

Assessing the Effectiveness Role of *Zakat* Management on Income Inequality in Selangor

Mohd Rahim Khamis^{1*}, Maryam Jameelah Hashim², Azman Ab Rahman³

¹ Faculty of Business and Management, 42300, UiTM Cawangan Selangor Selangor Darul Ehsan, Malaysia

² Center for Economics and Finance Studies, Faculty of Business and Management Universiti Teknologi MARA, 42300 Puncak Alam, Selangor, Malaysia

³ Faculty of Syariah and Law, Universiti Sains Islam Malaysia, 71800 Nilai, Negeri Sembilan, Malaysia

* Corresponding author: rahim474@uitm.edu.my

DOI: <https://doi.org/10.33102/uj.vol36no03.604>

Abstract

Zakat is widely acknowledged in the Muslim world as a vital strategy for tackling poverty and income disparity. Many studies indicated that the result had proven the effectiveness of *zakat* distribution in reducing income inequality in society. However, although the amount of *zakat* collection and distribution increases every year, poverty and income inequality remain to exist in Muslim society. Despite the increase in *zakat* distribution to eligible recipients, the issue of income inequality and poverty in society remains. Hence, this study aims to determine the elements that impact the effectiveness of *zakat* institutions in mitigating the economic disparity among Selangor's impoverished and destitute population. The survey was carried out among those who receive *zakat* in four districts of Selangor: Kuala Selangor, Hulu Langat, Petaling, and Klang. The selection of these districts was based on their status as having the biggest concentration of *zakat* recipients in Selangor. 394 questionnaires were collected from *Zakat* recipients, and the data were analyzed using PLS-SEM to assess the effectiveness of *Zakat* in mitigating income disparity. The empirical evidence suggests a notable correlation between an efficient management system, continuous monitoring of *zakat* recipients, systematic *zakat* distribution, and the effectiveness of *zakat* in diminishing economic inequality among the impoverished and destitute in Selangor. The findings indicate that *zakat* institutions should promptly implement policy steps to improve their distribution routes to reach the intended recipients effectively. This study enhances the current body of knowledge by focusing on the scarce research about *zakat* and income inequality. Hence, future studies must prioritize examining the variables that influence the effectiveness of *zakat* allocation.

Keywords: *Zakat*, Inequality, effectiveness, poor and needy

Introduction

Zakat, derived from the Arabic term for "purification," constitutes a mandatory form of almsgiving in Islam designed to reallocate wealth from the affluent to the less fortunate. The effective management of *zakat* is instrumental in mitigating income inequality, ensuring that wealth is distributed equitably within the Muslim community. The origins of *zakat* trace back to the early days of Islam, with the Prophet Muhammad instituting it as a core pillar of the faith. The Quran references *zakat* numerous times, underscoring its importance in Islamic doctrine. The distribution of *Zakat* funds is directed towards the eight categories of beneficiaries delineated in al-Qur'an like what states in at-Taubah: 60:

Manuscript Received Date: 11/07/24

Manuscript Acceptance Date: 29/10/24

Manuscript Published Date: 25/11/24

©The Author(s) (2024). Published by USIM Press on behalf of the Universiti Sains Islam Malaysia. This is an Open Access article distributed under the terms of the Creative Commons Attribution Non-Commercial License (<http://creativecommons.org/licenses/by-nc/4.0/>), which permits non-commercial re-use, distribution, and reproduction in any medium, provided the original work is properly cited. For commercial re-use, please contact penerbit@usim.edu.my



إِنَّمَا الصَّدَقَتُ لِلْفُقَرَاءِ وَالْمَسْكِينِ وَالْعَمِلِينَ عَلَيْهَا وَالْمُؤَلَّفَةِ قُلُوبُهُمْ وَفِي الرِّقَابِ وَالْعَرْمِينَ وَفِي سَبِيلِ اللَّهِ وَأَبْنِ السَّبِيلِ ۗ
فَرِيضَةً مِّنَ اللَّهِ ۗ وَاللَّهُ عَلِيمٌ حَكِيمٌ

“The alms are meant only for the poor and the needy and those who are in charge thereof, those whose hearts are to be reconciled, and to free those in bondage, and to help those burdened with debt, and for expenditure in the Way of Allah and for the wayfarer. This is an obligation from Allah. Allah is All-Knowing, All-Wise”. (At-Taubah verse 60).

Zakat, the third pillar of Islam, is fundamentally linked to the reduction of income inequality and poverty within economic systems. Contemporary economic studies indicate that the implementation of *zakat* or *sadaqah* exerts both direct and indirect effects on mitigating income disparity. Beyond serving as an income distribution mechanism, *zakat* functions as a multiplier and accelerator of national income, enhancing the economic status of its recipients and fostering a more balanced economy. The study by Bakar and Ghani (2011) demonstrates the critical role of *zakat* in addressing issues of social justice and welfare, thereby contributing to the economic stability of Muslim countries. The income gap between the affluent and the impoverished underscores the effectiveness of *zakat* distribution. Furthermore, research by Ibrahim et al. (2020) and Ramli and Ibrahim (2010) supports the notion that *zakat* institutions have been successful in eradicating poverty and economic disparity within society.

Income inequality has become a major concern globally, caused by the concentration of wealth within a minority while the majority live in poverty and struggle to meet their basic needs. The COVID-19 pandemic further exacerbated this situation by widening the gap between the rich and the poor. Several poverty-stricken nations found it challenging to implement stimulus spending due to limited financial resources. The Organisation for Economic Co-operation and Development (OECD) warned that delays in increasing welfare program budgets in these countries could lead to unrest, threatening national and regional stability and potentially spreading into a global crisis.

Despite the increasing amount of *zakat* collected and distributed each year, poverty and economic disparity persist in Muslim communities. Various studies highlight the importance of effective *zakat* management in addressing these issues. For instance, Johari, Aziz, and Ali (2014) emphasized the need for funds to be channeled to the right groups of *asnaf* in appropriate amounts to eliminate poverty. They suggested that alternative *zakat* distribution models could reduce income inequality and maximize social welfare. This indicates that current *zakat* institutions are not sufficiently effective in managing *zakat* funds to reduce income inequality among the Muslim community. Furthermore, Wiranatakusuma and Habibullah (2024) highlighted the need for professional and efficient management of *zakat* to enhance its collection and distribution. They argued that *zakat* institutions should improve their management services to overcome inefficiencies, including revising procedures for identifying new prospective *zakat* beneficiaries to ensure all eligible individuals receive support.

Azrai et al. (2024) also discussed the effectiveness of *zakat* distribution in assisting community groups in need. They identified issues such as unequal distribution, lack of transparency, bureaucracy, and poor identification of prospective beneficiaries as obstacles to effective *zakat* distribution. Public awareness and understanding of *zakat* management are crucial for effective distribution. Mismanagement of *zakat* funds can also impede efforts to assist the poor and needy. Efficient distribution of *zakat* can provide recipients with opportunities to become economically productive, helping them escape poverty and reduce economic disparity. Saputra and Sutopo (2024) also described transparent *zakat* management as a factor that increases the efficiency of *zakat* collection and distribution. Both discussions highlighted that elements of transparency are very important and contribute to the effectiveness of *zakat* distribution in addressing income inequality.

Most previous studies agree that *zakat* can play a significant role in reducing income inequality (Saputra & Sutopo, 2024; Syed Yusuf et al., 2024; Erni, Artis & Rahman, 2024), but the effectiveness of *zakat* institutions in managing funds is crucial (Afandi et al., 2021; Wiranatakusuma & Habibullah, 2024; Johari, Aziz & Ali, 2014). Does this scenario occur due to poor management of *zakat* funds by *zakat* institutions in fulfilling the basic needs of the poor and needy, or are other factors involved? Most previous studies have mainly focused on a few factors contributing to the effectiveness of *zakat* institutions in reducing income inequality, such as empowerment programs (Herianingrum et al., 2024; Putri & Mubaraq, 2024), technology improvement (Syed Yusuf et al., 2024; Saputra & Sutopo, 2024), corporate governance (Syed Yusuf et al., 2024; Erni, Artis & Rahman, 2024), and the efficiency of *zakat* collection (Erni, Artis & Rahman, 2024). Therefore, this study aims to assess the effectiveness

of zakat in reducing income inequality in the Muslim society especially in Selangor, closing the gap in the analysis of the effectiveness of zakat in reducing income inequality.

Literature Review

The importance of understanding *zakat* about efficient management systems, continuous monitoring, structured distribution, and its influence on economic inequality cannot be emphasized enough. It guarantees that *zakat* effectively achieves its original objective of supporting the less fortunate, alleviating poverty, and advancing social equity. This study aims to construct a resilient and enduring *zakat* system that brings advantages to the entire society, establishing it as a fundamental aspect of economic and social progress in Selangor and beyond.

The Effectiveness Role of Zakat Management in Reducing Income Inequality

Effectiveness refers to the capacity to accomplish specific objectives. According to Oghojafor, Muo, and Aduloju (2012), effectiveness is defined as the achievement of a goal or target, evaluated based on established criteria. Income distribution, assessed through a country's Gross Domestic Product (GDP), reflects the allocation of income within a society. GDP serves as a key metric for measuring economic expansion and assessing poverty levels within a society (Bilan et al., 2020).

Furthermore, the impact of income distribution on economic growth should not be overlooked. Households must have sufficient purchasing power to acquire products and services. Inefficient income distribution can result in inequality, affecting economic growth rates (Cingano, 2014). Lederman (2015) emphasized that income disparity significantly impacts a country's economic growth. The World Bank Group identifies reducing severe poverty and increasing the income of the lowest 40 percent in emerging countries as crucial global development objectives. The correlation between income distribution and economic growth can be observed by examining individuals' income status. Higher education and advanced skills improve income distribution efficiency, as individuals can secure lucrative compensation for specialized tasks. Disparities in access to quality employment contribute to income inequality, impacting economic growth. Governments should enhance job prospects to promote equitable income distribution within society.

Building upon the preceding discussion on the effectiveness and income distribution, particularly within the Muslim community, numerous prior researches have been conducted on the *zakat* system. Most of the studies investigated the effectiveness of *zakat* institutions in the allocation of *zakat* funds. An example is the study conducted by Syed Yusuf et al. (2024), which examined many elements such as technology, method application, and governance to assess the effectiveness of *zakat* distribution. The study revealed that technology and government have a substantial impact on the overall procedural implementation, although they do not have a significant effect on the effectiveness of *zakat* distribution. In addition, research conducted by Rahman, Alias, and Omar (2012) and Al Haq and Wahab (2017) has demonstrated that the effectiveness of *zakat* institutions is contingent upon the implementation of a well-structured management methodology that encompasses both the collection and distribution processes. According to Meerangani (2019), effective and organized management of *zakat* improves the ability of *zakat* to contribute to human development, especially among the Muslim population. This highlights the significance of maximizing *zakat* funds to enhance the caliber and potential of each Muslim. In addition, Rosli et al. (2017) stressed the importance of regular monitoring by *zakat* authorities to ensure the efficiency of *zakat* management. By employing systematic verification procedures and monitoring protocols, the eligibility of receivers may be validated with greater efficiency.

Researchers have identified several elements, issues, means, or obstructions that could potentially hinder the systematic and successful distribution of the *zakat* money. Currently, only a small number of these elements have been noticed or recognized. However, there is a need for additional research and the discovery of such factors. This study primarily examined the impact of systematic *zakat* distribution, effective *zakat* management, and constant monitoring of *zakat* recipients on the effectiveness of *zakat* in reducing income disparity among the Muslim community in Selangor.

Systematic Zakat Distribution

Systematic *zakat* distribution is the methodical and well-organized process of allocating *zakat* funds to qualified recipients, usually overseen by governmental or non-governmental organizations. The objective is to guarantee equity, openness, and effectiveness in the allocation of *zakat*, to maximize its influence on reducing poverty and

promoting social well-being. Several researchers have investigated the efficacy of systematic *zakat* distribution in attaining its desired goals. Ahmad and Mustafa (2019) performed an extensive examination of systematic methods for distributing *zakat* in Malaysia. They emphasized the significance of institutional capacity, transparency, and stakeholder involvement to maximize the effectiveness of *Zakat* monies. Therefore, it is essential to establish strong monitoring and assessment procedures to maintain accountability and prevent any misappropriation of *zakat* resources.

Nevertheless, the implementation of systematic *zakat* distribution is not devoid of problems before it can be effective. Insufficient funding, inadequate infrastructure, bureaucratic inefficiencies, and cultural obstacles can impede the effective execution of systematic *zakat* distribution schemes. However, the progress in technology, such as the development of digital platforms for collecting and distributing *zakat*, offers possibilities for addressing these difficulties and enhancing the effectiveness and scope of *zakat* programs.

In summary, the systematic distribution of *zakat* represents a significant advancement in its management, potentially enhancing its effectiveness in addressing poverty and inequality. To validate this claim, the study will conduct hypothesis testing to determine whether the alternative hypothesis (H_1) should be accepted or rejected. Thus, the hypothesis testing statement is as follows:

H_1 : *Systematic zakat distribution has a positive relationship with the role of zakat in reducing income inequality in Muslim society in Selangor.*

Efficient Management System

An efficient management system in the context of *zakat* refers to a system characterized by transparency, accountability, and effectiveness in allocating resources for the distribution of *zakat* funds. This system encompasses robust processes and procedures for collecting, distributing, and monitoring *zakat* contributions to ensure they reach the intended recipients and are utilized effectively to alleviate poverty and reduce inequality. El-Qorchi (2005) emphasizes the significance of establishing precise standards and procedures within an efficient management system to minimize potential leakage or misuse of *zakat* funds. This entails implementing mechanisms for transparent accounting, rigorous auditing, and stringent controls to uphold accountability and prevent mismanagement or diversion of funds.

Ibrahim and Ghazali (2014) categorize the distribution of *zakat* based on how the money is used by recipients, either for consumption or production. The *zakat* institution, such as Lembaga *Zakat* Selangor (LZS), oversees the management of the *zakat* fund using a well-organized and methodical system. This ensures that money is consistently distributed to recipients for their long-term consumption needs. These necessities include the provision of food, shelter, transportation, medical, and education. This form of aid largely focuses on non-productive *zakat* beneficiaries who are incapable of generating money owing to causes such as advanced age or severe disease. However, Lembaga *Zakat* Selangor effectively oversees the allocation of *zakat* funds to promote output, particularly for the *zakat* recipients who are part of the productive group. The objective is to improve their quality of life and standard of living by providing sustained support.

This element is consistent with the findings of the Meerangani study (2019), which highlights the need of an effective management system in the distribution of *zakat*, especially inside institutions such as LZS. *Zakat* monies can significantly contribute to economic and social growth, especially in the eradication of poverty among the impoverished and needy. *Zakat* serves to diminish the disparity in income between the affluent and the impoverished, tackle social problems within the Muslim community, and support economic endeavors that foster long-term growth.

Nevertheless, according to the research conducted by Syed Yusuf et al. (2024), the implementation of *zakat* processes does not have a substantial impact on the efficiency of distributing *zakat* to students. The application should be straightforward and easily comprehensible. The reason for this is that simpler systems or procedures are accepted more quickly than those that require the adopter to possess several abilities and understandings (Yusuf and Mat Derus, 2013).

Therefore, to establish if an efficient management system plays a significant role in lowering economic inequality in Muslim society, this study needs to give evidence for the second hypothesis. In the second hypothesis testing, researchers seek to ascertain whether to accept or reject the alternative hypothesis (H_2) concerning the

second element that adds to the efficacy of *zakat* management. The hypothesis testing statement is as follows:

H₂: The efficient *management system* has a positive relationship with the role of *Zakat* in reducing income inequality in Muslim society in Selangor.

Continuously Monitoring Zakat Recipients

Continuous monitoring of *zakat* recipients by *zakat* authorities is a third aspect that can enhance the efficiency of *zakat* management in reducing income disparity. Ibrahim and Ghazali (2014) assert that Lembaga *Zakat* Selangor has established a surveillance mechanism to oversee the distribution of *zakat* to recipients. Within this program, a specifically assigned *zakat* officer is accountable for regularly monitoring 40 beneficiaries to guarantee advancement and growth in their entrepreneurial endeavors. This monitoring procedure covers all facets of their lives, such as spirituality, basic needs, housing circumstances, education, healthcare, and income creation. Regular updates on the progress are documented to enable effective and efficient actions.

The monitoring system should encompass both the financial and non-financial aspects. The monetary part involves monitoring the utilization and management of *zakat* funds by recipients to enhance their quality of life. Ab Rahman et al. (2012) stated that providing a large sum of money to needy individuals may only offer a temporary solution. However, with diligent and ongoing monitoring, it is hoped that this approach can demonstrate that *ASNAF* no longer relies on the *Zakat* institution. Monitoring the actions and programs produced by *zakat* institutions can assist enhance the standard of living for *zakat* recipients, particularly in non-monetary aspects.

One of the main goals of *zakat* within the socio-economic framework is to mitigate income inequality. In their empirical investigation, Kusuma & Sukmana (2010) found three distinct stages of distribution schemes in Islamic perspectives: the pre-distribution stage, the post-distribution stage, and redistribution. Their research revealed that a fair allocation of resources to the impoverished and disadvantaged can create favorable economic prospects and result in beneficial transformations in both economic growth and inequality. This study will especially examine the post-distribution stage of *zakat*, with a particular emphasis on monitoring the recipients of *zakat* monies after they have received them from the *zakat* institution.

Similarly, Zainal et al. (2016) highlighted the significance of monitoring in guaranteeing the effectiveness of programs conducted by *zakat* organizations for qualified beneficiaries. Consistent surveillance should be carried out to attain optimal performance and facilitate the expansion of recipients' enterprises. Consulting services can be offered to closely oversee recipients from the beginning of their company till they achieve success. In addition, Ismail and Hussain (2017) proposed that regular surveillance by *zakat* organizations is crucial to ensure that beneficiaries maintain their dedication to their enterprises. Consistent surveillance is seen as a crucial determinant of a business's triumph or downfall.

In the third hypothesis testing, this study seeks to ascertain if the alternative hypothesis (H₃) concerning the third element that influences the success of *zakat* management should be accepted or rejected. The hypothesis testing statement is presented as follows:

H₃: *Continuously Monitoring zakat Recipients* has a significant relationship with the role of *zakat* in reducing income inequality in Muslim society in Selangor.

Methodology

This study encompassed the geographical areas of Kuala Selangor, Hulu Langat, Petaling, and Klang within the state of Selangor. These four districts in Selangor exemplify a significant concentration of impoverished and disadvantaged individuals. The study utilized structured questionnaires as research instruments to obtain data from the respondents. The items measured were adapted from previous studies such as Ibrahim et. al. (2020), Bakar and Ghani (2011), Meerangani (2019), Ahmad et. al. (2015), and Johari et. al. (2014). A set of questionnaires were distributed through self-administrated in person with *zakat* recipients using the hard-copy set of questionnaires, within the timeframe. The list of respondents was provided by the management of the mosque that registered with LZS.

The initial component of the survey consists of the respondent's profile. The second portion assesses the variables associated with the study. The second component of both questions uses a five-point Likert scale, with

a rating of 1 indicating "strongly disagree" and a rating of 5 indicating "strongly agree". The G-power sampling size determinant was utilized to determine the sample size in this survey. This study employed a model that consisted of four primary variables. With a G-power analysis, utilizing an effect size of 0.15, an alpha level of 0.05, and a power of 0.8, it was determined that a minimum sample size of only 85 was required.

This study employed the technique of proportionate stratified random sampling, which was done in four districts in Selangor. Following the process of stratifying the population by district, a sample of individuals from each district was chosen using the method of simple random sampling. The reason for this is that proportionate stratified random sampling guarantees that every individual in the population has an equal probability of being selected. The number of respondents in terms of proportion per district is tabled as follows:

Table 1: Number of Respondents by Four Selected Districts

| NO | District | Total Zakat Recipients | Proportion = p (Ni / N) | Sample Size (p x n) |
|--------------|----------------|------------------------|-------------------------|---------------------|
| 1 | Kuala Selangor | 6240 | 0.19 | 72 |
| 2 | Petaling | 7861 | 0.24 | 91 |
| 3 | Hulu Langat | 8353 | 0.26 | 99 |
| 4 | Klang | 9921 | 0.31 | 118 |
| Total | | 32,375 | 1 | 380 |

Note: Ni = Total of zakat recipients by each district, N = Overall total of zakat recipients, n = sample size (380)

To empirically evaluate the proposed research hypotheses, Podsakoff et al. (2003) proposed strategies to mitigate the common issue of procedure bias, given that the data for this investigation were obtained from a single source. The participants were notified that any data they submitted would be protected and anonymized, which was employed as a procedural method. To identify any potential bias resulting from popular techniques, a thorough assessment of collinearity was conducted using variance inflation factors (VIF) (Kock, 2015). The VIF criterion for the factor-based PLS algorithm is below 5, suggesting the absence of any evidence of common technique bias in this research. The data was examined utilizing Smart PLS 4 software and partial least squares (PLS) path modeling. The Smart PLS 4 program represents a significant breakthrough in latent variable modeling. The measurement model is employed to assess the dependability and accuracy of the PLS model, while the structural model is utilized to examine the proposed research hypotheses (Hair et al., 2016). Figure 1 depicts the relationship between the exogenous and endogenous factors.

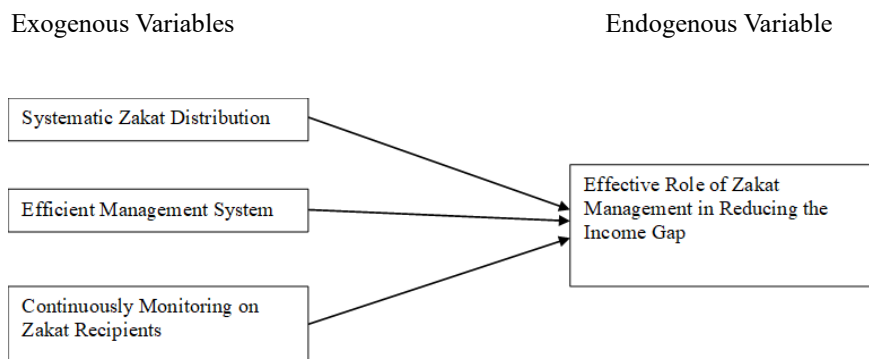


Figure 1: Conceptual Framework Relationship between Exogenous and Endogenous Variables

Findings

A total of 400 respondents participated in this study, but only 394 questionnaires were usable due to some errors made by the respondents when answering the questionnaires. The researchers managed to achieve the minimum response rate, which was 382 respondents, as mentioned by Sekaran and Bougie (2013) and Krejcie and Morgan (1970).

Descriptive Statistics.

Table 2 shows that the majority of the study's respondents (281 in total) are men (71.3 percent). Females make up 28.7 percent of the remaining 113 respondents. 41.4 percent of those polled are between the ages of 41 and 50, while 28.2 percent are between the ages of 31 and 40. While respondents aged 51 and above make up 17 percent of the total. Another age group with the fewest responses in this survey is those between the ages of 21 and 30. The district of Klang has the largest proportion of responders (30.5 percent), followed by Hulu Langat (25.6 percent). While 25.4 percent of respondents live in the Petaling district. Kuala Selangor district had the fewest responses, with just 18.5 percent. Currently, 77.7 percent of respondents are employed. Whereas 22.3 percent of those polled are jobless. In terms of health, 24.4 percent of those polled said they are suffering from a serious ailment. While just 75.6 percent of those polled had severe disease, the highest percentage of married respondents among *zakat* beneficiaries is 70.3 percent. While 15.2 percent of those polled identified as others. The respondents who are single or unmarried make up the lowest percentage of the total number of respondents (14.5 percent).

In addition, the respondents' income before and after receiving *Zakat* aid was one of the most important demographic factors studied. 46.2 percent of respondents reported an income between RM300 and RM800 before getting *zakat* aid, with 29.7 percent having an income between RM801 and RM1,200. While 20.6 percent earn between RM1,201 and RM1,600 per month. There are the fewest responses in the RM1,601-RM2,000 income bracket (3.6 percent). After getting *zakat* aid, 28.4 percent of respondents fell into the RM1,201-RM1,600 income range. With 28.4 percent of respondents earning between RM1,201 and RM1,600, and 25.6 percent earning between RM1,601 and RM2,000, there is also an upward tendency. While 23.9 percent earn between RM801 and RM1,200 per month. 22.1 percent of individuals earning between RM300 and RM800 belong to the lowest income category.

Table 2: Respondent's Profile

| Items | Variables | Response | Frequency | % |
|-------|----------------------------|--------------------------|-----------|------|
| 1 | Gender | Male | 281 | 71.3 |
| | | Female | 113 | 28.7 |
| 2 | Age | 21-30 years | 53 | 13.5 |
| | | 31-40 years | 111 | 28.2 |
| | | 41-50 years | 163 | 41.4 |
| | | 51 years and above | 67 | 17.0 |
| 3 | Place of Residence | Klang | 120 | 30.5 |
| | | Petaling | 100 | 25.4 |
| | | Kuala Selangor | 73 | 18.5 |
| | | Hulu Langat | 101 | 25.6 |
| 4 | Employment Status | Employed | 306 | 77.7 |
| | | Unemployed | 88 | 22.3 |
| 5 | Occupation Sector | Employment | 179 | 45.4 |
| | | Self Employed | 215 | 54.6 |
| 6 | Healthy Status | Have Critical Illness | 96 | 24.4 |
| | | Have No Critical Illness | 298 | 75.6 |
| 7 | Marital Status | Single | 57 | 14.5 |
| | | Married | 277 | 70.3 |
| | | Others | 60 | 15.2 |
| 8 | Income Before <i>Zakat</i> | RM300-RM800 | 182 | 46.2 |
| | | RM801-RM1200 | 117 | 29.7 |
| | | RM1201-RM1600 | 81 | 20.6 |
| | | RM1601-RM2000 | 14 | 3.6 |
| 9 | Income After <i>Zakat</i> | RM300-RM800 | 87 | 22.1 |
| | | RM801-RM1200 | 94 | 23.9 |
| | | RM1201-RM1600 | 112 | 28.4 |
| | | RM1601-RM2000 | 101 | 25.6 |

Partial Least Square – Structural Equation Modeling (Measurement Model)

The discriminant validity, reliability, and convergent validity measures were determined using confirmatory factor analysis (CFA). Factor loadings, according to Hair, Black, Babin, and Anderson (2010), should be used to evaluate discriminant validity. Composite Reliability (CR) and Average Variance Extracted (AVE) are two methods for determining convergent validity. The results validate that all items were loaded with more than 0.60. However, one item was dropped due to poor loading values. Table 3 shows that most item loadings are from 0.647 to 0.939, and all Average Variance Extracted (AVE) values are greater than 0.5 (Bagozzi & Yi, 1988), while all variables' Composite Reliability (CR) values are greater than 0.7 (Gefen, Straub, & Boudreau, 2000) were deemed acceptable.

Table 3: Discriminant Validity

| Constructs | Items | Loading | AVE | CR |
|--------------------------|-----------------------|---------|-------|-------|
| Efficient (E) | E1 | 0.895 | 0.831 | 0.961 |
| | E2 | 0.904 | | |
| | E4 | 0.937 | | |
| | E5 | 0.929 | | |
| | E6 | 0.892 | | |
| | Monitoring (M) | M1 | | |
| | M2 | 0.927 | | |
| | M3 | 0.937 | | |
| | M4 | 0.939 | | |
| | M5 | 0.922 | | |
| | M6 | 0.714 | | |
| Systematic (S) | S1 | 0.848 | 0.674 | 0.912 |
| | S2 | 0.792 | | |
| | S3 | 0.779 | | |
| | S4 | 0.84 | | |
| | S5 | 0.843 | | |
| Zakat Role (Role) | Role1 | 0.647 | 0.718 | 0.926 |
| | Role2 | 0.869 | | |
| | Role3 | 0.882 | | |
| | Role4 | 0.909 | | |
| | Role5 | 0.899 | | |

Note: Item E3 was deleted due to low loading.

Average Variance Extracted (AVE), Composite reliability (CR)

In addition, as suggested by Henseler, Ringle, and Sarstedt (2015), the Heterotrait Monotrait (HTMT) was employed as the discriminant criteria in the present research for the validation of discriminant validity. If the correlation value between constructs is less than one, according to Henseler et al. (2015), discriminant validity has been attained. Nonetheless, in keeping with Clark and Watson (1995) and Kline (2011)'s recommendations to use a more cautious criterion of 0.85 to show a much clearer difference between the constructs, the choice was taken to use a more conservative threshold of 0.85. The correlation estimates for the HTMT assessments are given in Table 4. The correlation between the constructs studied was less than 0.90 (Hasan, Miah, Bao, & Hoque, 2019; Henseler et al., 2015). The variables also demonstrated discriminant validity when considering HTMT0.90.

Table 4: Heterotrait Monotrait (HTMT)

| | Efficient | Monitoring | Systematic | Zakat Role |
|-------------------|-----------|------------|------------|------------|
| Efficient | | | | |
| Monitoring | 0.709 | | | |
| Systematic | 0.884 | 0.861 | | |
| Zakat Role | 0.832 | 0.748 | 0.888 | |

Partial Least Square – Structural Equation Modeling (Structural Model)

To explain the variance, the R-squared (R2) of the endogenous variable was used. The R-squared (R2) value above 0.6 is considered as high, while between the range of 0.30 to 0.60 is considered moderate, and less than 0.30 is considered as low (Sandin, Sanchez-Arribas, Chorot, & Valiente, 2015). The generated R2 values as shown in Table 4 indicate that all the exogenous variables (systematic, efficient, and monitoring) can explain 68.2 % of the role of *zakat* management. Path coefficient (β), T-statistics, and P-values are presented to decide whether the proposed hypotheses have been accepted or rejected. From Table 4, there is a significant impact of efficiency on the role of *zakat* ($\beta = 0.356$; $T = 3.398$), which supports the H1. Similarly, monitoring also has a significant impact on the role of *zakat* ($\beta = 0.161$; $T = 1.882$) supporting H2. Moreover, systematic has a positive significant influence on the role of *zakat* ($\beta = 0.375$; $T = 2.977$) that supports H3. Thus, all our hypotheses have been supported. The Variance Inflation Factor (VIF) was examined to identify multicollinearity issues. Table 5 shows that multicollinearity is not an issue among the exogenous latent constructs, since all VIF values were below 5 (Hair et al., 2010). Thus, multicollinearity is not a threat in this study.

Table 5: Path Coefficient and Hypothesis Testing

| Hypo | Path relationship | Std Beta | T Stat | P Values | BCI LL | BCI UL | Decision | R ² | VIF |
|------|------------------------------------|----------|--------|----------|--------|--------|-----------|----------------|-------|
| H1 | Efficient -> <i>Zakat</i> Role | 0.356 | 3.398 | 0.001 | 0.176 | 0.535 | Supported | 0.682 | 3.13 |
| H2 | Monitoring -> <i>Zakat</i> Role | 0.161 | 1.882 | 0.03 | 0.011 | 0.29 | Supported | | 2.584 |
| H3 | Systematic -> <i>Zakat</i> Role | 0.375 | 2.977 | 0.002 | 0.172 | 0.586 | Supported | | 4.264 |

Discussion and Conclusion

The primary aim of this study is to evaluate the effectiveness of *zakat* in mitigating income inequality within the Muslim community in Selangor. The inquiry primarily centers on analyzing the correlation between different determining factors and the effectiveness of *zakat* in diminishing economic disparity. To accomplish this goal, the study used the Partial Least Squares-Structural Equation Modeling (PLS-SEM) method to examine the findings. The results of this study confirm that all three hypotheses were supported, indicating a favorable correlation between the determining factors and the effectiveness of *zakat* in diminishing wealth inequality among Muslims.

This study aimed to investigate the correlation between the degree of an efficient management system, continuous monitoring of *zakat* recipients, systematic *zakat* distribution, and the effectiveness of *zakat* in reducing income disparity. In this study, an efficient management system refers to the effective oversight and control of *zakat* finances, the process of collecting *zakat*, and the fair and equitable distribution of *zakat*, specifically within the Lembaga *Zakat* Selangor in Selangor. The association was tested by proposing Hypothesis H1. The discovery demonstrates a notable and favorable correlation between a proficient administration system and the impact of *zakat* in diminishing economic disparity. This discovery aligns with the research undertaken by Sharofiddin, Othman, and Alhabshi (2019), which highlights the process of institutionalizing *zakat* as a social institution by establishing procedures for collecting and distributing *zakat*. Following the death of Prophet Muhammad, the administration of *Zakat* improved significantly under the reign of the first caliph, Abu Bakar al-Siddiq. He intervened and designated people to oversee the collection and distribution of *zakat* monies (Aisyah & Ismail, 2019). Therefore, the effectiveness of *zakat* collection and distribution to eligible recipients heavily relies on the efficiency of *zakat* management.

In addition, the continuous monitoring of *zakat* recipient’s system demonstrates a strong and positive correlation with the effectiveness of *Zakat* in reducing wealth inequality within the Muslim community, hence supporting hypothesis H2. This discovery is consistent with the research undertaken by Ramli et al. (2011), which highlights the significance of effective monitoring by *zakat* organizations following the delivery of *zakat* assistance. The objective of this monitoring is to guarantee that the *zakat* aid given to beneficiaries is utilized efficiently and effectively to maximize their advantages. To accomplish this goal, *zakat* organizations need to build an efficient and proactive monitoring structure. For example, to monitor the enterprises of *zakat* recipients, a thorough monitoring system can be established. This system would involve regular visits, auditing of accounts, providing guidance, injecting funds, and submitting monthly reports. These steps guarantee that *zakat* assistance effectively benefits recipients in terms of their income and motivates them to become *zakat* contributors in the future.

Furthermore, the systematic distribution of *zakat* demonstrates a notable and favorable correlation with the effective role of *zakat* in diminishing wealth inequality within Muslim communities, thereby supporting the H3 hypothesis. Through the systematic distribution of *zakat*, *zakat* plays a pivotal role in mitigating income disparity, not just within the Muslim community but also in society at large. The Beta value of 0.373 indicates that this factor has a significant influence on the role of *zakat* in reducing income disparity among the Muslim society in Selangor. This finding aligns with the research carried out by Ibrahim and Ghazali (2014), which emphasizes the categorization of *zakat* distribution according to the utilization of funds by recipients, whether for consumption or production. Usually, *zakat* distribution is consistently given over a long period to fulfill basic needs, including food, housing, transportation, medicine, and education. This type of aid generally focuses on non-productive *zakat* beneficiaries who are unable to create money owing to conditions such as advanced age or severe disease. Conversely, *zakat* distribution for production purposes is specifically assigned to the group of *zakat* recipients who are engaged in productive activities.

The study's findings indicate that the respondents have a favorable impression of *zakat* organizations such as Lembaga Zakat Selangor (LZS) and believe that *zakat* aid plays a crucial role in diminishing wealth inequality in society. Prior studies have thoroughly examined the problems of poverty and income disparity, illuminating its harmful consequences. Abdelbaki (2013) argues that an inequitable allocation of income might ultimately result in poverty, rendering individuals unable to fulfill their fundamental necessities and negatively affecting society at large. Safari et al. (2020) emphasize the ramifications of income inequality, such as discontentment and a tension-filled atmosphere. These impacts are especially noticeable during periods of crisis, such as the current COVID-19 outbreak, when firms encounter limitations and individuals suffer from a decline in income. This condition exacerbates the challenges experienced by individuals who lack financial resources or alternate strategies for managing and living.

The implications of the study can help governments and *zakat* institutions use research findings to develop policies that enhance the effectiveness of *zakat* systems. By doing so, both of the agencies can ensure that *zakat* contributes more effectively to reducing income inequality. This is because Rahman, Alias, and Omar (2012) and Zulkifli et. al (2021) mentioned that *zakat* can have a crucial impact in supporting the government's endeavor to eliminate poverty. Besides that, effective administration, transparency, and accountability are crucial for maximizing the impact of *zakat* on income inequality. This is important to ensure *zakat* funds are collected and distributed efficiently is essential for achieving desired outcomes. *Zakat* institutions also can be integrated with other social welfare programs to create a comprehensive approach to reducing income inequality. This integration can help address multiple aspects of poverty and economic disparity.

Additionally, *zakat* institutions should engage in active campaigns to increase awareness and compliance among the Muslim community. Encouraging more Muslims to pay *zakat* and understand its importance is crucial. Increasing awareness and compliance can significantly enhance the amount of *zakat* collected and its impact on income inequality. Furthermore, *zakat* institutions should strengthen administrative efficiency by implementing advanced and transparent systems for the collection and distribution of *zakat* to ensure efficiency and minimize corruption. They should also provide quality human resources, transparent reporting, and apply best practices for the financial management of *zakat* funds. The implementation of robust monitoring and evaluation mechanisms is essential to track the impact of *zakat* programs on income inequality and poverty reduction. Establishing feedback channels for beneficiaries to voice their concerns and suggestions ensures the continuous improvement of *zakat* programs. Additionally, conducting regular impact studies and publishing findings will help share successes, challenges, and lessons learned with the broader community.

Based on the research findings, some recommendations can be proposed for future to enhance the effectiveness of *zakat* in reducing income inequality especially management aspect. This study provide evidence that efficient management system, continuous monitoring of *zakat* recipients and systematic *zakat* distribution significant contributed to the effectiveness role of *zakat* institution in reducing income inequality among Muslims. But, the most important thing to become efficient management system and systematic *zakat* distribution, *zakat* institutions need applied a good corporate governance in managing *zakat* funds. Due to that, this study highly recommends for future research more focused on elements of good corporate governance in *zakat* institution system. This is because this study does not delve deeply into the elements of good corporate governance and their impact on the effectiveness role of *zakat* in reducing income inequality among Muslims.

References

- Abdelbaki, H. H. (2013). The impact of *zakat* on poverty and income inequality in Bahrain. *Society of Interdisciplinary Business Research*, 2(1), 133-154.
- Ab Rahman, A., Alias, M.H. and Syed Omar, S.M.N. (2012), “*Zakat* institution in Malaysia: problems and issues”, *Global Journal of Al-Thaqafah*, Vol. 2 No. 1, pp. 35-43.
- Afandi, M. F. M., Zubairi, M. I. N., Hashim, M. J., & Khamis, M. R. (2021). The Role of *Zakat* in Reducing Income Inequality Among Muslim Society in Selangor. *Global Business & Management Research*, 13(4).
- Ahmad, N., & Mustafa, A. F. (2019). Institutionalization of *Zakat* management: A study of *Zakat* institutions in Malaysia. *Journal of Islamic Accounting and Business Research*, 10(2), 275-291.
- Ahmad, R. A. R., Othman, A. M. A., & Salleh, S. M. (2015). Assessing the satisfaction level of *zakat* recipients towards *zakat* management. *International Accounting And Business Conference*. 31, 140-151.
- Al Haq, M. A., & Wahab, N. B. A. (2017). Effective *zakat* distribution: highlighting few issues and gaps in Kedah, Malaysia. *Al-Iqtishad: Jurnal Ilmu Ekonomi Syariah*, 9(2), 259-288.
- Azrai, A., Harahap, M. G., Haidir, H., & Saragih, A. (2024). Distribution of *Zakat* towards Poverty Alleviation. *Innovative: Journal Of Social Science Research*, 4(2), 635-644.
- Bakar, A. M., & Ghani, A. A. (2011). Towards achieving the quality of life in the management of *zakat* distribution to the rightful recipients (the poor and needy). *International Journal of Business and Social Science*. 2(4), 237-245.
- Cohen, J. (1988), *Statistical Power Analysis for the Behavioral Sciences*, 2nd ed., Lawrence Erlbaum Associates, Hillsdale, New Jersey.
- El-Qorchi, M. (2005). Islamic Finance Gears Up. *Finance & Development*, 42(4).
- Erni, E., Artis, A., & Rahman, R. (2024). *Zakat* Management Practices and Sustainable Development in Indonesia. *Sinergi International Journal of Islamic Studies*, 2(1), 24-37.
- Fornell, C., & Larcker, D. F. (1981). Evaluating structural equation models with unobservable variables and measurement error. *Journal of Marketing Research*, 18(1), 39–50.
- Hair, J. F., Jr, Howard, M. C., & Nitzl, C. (2020). Assessing measurement model quality in PLS-SEM using confirmatory composite analysis. *Journal of Business Research*, 109, 101–110. <https://doi.org/10.1016/j.jbusres.2019.11.069>
- Hasan, N., Miah, S. J., Bao, Y., & Hoque, M. R. (2019). Factors affecting post-implementation success of enterprise resource planning systems: A perspective of business process performance. *Enterprise Information Systems*, 13(9), 1217–1244.
- Henseler, J., Ringle, C. M., & Sarstedt, M. (2015). A new criterion for assessing discriminant validity in variance-based structural equation modeling. *Journal of the Academy of Marketing Science*, 43(1), 115–135.
- Herianingrum, S., Supriani, I., Sukmana, R., Effendie, E., Widiastuti, T., Fauzi, Q., & Shofawati, A. (2024). *Zakat* as an instrument of poverty reduction in Indonesia. *Journal of Islamic Accounting and Business Research*, 15(4), 643-660.
- Hu, L.-T., & Bentler, P. M. (1998). Fit indices in covariance structure modeling: Sensitivity to underparameterized model misspecification. *Psychological Methods*, 3(4), 424.
- Ibrahim, P. (2005). Potential role of *zakat* distribution in reducing income inequality among the muslims society. *Thesis On Economic And Management (UPM)*.
- Ibrahim, P. (2006). Economic Role of *Zakat* in Reducing Income Inequality and Poverty in Selangor, PhD thesis, Universiti Putra Malaysia.
- Ibrahim, P., & Ghazali, R. (2014). *Zakah* as an Islamic micro-financing mechanism to productive *zakah* recipients. *Asian Economic And Financial Review*. 4(1), 117-125.
- Ibrahim, P., Muridan, M., Ali, M., & Yazid, M. I. A. (2020). Revisiting *zakat* distribution on income inequality and welfare: The Malaysia Experience. *Journal of Islamic Economics*. 4(1), 146-161.
- Johari, F., Aziz, A. R. M., & Ali, M. F. A. (2014). The role of *zakat* in reducing poverty and income inequality among new convert (muallaf) in Selangor. *Online Journal Research in Islamic Studies*. 1(3), 43-56.
- Kock, N. (2015). Common Method Bias in PLS-SEM: A Full Collinearity Assessment Approach. *International Journal of e-Collaboration (IJeC)*, 11(4), 1-10. <http://doi.org/10.4018/ijec.2015100101>
- Kock, N. and Hadaya, P. (2018), “Minimum sample size estimation in PLS-SEM: the inverse square root and gamma-exponential methods”, *Information Systems Journal*, Vol. 28 No. 1, pp. 227-261.
- Krejcie, R. and Morgan, D. (1970). Determining sample size for research activities. *Educational and Psychological Measurement*, 30, 607-610.
- Lembaga *Zakat* Selangor. (2020, July 28). Laporan Prestasi Kutipan dan Agihan *Zakat* bagi tahun berkakhir 31 Disember 2019.

- Meerangani, A. K. (2019). The effectiveness of zakat in developing Muslims in Malaysia. *Journal of Islam and Humanities*. 3(2), 127-138.
- Othman, A. & Noor, M. H. A. (2012). Role of *zakat* in minimizing economic inequalities among Muslim: A preliminary study on non-recipients of *zakat* fund (NRZF). *3rd International Conference On Business And Economic Research*. 1209-1222.
- Podsakoff, P.M., MacKenzie, S.B., Lee, J.Y., Podsakoff, N.P., 2003. Common method biases in behavioral research: a critical review of the literature and recommended remedies. *J. Appl. Psychol.* 88 (5), 879–903.
- Possumah, B. T. & Ismail, A. G. (2011). The Quran and Poverty Alleviation: A Theoretical Model for *Zakat* based Islamic Microfinance Institutions, Selangor: Universiti Kebangsaan Malaysia.
- Putri, H., & Mubaraq, A. (2024). Analysis of the Effectiveness of the Zakat Fund Distribution Program by BAZNAS West Kalimantan (2019-2023). *Journal of Economics, Management and Trade*, 30(7), 105-112.
- Rahman, A. A., Alias, M., & Omar, S. N. M. S. (2012). *Zakat* institution in Malaysia: Problems and issues. 2(1), 35-41.
- Ramli, R., & Ibrahim, P. (2010). Kesan agihan *zakat* dalam membasmi kemiskinan dan ketidakseimbangan agihan pendapatan di Negeri Sembilan. *Persidangan Kebangsaan Ekonomi Malaysia Ke 4*. Avillion Cove, Port Dickson, Negeri Sembilan. (pp. 1-13).
- Riwajanti, N. I., 2013. Islamic Microfinance as an Alternative for Poverty Alleviation: A Survey. *Afro Eurasian Studies*, 2(1&2), pp. 254-271.
- Safari, M. A. M., Masseran, N., Ibrahim, K., & Hussain, I. S. (2020). Measuring income inequality in Malaysia based on household income surveys. *Journal of Quality Measurement and Analysis*. 15(2), 59-75.
- Saputra, A., & Sutopo, H. (2024). The Role of *Zakat* in Poverty Alleviation: A Comprehensive Review of Economic Impact Assessments. *Economics Studies and Banking Journal (DEMAND)*, 1(5), 242-255.
- Sarif, S & Kamri, N.A. (2009). A theoretical discussion of *zakat* for income generation and its fiqh issues. *Shariah Journal*. 17(3), 457-500.
- Sekaran, U., and Bougie, R. (2013). *Research methods for business: A Skill Building Approach* (6th ed.) United Kingdom: John Wiley & Sons.
- Syed Yusuf, S. N., Sanawi, N. H., Ghani, E. K., Muhammad, R., Daud, D., & Kasim, E. S. (2024). Examining technology improvement, procedural application and governance on the effectiveness *zakat* distribution. *International Journal of Ethics and Systems*, 40(1), 103-126.
- Wahid, H., & Kader, A. R. (2010). "Localisation of Malaysian *Zakat* Distribution: Perceptions of Amil and *Zakat* Recipients" Seventh International Conference –The Tawhidi Epistemology:*Zakat* and Waqf Economy, Bangi 2010.
- Wiranatakusuma, D. B., & Habibullah, H. (2024). Analyses of Relationship between Economic Growth and *Zakat* Distribution: Some Comparative Studies between Indonesia and Malaysia. *Ekuilibrium: Jurnal Ilmiah Bidang Ilmu Ekonomi*, 19(1), 18-41.
- Yusuf, M.O. and Mat Derus, A. (2013), "Measurement model of corporate *zakat* collection in Malaysia: a test of diffusion of innovation theory, humanomics: the international journal of systems and ethics", *Humanomics*, Vol. 29 No. 1, pp. 61-74.
- Zulkifli, F. M., Taha, R. Awang, N., Nor, M. N. M., & Ali, A. (2021). Combating poverty in Malaysia. *Journal of Asian Finance, Economics and Business*. 8(5), 505-513.