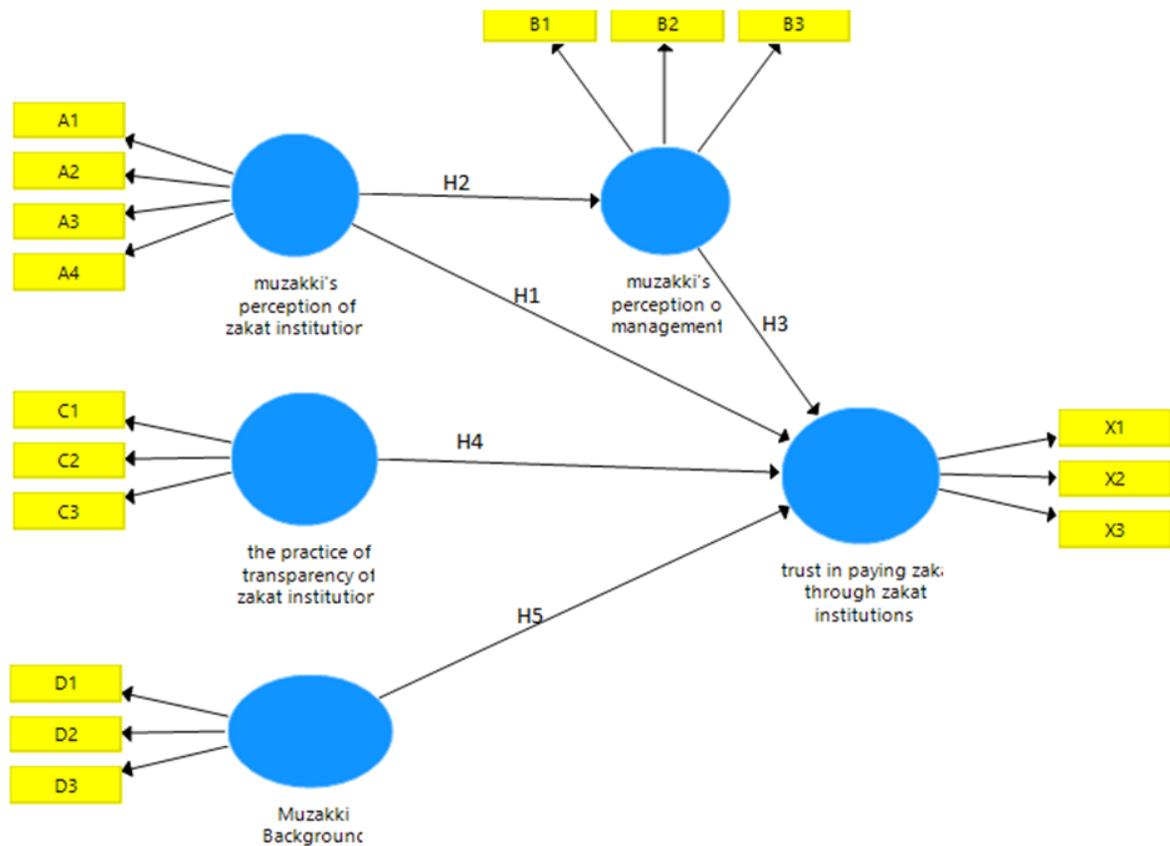


Figure 1 Diagram of Path Analysis and Hypothesis Model

**4. Results and Discussion**

The reliability test was carried out to assess the consistency of the construct: composite reliability coefficient (CRC) (Joreskog, 1971) and average variance extracted (AVE)(Fornell and Larcker, 1981). CRC aims to measure consistency, and the value must be above 0.60 while the AVE value must be above 0.50.

**4.1 Composite Reliability and Average Variance Extracted**

	Composite Reliability	Average Variance Extracted (AVE)
Muzakki Background	0.914	0.780
muzakki's perception of management	0.865	0.681
muzakki's perception of zakat institutions	0.892	0.674
the practice of transparency of zakat institutions	0.770	0.528
trust in paying zakat through zakat institutions	0.929	0.813

Source: SmartPLS 3.0 output, data processed 2022

Construct validity was assessed in terms of convergent validity and discriminant validity (Hair et al., 2010). To assess convergent validity is seen from the factor loading value. To meet convergent validity, it must have a loading factor of more than 0.70. However, in the research development stage, a loading scale of 0.50 to 0.60 is still acceptable (Chin, 1998). Discriminant validity can be seen from the cross loading between indicators and their constructs. If the correlation of the construct with the indicator is higher than the correlation of the indicator with other constructs, then this shows that the latent construct predicts the indicator has been good.

#### 4.2 Discriminant Validity

	muzakki background	muzakki's perception of management	muzakki's perception of zakat institutions	the practice of transparency of zakat institutions	trust in paying zakat through zakat institutions
muzakki background	0.883				
muzakki's perception of management	0.718	0.825			
muzakki's perception of zakat institutions	0.681	0.780	0.821		
the practice of transparency of zakat institutions	0.402	0.415	0.468	0.727	
trust in paying zakat through zakat institutions	0.355	0.528	0.474	0.420	0.902

Source: SmartPLS 3.0 output, data processed 2022

#### 4.3 Factor Loading

	muzakki background	muzakki's perception of management	muzakki's perception of zakat institutions	the practice of transparency of zakat institutions	trust in paying zakat through zakat institutions
A1			0.855		
A2			0.855		
A3			0.836		
A4			0.731		
B1		0.854			
B2		0.851			
B3		0.768			
C1				0.735	
C2				0.700	
C3				0.744	
D1	0.862				
D2	0.891				
D3	0.896				
X1					0.896
X2					0.935
X3					0.872

Source: SmartPLS 3.0 output, data processed 2022

#### Hypothesis Testing

Hypothesis testing is performed by examining the values of the parameter coefficients and the path coefficients that indicate the statistics. The estimated significant parameters provide information about the relationships between the variables in the study and compare the t-statistic value with the t-table value. If the t-statistic is greater than the t-table, it means that the hypothesis has been confirmed or accepted. In this study, for a 95 percent (alpha 95 percent) confidence level, the table score for the one-tailed (one-tiled) hypothesis is > 1.684. The following table presents the results of the path coefficient test with SmartPLS 3.0.

**4.4 Path Coefficient (Mean, STDEV, T-Values, P Values)**

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics ( O/STDEV )	P Values
Muzakki Background -> trust in paying zakat through zakat institutions	-0.128	-0.121	0.122	1.042	0.149
muzakki's perception of management -> trust in paying zakat through zakat institutions	0.435	0.424	0.127	3.418	0.000
muzakki's perception of zakat institutions -> muzakki's perception of management	0.780	0.786	0.040	19,263	0.000
muzakki's perception of zakat institutions -> trust in paying zakat through zakat institutions	0.109	0.113	0.148	0.739	0.230
the practice of transparency of zakat institutions -> trust in paying zakat through zakat institutions	0.240	0.256	0.104	2,311	0.011

Source: SmartPLS 3.0 output, data processed 2022

**5. Discussion**

1. The effect of muzakki's perception on trust in donating through zakat institutions

Hypothesis one (H1) states that the perception of muzakki to OPZ has a significant positive effect on trust in donating through OPZ is rejected. Based on the results of the resampling bootstrapping test, the coefficient parameter value is 0.109 with a t-statistic value of 0.739. This shows that the perception of muzakki to OPZ does not have a significant effect on trust in donating through OPZ because the t-statistic value is 0.739 (less than 1.684). Even so, the value of the coefficient parameter is positive, so the perception of muzakki to opz still has a positive relationship with trust in donating through opz.

The reason why this hypothesis is not significant is that some muzakki doubt the amil zakat in carrying out the mandate, and there is still an assumption that zakat institutions still allocate zakat funds for other services.

2. The effect of muzakki perception on OPZ management on tithe trust through OPZ

The second hypothesis (H2) states that the perception of muzakki in the OPZ has a positive effect on the management of the OPZ is accepted. Based on the results of the resampling bootstrapping test, the parameter coefficient value is 0.780 with a t-statistic value of 19.263. This shows that the perception of muzakki to OPZ has a significant effect on the management of zakat institutions, with a t-statistic value of 19,263 (above 1,684).

The third hypothesis (H3) states that Muzakki's perception of the management of OPZ has a significant positive effect on the belief that zakat through OPZ is accepted. Based on the results of the resampling bootstrapping test, the coefficient parameter value is 0.435 with a t-statistic value of 3.418. This shows that the perception of muzakki to management has a significant effect on trust in zakat through OPZ with a t-statistic value of 3,418 (above 1,684).

These two hypotheses are accepted because the management policies of zakat institutions have an effect on reputation in the eyes of muzakki. The characteristics of zakat institutions are very dependent on management policies (Dhalla, 2007). Muzakki trusts the management for his honesty and strong supervisory involvement from muzakki. This reputation for honesty is the hallmark of zakat institutions gaining public trust as zakat distributors.

### 3. The effect of muzakki's perception of OPZ's transparency practices on trust in zakat through OPZ

The fourth hypothesis (H4) states that the practice of Zakat Institutions Transparency has a significant positive effect on the belief that zakat through OPZ is accepted. Based on the results of the resampling bootstrapping test, the coefficient parameter value is 0.240 with a t-statistic value of 2.311. This shows that muzakki's perception of the Transparency Practice of Zakat Institutions has a significant effect on zakat trust through OPZ with a t-statistic value of 2,311 (above 1,684).

This is in line with agency theory, where the zakat institution as an agent reports in full (Full Disclosure) all activities to the muzakki (principal) so that there is no suspicion. The results of this study are in line with Samargandi's (2018) research that disclosure practices have a significant effect on muzakki's trust (Samargandi et al., 2018).

### 4. The effect of muzakki background on zakat trust through OPZ

The fifth hypothesis (H5) states that Muzakki's background has a significant positive effect on zakat trust through OPZ is rejected. Based on the results of the resampling bootstrapping test, the coefficient parameter value is -0.128 with a t-statistic value of 1.042. This shows that Muzakki's background has no significant effect on trust in donating through OPZ because the t-statistic value is 1.042 (less than 1.684).

The reason for rejecting this hypothesis is not because muzakki are less obedient in paying zakat, and access to zakat institutions is difficult. The author assumes that muzakki does not get counseling from religious leaders about the importance of zakat through zakat institutions. This is in line with the results of Nurdany's research (2019), which states that religious leaders have a significant effect on awareness of waqf through waqf organizations (Nurdany, 2019).

## 5. Conclusion

This study aims to determine the factors that influence trust in paying zakat through zakat institutions in Indonesia. Using a framework based on Agency Theory and Legitimacy Theory, primary data were collected from 100 respondents in 40 cities spread across Indonesia. Primary data were then analyzed using SEM.

Muzakki's Perception of Management and Transparency Practices have a significant positive effect on trust in paying zakat through zakat institutions. This shows that Management Policy in accordance with Legitimacy Theory greatly affects the trust of muzakki in the reputation of the zakat institution. Transparency practices based on Agency Theory affect the public trust of the Muslim community in Indonesia towards the achievements and performance of zakat institutions, so that agency conflicts are reduced between Muzakki (Principal) and Zakat Institutions (Agents).

Meanwhile, Muzakki's Perception of Zakat Institutions and Muzakki's Background has no significant effect on trust in paying zakat through zakat institutions. These findings are expected to be a serious concern for the government, zakat institutions, and religious leaders in educating the Muslim community about the importance of paying zakat through zakat institutions in order to reduce income inequality and achieve economic prosperity.

The limitations of the research are still using general indicators. It is hoped that further researchers can develop indicators based on sharia and Islamic history that are more in-depth and comprehensive.

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