

The impact of Good Corporate Governance on the management of Zakat in the city of Medan

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Abstract. The ethical principles and structures guiding zakat institutions, encompassing administrators, donors, beneficiaries, and society, are increasingly recognized as critical for successful zakat implementation. The study aimed to evaluate the impact of good corporate governance principles on zakat management in Medan. The research method involves collecting data through surveys and interviews with related parties and employees at zakat management institutions in Medan and data analysis using a quantitative approach. The discussion results show that implementing good corporate governance has a significant positive effect on zakat management in the city of Medan. This can be seen from the increase in transparency, accountability, responsibility, independence and justice in the collection and distribution of zakat in Medan. Thus, this research provides a better understanding of the importance of good corporate governance in the context of zakat management.

Keywords: good corporate governance, management, zakat.

1 Introduction

Zakat worship contains two dimensions: the *hablum minallah* dimension (vertical dimension) and the *hablum minannaas* dimension (horizontal dimension) [1]. When performed correctly, By fulfilling the duty of Zakat, one nourishes their faith, purifies their essence, and attracts divine favor upon their worldly possessions. Zakat is a mandatory form of charitable giving in Islam, which entails allocating a portion of one's wealth to support the impoverished and those in need. It plays a crucial role in poverty alleviation by providing a safety net and meeting basic needs. Zakat also promotes economic development by providing means to start small businesses, create jobs, and stimulate economic growth. It is an essential tool for promoting social justice and reducing inequality [2]. In contrast to other financial sources for growth, zakat has no reverse effect except to please and hope for rewards from Allah alone. Despite its noble purpose, the zakat system still necessitates checks and balances to guarantee its effectiveness.

Indonesia's Zakat management landscape features two key players: the government-established National Amil Zakat Agency (BAZNAS) and private Amil Zakat Institutions (LAZs). These organizations, collectively known as Zakat Management Organizations (OPZs), play a crucial role in collecting, distributing, and utilizing Zakat funds for the betterment of society.. Rooted in the community, LAZs manage zakat, from gathering to distribution and impactful use. In the Medan City BAZNAS records, the potential for receiving zakat in the Medan City area in 2017 is IDR 135 billion. Meanwhile, the realization of zakat receipts in 2017 recorded at BAZNAS Medan City was only IDR 4.1 billion (BAZNAS Kota Medan, 2018). Based on the results of a pre-survey of several amil zakat institutions in Medan City on 27-30 May 2023, information was obtained that zakat distribution activities in their institutions had not been maximized because people thought that they did not pay zakat to zakat management organizations because there fear of abuse. So, they more often deposit their zakat to the mosques. To deal with this, the government issued Law No. 23 of 2011 concerning the management of zakat and the Decree of the Minister of Religion (KMA) No. 333/2015. This regulation is expected to encourage the formation of amil zakat institutions that are wise in managing zakat funds distributed to the public.

Guiding Zakat's Flow: Zakat management is a symphony of meticulous planning, effective implementation, and seamless coordination, ensuring the smooth collection, distribution, and impactful utilization of these sacred funds [3]. In Law No. 23 of 2011 concerning the Management of zakat, article 1 paragraph (2) states, "Management of zakat funds managed by OPZ is required to guarantee transparency, independence, responsibility, fairness and organizational accountability. Accountability is an obligation of the party delivering the trust who can use accountability, presentation, reporting and disclosure in all activities [4]. It is the obligation of the entity receiving the trust to be accountable to the party placing the trust, who possesses the right and authority to demand this accountability. Transparency serves as the foundation for the public's freedom to access the necessary information [5].

But the national zakat collection is still very far from its potential. Hard work is needed to convince the muzakki to pay their zakat in an orderly and regular manner to an official zakat management organization so that it can be accumulated in the national zakat collection data. Amil Zakat Institution (LAZ) funds lack optimal reporting because many still distribute their zakat, not through Amil Zakat bodies. Moreover, the rules allowing the public to pay their zakat without going through an official institution are recognized as a leeway for citizens to choose a particular institution to pay zakat. This is also supported by the results of research conducted by N,29, which show that there are still institutions whose management and reporting systems are irrelevant in managing zakat funds [6].

Users of zakat fund financial report information such as muzakki, mustahiq, government, mail management, and the general public demand information quickly and accurately. To overcome this, an information system is needed to help process data using zakat funds. Demands for accountability, independence, responsibility, fairness and public transparency in such large zakat management organizations have attracted the interest of many researchers to examine these institutions. So far, transparency, independence, responsibility, fairness and accountability, which should be the essential characteristics of the governance of zakat management organizations, have not been fully realized..

Hypothesis Development

Maintaining impartiality in business hinges on transparent information flow. Organizations must proactively share readily accessible, relevant material with stakeholders [7]. This includes mandatory disclosures and key insights for informed decision-making by investors, creditors, and all relevant parties [8].

H1 : The transparency principle significantly contributes to the positive impact on the management of zakat

Sustainable performance hinges on a company's ability to demonstrably and justly hold itself accountable [9]. Achieving this requires well-defined, measurable management processes that prioritize not only the company's bottom line but also the interests of a diverse range of stakeholders. Only through such robust accountability can sustainable progress be secured [10].

H2 : The accountability principle significantly contributes to the positive impact on the management of zakat

Sustainable business success hinges on navigating the dual paths of legal and ethical responsibility. Upholding laws and regulations while actively contributing to society and environmental well-being are key to securing long-term recognition as an exemplary corporate citizen [11], [12].

H3 : The responsibility principle significantly contributes to the positive impact on the management of zakat

An effective internal control system, crucial for good corporate governance, thrives on an atmosphere of independent implementation. Each company organ must operate freely, without internal domination or external meddling, creating a balanced and self-regulating ecosystem [13]. The company can avoid various problems so that the company's activities can be carried out well and dynamically [14].

H4 : The independence principle significantly contributes to the positive impact on the management of zakat

Fairness is equality of treatment from companies towards interested parties according to the criteria and proportions that should be. This principle of fairness must guarantee equal (fair) treatment of all related parties, predominantly minority and foreign shareholders [15]. Navigating the stakeholder ecosystem: Sustainable business success necessitates navigating a complex landscape of interests. Companies must consistently prioritize fairness and equality when considering the needs of shareholders and all other stakeholders involved in their operations [16].

H5 : The fairness principle significantly contributes to the positive impact on the management of zakat

2 Methods

This research is included in the type of quantitative research, namely research used by researchers to examine the influence or relationship between one dependent variable and

several other independent variables [17]. This study uses a research design study of hypothesis testing (hypothesis testing study). The type of data used in this study is primary data. The preliminary data in this study were obtained directly through a questionnaire instrument.

In general, the population can be interpreted as a set or group of elements, elements, or units within a particular area or scope, which has specific attributes or characteristics and is defined by researchers as the object of research analysis [18]. The population in this study were employees of the Zakat Management Organization/Amil Zakat Institute in Medan City. The sampling technique uses the quota sampling technique. The quota sampling technique is applied first; the researcher determines the quota or sample size, both for the overall sample size and for the size of its parts based on specific characteristics. In this study, researchers determined a sample size of 74 respondents.

The research instrument was adopted from several previous studies, namely accountability, responsibility, transparency, fairness, and independence, adapted from [19], [20], while zakat management was adapted from [21], [22]. Data processing uses the SEM analysis method with the Smart PLS 3.0 test tool, to prove the established hypothesis.

3 Results

In this research, the Structural Equation Model - Partial Least Square (SEM-PLS) approach was utilized to analyze and test the hypotheses using the SmartPLS 3.0 data analysis tool. The SEM-PLS method is employed to examine the measurement model or outer model, which demonstrates how the manifest variable represents the measured latent variable [17]. The validity and reliability of the outer or measurement model are evaluated through various tests. The validity test indicates that the construct employed in this study is dependable and authentic because it has an external loading value greater than 0.5. Also, the reliability test highlights that each construct displays a Cronbach's alpha value and composite reliability greater than 0.70.

Table 1. Composite Reliability Variable.

	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
Accountability	0.916	0.926	0.935	0.706
Fairness	0.885	0.899	0.915	0.684
Independency	0.895	0.900	0.922	0.703
Responsibility	0.862	0.872	0.901	0.645
Transparancy	0.926	0.929	0.938	0.601
Zakat Management	0.945	0.947	0.952	0.621

Based on Table 1, the average variance extracted (AVE) value shows that the latent variable of zakat management has an AVE value of 0.621, which is valid because the AVE value is > 0.50. Then, the independent variables are Accountability at 0.706, Fairness at 0.684, Independence at 0.703, Responsibility at 0.645 and Transparency at 0.601. Then, the latent

variable AVE values are all valid because the AVE value is > 0.50 . Furthermore, Table 1 also shows that Cronbach's alpha value and the Composite Reliability value of all constructs are above 0.70. This indicates that all statement items used to measure constructs are reliable.

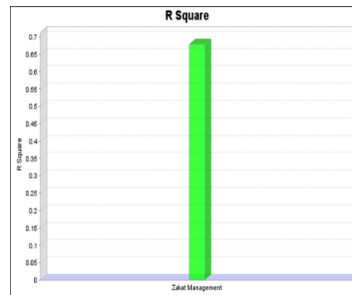


Fig. 1. Diagram R - Square.

In testing the Inner Model (Structural Model), it can be seen from the relationship between constructs, significant value, and R-square [23]. Structural models were evaluated using R-square for endogenous constructs, Q-square for predictive relevance, t-test, and the significance of the structural path parameter coefficients. The Inner Model test can be identified by looking at the R-Square score. It can be seen that the R-squared value of the endogenous (dependent) latent variable, namely Zakat Management, is 0.678. From this value, it can be interpreted that the R-Square value of the variable can be categorized into the moderate category because it is above 0.33. As much as 68% of the zakat management variable constructs can be explained from this research model, while other factors outside the research model explain the remaining 32%. Model assessment can see the R-square value for endogenous latent variables. Figure 1 is a diagram of the R-square test results.

Table 2. Hypothesis Test Results.

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics ((O/STDEV))	P Values
Accountability -> Zakat Management	0.222	0.225	0.105	2.120	0.035
Fairness -> Zakat Management	0.183	0.186	0.086	2.142	0.033
Independency -> Zakat Management	0.229	0.230	0.097	2.357	0.019
Responsibility -> Zakat Management	0.242	0.251	0.098	2.467	0.014
Transparancy -> Zakat Management	0.204	0.201	0.090	2.272	0.023

The results of hypothesis testing from Table 2 explain that the principle of accountability has a significant positive effect on the management of zakat with a t-statistics value of 2.120 and a p-value of 0.035. Likewise, the principle of fairness significantly positively impacts the

management of zakat with a t-statistics value of 2.142 and a p-value of 0.035. Furthermore, the principle of independence significantly positively impacts the management of zakat with a t-statistics value of 2.357 and a p-value of 0.019. Then, the responsibility principle significantly affects the zakat management with a t-statistics value of 2.467 and a p-value of 0.014. Finally, the focus on transparency has a significant positive impact on the management of zakat with a t-statistics value of 2.272 and a p-value of 0.023.

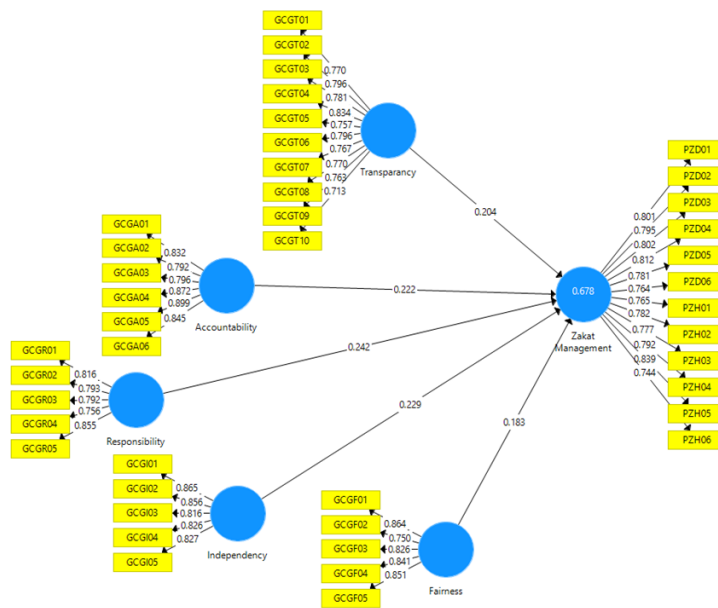


Fig. 2. Structural Model Results.

4 Discussion

The significance of accountability for effective zakat management in Medan, recent research has demonstrated that the principle of accountability plays an essential role in the management of zakat in Medan. In implementing accountability, the management of zakat institutions must provide clear information to the public; the information provided is related to accounting, and financial reports are used as a reference for implementation [24]. By presenting complete information, it will have an impact on the accountable management of zakat institutions so that people will be able to evaluate them properly [25]. The second hypothesis of a recent study aimed to investigate whether the principle of fairness has an impact on the management of zakat in Medan. The results of the research have shown that the principle of fairness does indeed have a positive and significant effect on the management of zakat in Medan. High transparency in an organisation or institution can increase one's interest [26]. Transparency in zakat institutions can have a significant impact on the management of zakat in amil zakat institutions [27]; this is due to the openness of information, easy access to information, and the information conveyed is accurate and timely and easy to understand so that people, especially

muzzaki, entrust themselves paying zakat in zakat institutions the. Likewise, Medan-based research confirmed the positive and substantial influence of managerial independence on Zakat management, supporting the third hypothesis. It underscores the importance of autonomous operation for each governing body within organizations embracing Good Corporate Governance principles in the Zakat context. There is no intervention from any party. The principle of independence ensures that every organ within the organisation can carry out its duties and functions by applicable regulations [14]; this can affect the organisation's movement towards a more dynamic direction so that the organisation will be better known in the eyes of the public [8].

While the results of research that answered the fourth hypothesis found that the principle of responsibility had a positive and significant effect on the management of zakat in the city of Medan, in carrying out the responsibility of zakat institutions or other organizations, they must realize and understand that the operations carried out can be related to externalities (external impacts of company activities). The responsibility applied must also be able to encourage the government to reduce income disparities and provide opportunities for segments of society [24]. Finally, the research results, which answer the fifth hypothesis, show that the principle of transparency positively and significantly affects the management of zakat in Medan. A high level of transparency in an organization or institution can increase the electability of that organization/institution. Transparency in zakat institutions, such as openness of information, easy access to information, and information that is conveyed is accurate, timely and easy to understand, encourages the public, especially muzzaki, to believe that the zakat that has been issued at the zakat institution will be well organized [6].

5 Conclusion

The study results indicate that the principles of accountability, fairness, independence, responsibility and transparency positively and significantly impact the management of zakat in the city of Medan. Implementing accountability involves providing clear information to the public, primarily related to financial reports, which affects the accountable management of zakat. Transparency and independence of zakat institutions offer confidence to the public, ensure appropriate policies and actions, and encourage participation in zakat. Based on these findings, it is suggested that zakat institutions in Medan City prioritize increasing accountability by presenting comprehensive and easy-to-understand information regarding the management of zakat funds. More transparent and independent policies and practices are needed to strengthen public and muzzaki trust. In addition, the role of zakat institutions in responding to external impacts of activities needs to be maintained to help reduce income disparities and enhance social responsibility within the community. These efforts are expected to improve the effectiveness and trust in the zakat management in Medan.

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