

## **Good Governance for *Zakat* Institutions in Indonesia: A Confirmatory Factor Analysis**

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### **ABSTRACT**

Good governance is a crucial issue in the performance of *zakat* institutions, as *zakat* institutions are non-profit public organizations that are trusted by the community. In Indonesia, the huge potential of securing *zakat* funds by *zakat* institutions is currently not optimized due to the lack of public trust. By utilizing a Confirmatory Factor Analysis model, this research aimed to examine dimensions of the principles of good governance namely, transparency, accountability, responsibility, independence and fairness practiced among *zakat* institutions. Data was obtained from interviews with leaders and staff of *zakat* institutions in Indonesia. Findings of the study suggest that the dimension of transparency contributed most to good governance followed by accountability, responsibility, and independence. It can be concluded that good governance in *zakat* institutions has been well implemented only in some aspects but not in totality. This research could be used to create guidelines on *zakat* management governance while serving as a reference for formulating policies related to the standardization of good governance in *zakat* institutions.

*Keywords:* Confirmatory Factor Analysis (CFA), good governance, performance, *zakat* institutions

### **INTRODUCTION**

Good governance is an important concern in the context of *zakat* institutions. As public organizations, *zakat* institutions, especially in terms of their performance,

management, and service they provide, must at all times be able to garner public trust. Currently, the urgency to implement good governance in various public institutions is driven by the need to promote effective and efficient managerial performance to protect the interest of the board of directors, management, stakeholders, shareholders, and customers (Organization for Economic Co-operation and Development [OECD], 2004; Pillai & Al-Malkawi, 2017; Spear et al., 2009). However, *Sharia* governance as

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practiced by *zakat* institutions is different from conventional corporate governance. *Sharia* Governance targets compliance with *Sharia* principles as its main objective (Bhatti & Bhatti, 2010; Hasan, 2009; Lewis, 2006; Mirakhor & Askari, 2017; Safieddine, 2009). Therefore, as Islamic institutions, *zakat* institutions should comply with ethical and moral standards and values specified by the *Sharia*. In reality, these values of good ethics and moral standards practiced by *zakat* institutions are quite similar to those practiced by other conventional financial institutions.

Compliance to these *Sharia* principles of good ethics and moral standards is especially important for *zakat* institutions as they are an essential mechanism for the redistribution of wealth from the able and have to the less abled and have nots. In order for *zakat* institutions to perform this role, it is essential that they comply with *Sharia* principles and practice good governance in order to gain public trust. This research is motivated by the findings of a study conducted by the National Board of *Zakat* (BAZNAS) which found that the estimated potential *zakat* collection in Indonesia in 2011 was approximately IDR 217 trillion. The study also found that this economic potential was not realized and that the *zakat* collected at the national level in 2015-2016 was only estimated at IDR 3 to 5 trillion per year (National Board of *Zakat* [BAZNAS], 2017). In an earlier study (Beik, 2009), the researcher stated that a number of government policies were not effective in realizing the full potentials of *zakat* management and collection in Indonesia.

In the context of *zakat* management in Indonesia, Islamic values have been incorporated by a specific regulation i.e. Law No. 23, Year 2011 on *Zakat* Management. This law stipulates two models of *zakat* management in Indonesia. They are (1) *zakat* managed by the State through specific government bodies and (2) *zakat* managed by Non-Governmental Organizations (Alfitri, 2005; Jahar, 2008). This law stipulates that *zakat* collection in Indonesia must only be managed professionally by accommodating principles of good governance. It can be concluded that the enforcement of good governance principles in an integrated manner is absolutely essential for *zakat* institutions to compete globally and to meet the demands of stakeholders and to serve these stakeholders more efficiently.

Research on good governance in Islamic institutions focusing on *zakat* institutions has been conducted before by various scholars. Studies on Corporate Governance in Islamic institutions including by Chapra and Ahmed (2002), Irma and Hamdani (2017), Mansoor and Bhatti (2008), Lewis (2006), Samra (2016), and Wafiq and Pellegrini (2006) show that corporate governance has become a major issue with financial institutions due to their failure to implement good corporate governance. Some other studies on Islamic governance in social organizations (Issyam et al., 2016; Kaslam 2011; Ramli & Muhamed, 2013; Wahab & Rahman, 2011) have discussed and emphasized the importance of *Sharia* governance in enhancing the performance and management of Islamic

social institutions. With these findings presented by previous works, this study aimed to explore the phenomenon of good governance further by investigating the implementation of good governance for *zakat* management in Indonesia via a Confirmatory Factor Analysis (CFA). The investigation examined specific indicators of each of the dimensions of good governance and how they contribute to good governance. The indicators examined are found within the principles of transparency, accountability, responsibility, independence and fairness.

## METHOD

This study utilized both qualitative and quantitative methods of data collection and analysis. The statistical analysis applied in the study used the Second Order Confirmatory Factor Analysis (CFA) model, which was in fact a measurement model consisting of two levels (Brown & Moore, 2012). At the first level, CFA demonstrates connections between variables as indicators to related latent variables. At the second level, CFA demonstrates connections between latent variables at the first level as indicators to latent variables at the second level. By using CFA modeling in this study, the researcher examined each indicator's contribution to the dimensions of good governance. The software used in the analysis was Partial Least Square (PLS) version 3.

This research also acquired data for analysis via a structured questionnaire which required respondents to answer

questions related to 27 indicators (refer to Appendix A) classified in accordance with the five principles of good governance (transparency, accountability, responsibility, independence, and fairness). The sampling procedure employed was non-probabilistic purposive sampling. The *zakat* institutions which consented to be part of the study were all legally recognized and had been in operation for more than five years.

Ten *zakat* institutions were approached, but only four were willing to share their data and information and consented to be part of the study. These were BAZIS Jakarta Capital Region, BAZNAS Municipality of Bogor, BAZNAS District of Karawang, and BAMUIS BNI. The questionnaire was distributed to all the staff of the *zakat* institutions all the way from directorate to the lower level personnel. A total of 55 questionnaires were distributed and 42 were answered. Out of the 42 questionnaires returned to the researcher, 2 were found to be not suitable for data processing and analysis as they were incomplete. 40 questionnaires were therefore processed and analyzed. Data collection took place over a three-week period.

## RESULTS AND DISCUSSION

Confirmatory Factor Analysis (CFA) is a kind of structural equation modeling that deals specifically with measurement models and investigates the relationships between observed measures or indicators (Brown & Moore, 2012; Harrington, 2009). By using the Confirmatory Factor Analysis (CFA) method in this study, the research was able

to investigate the relationship between exogenous and endogenous latent variables. The five principles of good governance are identified as endogenous latent variables and these are the first stage factors. These five principles are further divided into 27 exogenous indicators, which make up the second stage factors (Appendix A).

**Estimation Parameters and Path Diagrams**

Below is a path diagram of a CFA at two levels along with the parameter of result estimation, which describes connections between indicators and the dimensions of transparency, accountability, responsibility, independence, and fairness. The diagram

aims to show the connections between the 27 indicators and the five dimensions of good governance. An indicator is said to be valid at the first order CFA and the second order CFA if its loading score exceeds 0.5. If the loading score is less than 0.5, this means that the indicator will be omitted as it cannot be loaded onto the construct representing it (Abdillah & Hartono, 2015). The path diagram (Figure 1) shows that at first order CFA, there are 10 indicators with a loading score of less than 0.5; namely, (i1x,i3x1, i8x,i9x1,i3x2, i7x2, i8x2, i9x2, i10x2, i3x3 – explained in Appendix A). This means that there are 10 indicators that are not valid for the first order CFA, and they must be erased and taken out of the analysis.

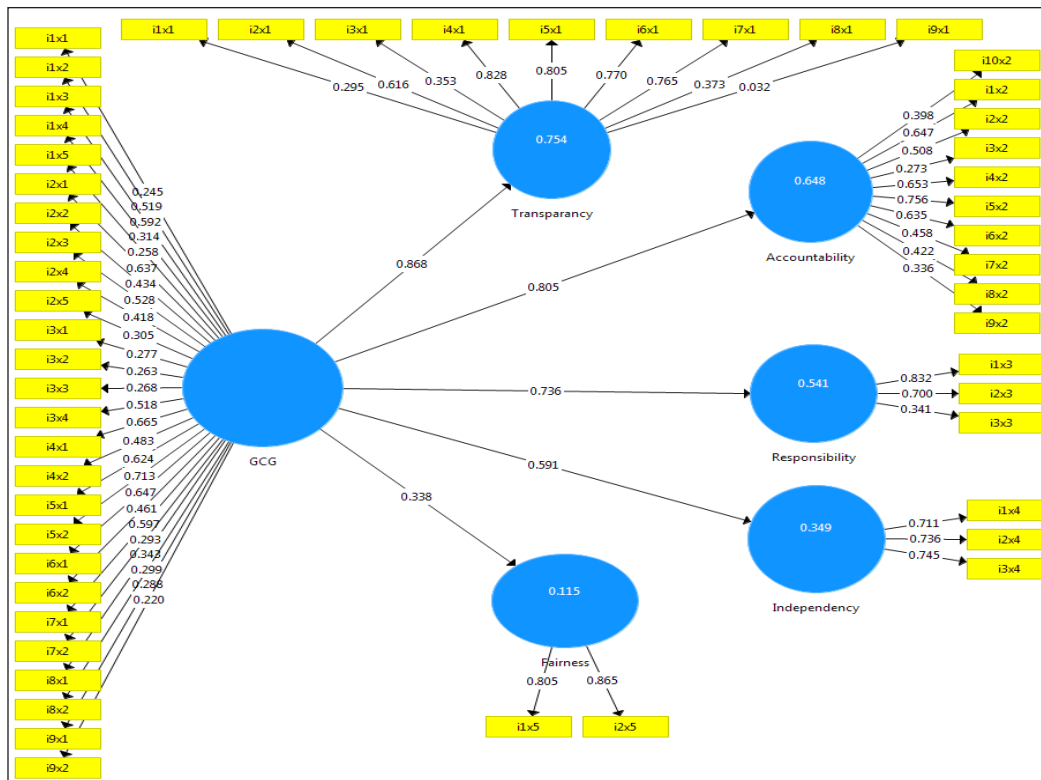


Figure 1. Path diagram results of estimation parameter

At the second order CFA, there was one construct in the dimension of fairness with a loading score less than 0.5 and had to be omitted because of its weakness in explaining the construct. Hence, re-running of the data had to be done. The result of running the path diagram shows that all indicators related to the dimensions of transparency, accountability, responsibility, and independence have a loading score above 0.5. This means that these four dimensions are valid. It seems and can be reasonably concluded that the observation variables are able to measure the constructs well.

#### **Estimation of the Outer Model**

The Outer Model was used to confirm the reliability and validity of the measurement model. In this model, latent variables and the indicators are measured for reliability and validity. It can be concluded that the latent variables have good reliability as a measuring instrument and their average variance extracted (AVE) scores are above the benchmark of 0.5. Thus, it can be said that indicators of each construct are consistent in measuring the construct.

#### **Estimation of the Inner Model**

After obtaining results from the outer model, the next step was to use the inner model where the four dimensions (transparency, accountability, responsibility, independence) and the relationship between these dimensions are evaluated. Evaluations of the compatibility of the inner model or the entire model can be measured using

the Q-Square predictive relevance. The higher the  $R^2$  score, the better the predictive model proposed. An  $R^2$  score of 0.67 is categorized as substantial, an  $R^2$  score of 0.33 is moderate while an  $R^2$  score of 0.19 is weak (Sarwono & Narimawati, 2015). However,  $R^2$  is not an absolute parameter in measuring the precision of the prediction model because the basis of the theoretical relation is the primary parameter explaining this cause and effect relation (Abdillah & Hartono, 2015). The following is the inner model test ( $R^2$  score) of each dimension: transparency (0.711), accountability (0.616), responsibility (0.489), and independence (0.350). Following the inner and outer model evaluation, the next step is to conduct an overall evaluation. The results show that the *R square* score of the four principles of good governance produced a  $Q^2$  square that is close to 1. It can be concluded that the inner model compatibility is good.

#### **The Outer Model Analysis on the Transparency Dimension**

The results of the estimation of the standardized loading factor parameter for transparency outer model from the five indicators are shown in Table 1.

Table 1 shows the loading scores of the five indicators on the dimension of transparency. It can be seen that all five provide valid and good contributions in measuring the dimension of transparency. Also, it can be seen that the indicator which contributes most to the dimension of transparency is *i4x1* (availability on amount of funds collected) with a score of 0.848.

Table 1  
Standardized loading factor score on transparency dimension

Dimension	Item	Indicators	Score
<b>Transparency</b>	i2x1	Website is available to implement the principle of transparency	0.623
	i4x1	Availability of information on the amount of funds collected	0.848
	i5x1	Availability of information on the growth of the number of <i>muzakki</i> (people obliged to give <i>zakat</i> )	0.835
	i6x1	Availability of information on the growth of the number of <i>mustahik</i> (people entitled to receive <i>zakat</i> )	0.783
	i7x1	Availability of financial reports (collection, distribution, utilization)	0.778

Source: Output Smart PLS (version 3)

The lowest contribution is i7x1 (availability of financial reports: collection, distribution, utilization) with 0.778. Taken together, the total contribution of the five indicators in the outer model of transparency matches the AVE score. The calculation of the AVE score for the dimension of transparency is 0.604. This means that all five indicators applied explained the dimension of transparency as 60.4%.

### The Outer Model Analysis on the Accountability Dimension

The results of estimating the standardized loading factor parameter for accountability in the outer model from the five indicators are as shown in Table 2.

Table 2 shows the loading scores of the five indicators on the dimension of accountability. It can be seen that all five indicators have a significant loading score (above 0.5). This means that they provide valid and good contributions in measuring the dimension of accountability. The indicator which contributes most to accountability is i5x2 (able to be responsible for every authority given to every division) with a score of 0.8. The lowest contribution is i2x2 (availability of Supervisory Board specifically assigned to ensure that the *zakat* institutions comply fully with the *Sharia* regulations) with a score of 0.64. Taken together, the total contribution of the five indicators in the outer model of

Table 2  
Standardized loading factor score on accountability dimension

Dimension	Item	Indicators	Score
<b>Accountability</b>	i1x2	Clarity in the function and structure of <i>zakat</i> institutions.	0.713
	i2x2	Availability of a Supervisory Board specifically appointed to ensure that the <i>zakat</i> institutions comply with <i>Sharia</i> and regulations.	0.640
	i4x2	Comply with standard of ethics and values applied.	0.655
	i5x2	Able to be responsible for every authority given to every division.	0.800
	i6x2	Audit conducted by external auditor.	0.652

Source: Output Smart PLS (Version 3)

accountability matches the AVE score. Previous calculations show that the AVE score for the dimension of accountability is 0.582. This means that all five indicators applied to measure the dimension of accountability explain 58.2% of variance.

**Outer Model Analysis on the Responsibility Dimension**

The results of estimating the standardized loading factor parameter for accountability in the outer model from the two indicators are as shown in Table 3.

Table 3 shows the loading scores of the two indicators with respect to the dimension of responsibility. It can be seen that the indicators have a significant loading score (above 0.5). The indicator which contributes most to responsibility is i1x3 (availability of data and information on compliance with laws and regulations (minimum violation of service code of ethics) with a score of 0.811. The lowest contribution is i2x3

(implementation of regular internal and external audits (financial, managerial, and *Sharia*) with a score of 0.790. Taken together, the total contribution of the two indicators in the outer model of responsibility is as much as the AVE scores. The previous calculation shows that the AVE score for the dimension of responsibility is 0.641. This means that the two indicators applied to measure the dimension of transparency can explain the dimension by as much as 64.1%.

**The Outer Model Analysis on the Independency Dimension**

The results of estimating the standardized loading factor parameter for accountability in the outer model from the three indicators are as shown in Table 4.

Table 4 shows the loading score of the three indicators on the dimension of independence. It can be seen that the indicators have a significant loading score (above 0.5). This means that they provide

Table 3  
*Standardized loading factor on responsibility dimension*

Dimension	Item	Indicators	Score
<b>Responsibility</b>	i1x3	Availability of data and information on compliance with law and regulation (minimum violation of service code of ethics).	0.811
	i2x3	Implementation of regular internal and external audit (financial, managerial and <i>Sharia</i> ).	0.79

Source: Output Smart PLS Smart Version 3

Table 4  
*Standardized loading factor on independence dimension*

Dimension	Item	Indicator	Score
<b>Independence</b>	i1x4	Professional management of <i>zakat</i> institutions	0.704
	i2x4	No pressure from unauthorized parties based on existing regulation.	0.743
	i3x4	Objective decision making and free from pressure or intimidation from any party.	0.744

Source: Output Smart PLS Version 3



valid and good contributions in measuring the dimension of independence. Regarding the dimension of independence, it can be seen that the indicator which contributes most to it is i3x4 (professional management of *zakat* institutions) with a score of 0.743. The lowest contribution is i1x4 (no pressure from unauthorized parties based on existing regulation) with 0.704. Taken together, the total contributions of the three indicators in the outer model of responsibility are as much as the AVE scores. The previous calculation shows that the AVE score for the dimension of independence is 0.533. This means that the indicators applied to measure the dimension of independence can explain the dimension by 53.3%.

Based on the data processing conducted using the Smart PLS *version 3* software, it can be concluded that the factors establishing good governance in *zakat* institutions along with their indicators and contributions are able to develop good governance as described in Table 5.

The highest contribution in transparency is i4x1 (availability of information on the amount of funds collected) which contributes 0.848, while the lowest contribution is i7x1 (availability of financial reports) with 0.778. The highest principle in accountability is i5x2 (able to be responsible for every authority given to every division) with 0.8, while the lowest contribution is i2x2 (availability of Supervisory Board specifically assigned to ensure that the *zakat* institutions comply with *Sharia* and other regulations from the government) with 0.64. The highest contribution in responsibility is i1x3 (availability of data and information on compliance with *Sharia* laws and other government regulations) with a score of 0.811 and the lowest contribution being i2x3 (implementation of regular internal and external audits (financial, managerial, and *Sharia*) with a score of 0.79. The highest contribution in independence is i3x4 (objective decision making and free from pressure or intimidation from any

Table 5  
*Factors for establishment of good governance in zakat institutions and the contributions*

<b>Construct</b>	<b>Contribution of Highest Indicators</b>	<b>Contribution of Lowest Indicators</b>
<b><i>Transparency</i></b>	i4x1 (Availability of information on amount of fund collected) contributes 0.848 to the dimension of transparency.	i7x1 (Availability of financial report) contributes in 0.778 to the dimension of transparency.
<b><i>Accountability</i></b>	i5x2 (Able to be responsible for every authority given to every division) contributes 0.800.	i2x2 (Availability of Supervisory Board specifically assigned to ensure that the <i>zakat</i> institutions comply with <i>Sharia</i> and regulations) contributes as much as 0.640.
<b><i>Responsibility</i></b>	i1x3 (Availability of data and information on compliance with <i>Sharia</i> and regulation contributes much as 0.811 in measuring responsibility.	i2x3 (Implementation of regular internal and external audit (financial, managerial, and <i>Sharia</i> ) contributes 0.790 in measuring responsibility.
<b><i>Independence</i></b>	i3x4 (Objective decision making and free from pressure or intimidation from any party) contributes 0.744.	i1x4 (Professional management of <i>zakat</i> institutions) contributes 0.704.



party) with a score of 0.744 while the lowest contribution is i1x4 (professional management of *zakat* institutions) with a score of 0.704.

## CONCLUSION

A Confirmatory Factor Analysis (CFA) was conducted to evaluate how indicators within the dimensions of the five principles of Good Governance contribute to good governance model in the *Zakat* institutions. The results indicate that the principle of transparency contributes at the level of 60.4, accountability at the level of 4.82, responsibility at the level of 6.41, and independence at the level of 53.3. Findings demonstrated that four out of the five dimensions are able to measure GCG in *zakat* institutions and are able to evaluate the lowest and highest contributions from each indicator.

The highest contribution in transparency is i4x1 (availability of information on amount of funds collected) with 0.848, while the lowest contribution is i7x1 (availability of financial report) with 0.778. The highest contribution in accountability is i5x2 (able to be responsible for every authority given to every division) with 0.8, while the lowest contribution is i2x2 (availability of Supervisory Board specifically assigned to ensure that the *zakat* institutions comply with *Sharia* and regulations) with 0.64. The highest contribution in responsibility is i1x3 (availability of data and information on compliance with regulation) with 0.811 and the lowest contribution being i2x3

(implementations of regular internal and external audit (financial, managerial, and *Sharia* compliant) with 0.79. The highest contribution in independence is i3x4 (objective decision making and free from pressure or intimidation from any party) with 0.744, while the lowest contribution is i1x4 (professional management of *zakat* institutions) with 0.704.

Finally, good governance in *zakat* institutions has been well implemented in some aspects but not comprehensively. This research can be utilized to provide guidelines on *zakat* management and act as a guiding reference for formulating policies related to the standardization of good governance in *zakat* institutions.

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**APPENDIX A***Research Instrument*

Variable	Dimension	Indicator	Item Code	Item Number	
Good Corporate Governance	Transparency	Mechanism of openness and standardization of all processes.	i1x1	1-9	
		Website is available as part of implementation of principle of transparency.	i2x1		
		Mechanism facilitating public questions and grievances	i3x1		
		Availability of information on the amount of funds collected.	i4x1		
		Availability of information on growth of the number of muzakki (people obliged to give <i>zakat</i> )	i5x1		
		Availability of information on growth of the number of mustahik (people entitled to receive <i>zakat</i> )	i6x1		
		Availability of financial reports (collection, distribution, utilization).	i7x1		
		Availability of sufficient knowledge to improve efficiency, effectiveness, and innovation in institutions.	i8x1		
		In implementing the principle of transparency, the <i>zakat</i> institutions publish their financial reports on their website	i9x1		
	Accountability	Clarity in the function and structure of <i>zakat</i> institutions.	Availability of a Supervisory Board specifically appointed to ensure that <i>zakat</i> institutions comply with <i>Sharia</i> , law and other regulations.	i1x2	1-10
			<i>Zakat</i> institutions develop professional standardization for Human Resources (amyl).	i2x2	
			Compliance with applicable standard of ethics and values .	i3x2	
			Able to be responsible for every authority given to every division.	i4x2	
			Audit conducted by an external auditor.	i5x2	
			Availability of policy on procedures and documents enabling financial accountability	i6x2	
			Audit/evaluation on managerial performance (internal/external)	i7x2	
			Availability of data and information on the size and primary indicators of accountability of the institution and trust from related stakeholders.	i8x2	
			Availability of policy supporting development of <i>zakat</i> .	i9x2	
			Availability of policy supporting development of <i>zakat</i> .	i10x2	

*Research Instrument (continue)*

Variable	Dimension	Indicator	Item Code	Item Number
	Responsibility	Availability of data and information on compliance with laws and regulations (minimum violation of service code of ethics).	i1x3	1-3
		Implementation of regular internal and external audits (financial, managerial, and <i>Sharia</i> ).	i2x3	
		Availability of analysis and research for evaluating the performance of their institution for the purpose of improving it.	i3x3	
	Independence	Professional management of <i>zakat</i> institutions	i1x4	1-3
		No pressure from unauthorized parties based on existing regulations.	i2x4	
		Objective and independent decision-making, freedom from pressure or intimidation from any party.	i3x4	
	Fairness	Fairness for all stakeholders (Human Resources, Muzakki, Mustahik).	i1x5	1-2
		<i>Zakat</i> institution provides opportunities to all stakeholders to give input and suggestions for the betterment of the institution.	i1x5	

*Source:* Various Literatures

