

Why are SMEs willing to pay trade zakat? Evidence from East Java, Indonesia

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Abstract

Purpose – This study aims to identify and analyze the key determinants influencing small and medium-sized enterprises (SMEs) compliance with trade zakat obligations in East Java, where zakat collection from the SME sector remains relatively low despite its socioeconomic potential.

Methodology – This study adopts a quantitative approach utilizing Structural Equation Modelling (SEM) to analyze data collected through a structured questionnaire distributed to SME owners in East Java. In total, 171 valid responses were obtained. The six variables examined included entrepreneurs' attitude, zakat literacy, role of zakat administrators, length of business, profitability, religiosity, and zakat.

Findings – The results show that zakat administrators have a significant positive influence on SMEs' willingness to pay zakat, whereas religiosity, zakat literacy, and entrepreneurs' attitudes do not significantly affect willingness to pay. Additionally, religiosity, zakat administrators, and length of business significantly affected zakat literacy among SME owners.

Implications – The findings highlight the strategic role of zakat administrators in promoting zakat compliance. Strengthening institutional roles and outreach programs can help increase zakat literacy and willingness to pay among SMEs, contributing to more effective zakat collection and socioeconomic development.

Originality – This study contributes to the limited empirical literature on trade zakat compliance among SMEs in Indonesia by examining institutional and behavioral factors using a structured SEM approach. This underscores the need to shift focus toward institutional effectiveness rather than solely on individual religiosity or awareness.

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Introduction

Zakat in Indonesia is one of the government's key focuses as a prominent Islamic social financial instrument, especially given that the majority of Indonesia's population is Muslim, who must pay their zakat every year (Badan Amil Zakat Nasional, 2025; Kasri & Yuniar, 2021). The Indonesian government has enacted numerous laws and regulations related to zakat and its management, particularly in Law No. 23 of 2011 on Zakat Management. This law regulates various programs implemented by both government-managed and private zakat institutions to achieve the noble objective of reducing poverty levels in Indonesia. However, zakat in Indonesia is yet to reach its full potential. Zakat collection remained significantly below its optimal capacity. According to the National Board of Zakat (Badan Amil Zakat Nasional, BAZNAS) report, the total national zakat collection in 2022 exceeded IDR 22.4 trillion, whereas in 2023, it increased to IDR 32 trillion. Over

the past decade, Indonesia has recorded an average annual growth rate of 34.5% in zakat collections. Despite this growth and achievement of the 2023 zakat collection target of IDR 33 trillion, this amount represents only 10% of the estimated national zakat potential of IDR 327.6 trillion for the year. Furthermore, there has been a significant decline of 29% in the number of institutional zakat payers (including businesses), with 257,117 institutions recorded as zakat payers in 2022, dropping to 182,306 by 2024 ([Badan Amil Zakat Nasional, 2024](#)).

The Zakat Literacy Index Report 2022 indicates that only 61.1% of individuals pay for zakat through official zakat institutions. Meanwhile, the remainder continue to pay their zakat through other unofficial parties, such as mosques, religious leaders, foundations, or Islamic boarding schools. Furthermore, a survey conducted by BAZNAS between 2019 and 2022 revealed that the performance of the Zakat, Infaq, and Shadaqa (ZIS) administration still requires improvement. This aspect must be continuously optimized each year. For 2024, BAZNAS has set a target for the national zakat collection at IDR 43.76 trillion ([Badan Amil Zakat Nasional, 2024](#)). According to numerous studies, zakat in Indonesia still requires enhancement to maximize its potential as a tool for economic growth, wealth distribution, and poverty alleviation ([Choiriyah et al., 2020](#); [Razak, 2020](#); [Salma et al., 2021](#)). For instance, Java is the most populous island in Indonesia, and East Java Province ranks as one of the most densely populated provinces after West Java, with 41.814 thousand people. In terms of poverty level, East Java has a significant percentage of impoverished individuals, accounting for 9% of its population ([Badan Pusat Statistik, 2024a](#)).

In the context of zakat, several types of zakat must be fulfilled by Muslims. One of the types of zakat that must be paid for is business zakat. Business zakat is an obligatory form of zakat imposed on businesses owned by Muslims, encompassing various sectors such as industrial products, consumer goods, construction, plantations, infrastructure, trade, and services ([Sabiq, 1983](#)). In Indonesia, the SME sector continues to show positive growth. The number of SMEs in Indonesia has grown by approximately 2.28% annually ([Badan Pusat Statistik, 2024b](#)). Despite a slight decline in 2021, the SME sector significantly increased in subsequent years. In 2023, the number of SMEs in Indonesia was recorded at approximately four million business units, indicating a continuous upward trend ([Badan Pusat Statistik, 2024b](#)).

This growth signifies that the SME sector is expanding and playing a crucial role in Indonesia's economy, both in creating employment opportunities and in driving innovation and market competitiveness. The large number of SMEs in Indonesia highlights the significant potential of zakat income. However, in reality, there remains a substantial gap between the potential zakat and the actual zakat collected.

Although the Micro, Small, and Medium Enterprises (MSMEs) sector in Indonesia continues to grow, the contribution of trade zakats through official institutions such as BAZNAS remains very low. The national zakat potential is estimated to reach an IDR of 327 trillion, yet only approximately 4–10% has been successfully collected by BAZNAS ([Badan Amil Zakat Nasional, 2025](#)). One of the main causes of this disparity is the low level of zakat literacy in society, as many *muṣṭakki* choose to pay zakat informally, either directly to *mustabiq* or through local institutions, leaving these payments unrecorded by official bodies, even though satisfaction with zakat institutions in Indonesia is relatively high ([Afiyana et al., 2019](#); [Bin-Nashwan et al., 2021](#); [Kasri & Sosianti, 2023](#); [Ma'ruf et al., 2025](#)).

Additionally, to ensure the proper management of business zakats, an effective accounting process is required. This involves identifying and evaluating assets that are subject to zakat, determining the applicable zakat rate, calculating the zakat amount, and ensuring its collection and distribution to eligible beneficiaries in accordance with the Shariah principles ([Hamat, 2014](#)). Generally, business zakat is mandatory for businesses with positive working capital. The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) has outlined four essential criteria for assets subject to zakat: full ownership, evidence of asset growth, meeting the *nisab* (minimum threshold), and the completion of one zakat-year *hawl*. Additionally, zakat is applicable only to halal assets in halal businesses. Prohibited items, such as alcoholic beverages, pork, and income derived from gambling and *riba*, are excluded from zakat obligations ([Accounting](#)

and Auditing Organization for Islamic Financial Institutions, 2017). These criteria and conditions ensure that business zakats are managed in a manner consistent with Islamic law and principles.

Therefore, because of the significant gap between zakat potential and actual collection, coupled with the persistently high poverty levels in East Java, this study investigates the socioeconomic and religious factors that influence SMEs' zakat payment decisions. This study focuses on addressing the gap between the actual zakat collection and its potential in Indonesia. Despite the consistent growth of SMEs across the country, there has been a notable decline in the number of institutional zakat payers, alongside persistent issues of zakat literacy. This study focuses on the factors influencing zakat payment decisions among SME-based as part of the institutional *muzakki*. By identifying the key determinants that drive zakat compliance, this research seeks to provide insights into optimizing these factors to maximize zakat potential and enhance zakat collection through formal zakat institutions in Indonesia. This effort is crucial for strengthening the role of zakat as a tool for socioeconomic development in the country.

This study is structured into five main sections to provide a comprehensive understanding of the research. The first section, the introduction, outlines the background, problem statements, and objectives. The second section presents a literature review and an overview of relevant theories, previous research, and the relationships among the variables under investigation. section is the research methodology. The fourth section, results and discussion, highlights the key findings and provides an in-depth analysis of their implications in light of the study's objectives and the existing literature. Finally, the fifth section, Conclusion, summarizes the main findings, discusses their practical implications, and offers recommendations for future research and policy making.

Literature Review

Theoretical framework

The Theory of Planned Behavior (TPB) developed by Ajzen (1991) has been widely applied to explain individual behavior, including zakat compliance. The TPB emphasizes that behavioral intention is determined by variables such as attitude and perceived behavioral control (PBC). In zakat studies, attitude refers to business owners' positive or negative perception of the obligation to pay zakat through formal institutions. Meanwhile, PBC can be represented by factors such as the length of business operations and the level of zakat literacy, as both reflect the perceived ability, experience, and control in fulfilling their zakat obligations (Ajzen, 1991; Arifin et al., 2022; Ashraf, 2023). Accordingly, Islamic finance-related studies have modified the TPB by incorporating specific variables, such as religiosity, to better predict financial behavior, including zakat payments (Ahmed et al., 2019; Majid & Maulana, 2023).

On the other hand, institutional theory explains how norms, rules, and organizational structures shape individual and organizational behaviors (Scott, 2005; Wezel & Saka-Helmhout, 2006). In the context of zakat, trust in zakat institutions, including transparency, accountability, and quality of zakat management, plays a crucial role in enhancing willingness to pay through formal institutions. Previous studies have confirmed that the credibility and legitimacy of zakat institutions strengthen the confidence of muzakki that their zakat contributions will be properly distributed and aligned with the Shariah principles (Kasri & Sosianti, 2023; Kasri & Chaerunnisa, 2021). Therefore, the role of zakat institutions as an institutional variable reflects not only administrative aspects, but also the dimension of trust, which strongly determines zakat compliance.

Based on the integration of TPB and institutional theory, the theoretical framework of this study posits that SMEs' willingness to pay zakat through formal institutions is influenced not only by individual factors such as attitude, business experience, and zakat literacy, but also by external factors in the form of institutional legitimacy and credibility. In other words, the willingness to pay zakat among SMEs in East Java emerges as a result of the interaction between psychological, religious, and institutional factors. This framework is expected to provide a more comprehensive understanding of the determinants of zakat behavior among SMEs while also offering policy implications for strengthening zakat collection through formal institutions.

Integrative perspectives on zakat behavior

As previously mentioned, one of the challenges faced by Indonesia's zakat institutions is encouraging *muzakki* to pay for zakat through formal channels, as *muzakki* in Indonesia often has alternative options. Various models have been proposed to understand the factors influencing zakat behavior, drawing insights from theories such as rational choice theory and expected utility theory. [Khamis et al., \(2011\)](#) identified six key factors affecting zakat compliance: religiosity, knowledge, business duration, organizational factors, government incentives, and law enforcement. Similarly, [Ahmad et al. \(2011\)](#) introduced a tax-based zakat compliance model that highlights seven determinants: law enforcement, religious commitment, zakat knowledge, access to payment systems, trust in formal zakat institutions, perceptions of the tax system, and environmental influences or reference groups. Building on historical perspectives, [Abioye et al. \(2013\)](#) emphasized that the early practices of Prophet Muhammad and his successors provide a foundational framework for trust building in zakat institutions.

Studies [Yuliani et al., \(2018\)](#) and [Beik and Alhasanah \(2017\)](#) highlight a gap between efforts to optimize zakat collection through Zakat Organizations and the tendency of individuals to pay zakat directly to mustahiq within their communities. These studies suggest that trust and literacy significantly influence this preference. It can be concluded that strengthening institutional credibility, enhancing zakat literacy, and fostering positive attitudes, religiosity, and business experience are essential to increasing SMEs' willingness to pay zakat through formal institutions. Without these improvements, the significant potential of zakat to support poverty alleviation and socioeconomic development will remain underutilized.

Zakat literacy refers to an individual's knowledge, understanding, and ability to comprehend zakat, which fosters awareness and encourages zakat payments. It also includes an individual's capacity to access zakat-related information. This concept aligns with the zakat knowledge variable used in previous research ([Arifin et al., 2022](#); [Kasri & Yuniar, 2021](#); [Othman et al., 2017](#); [Pertiwi, 2020](#)). However, within the Indonesian context, the term "literacy" has been adopted by zakat authorities to highlight the importance of both understanding zakat and accessing relevant information. Consequently, this study defines zakat literacy as an individual's capacity to comprehend and apply zakat principles in accordance with fiqh zakat as well as their ability to access related information.

According to [Hasanah et al. \(2021\)](#), literacy plays a crucial role in shaping intention. A low level of zakat literacy often correlates with reduced intention to fulfill zakat obligations. However, studies have [Pertiwi \(2020\)](#) found that zakat literacy does not significantly influence the intention to pay zakat through zakat organizations. These findings contrast with those of [Arifin et al., \(2022\)](#), [Afiyana et al., \(2019\)](#) and [Haki, \(2020\)](#) who reported a positive and significant relationship between zakat literacy and willingness to pay for zakat through formal institutions. However, [Arifin et al., \(2022\)](#) religiosity does not have a significant influence on zakat payments.

In addition, the degree of an individual's zakat literacy varies and is shaped by several factors. According to [Ansong and Gyensare, \(2012\)](#), three key factors influence literacy: (1) Age: Refers to the length of time an individual has lived. (2) Experience: Describes the learning process that brings about behavioral and attitudinal changes in an individual. (3) Education: Defined as a deliberate and structured effort to create learning opportunities that allow individuals to develop their potential either formally or informally. It encompasses fostering spiritual growth, self-discipline, personality, intellect, and moral character. In the context of this research, age, business experience, and education related to SME owners are represented by several variables such as length of business, attitude, and religiosity. As highlighted in [Lusia \(2022\)](#), both age and education are significant determinants of zakat literacy among SME owners in Indonesia. [Hakimi et al., \(2021\)](#) found that positive attitudes, zakat knowledge, and intention to pay zakat significantly influenced compliance with zakat payments on professional income. Knowledge plays a crucial role, as it can directly impact the willingness of *muzakki* to allocate 2.5% of their assets to eligible beneficiaries through authorized amil bodies or institutions. Several studies, including [Saad et al. \(2020\)](#) and [Idris et al. \(2012\)](#), have demonstrated a significant positive relationship between zakat knowledge and

the intention to pay zakat. Thus, the higher people's understanding of zakat obligations on income, the stronger their intention to fulfill zakat obligations through formal zakat institutions and bodies.

Additionally, Islamic financial literacy, including zakat literacy, is influenced by several factors. These factors can be broadly categorized into personal (Worthington et al, 2003), social and economic (Worthington et al, 2003), financial experience (Peng et al., 2007), education level (Lusardi et al., 2010), economic conditions (Worthington et al, 2003), and family background (Lusardi et al., 2010). Demographic characteristics and education levels are commonly analyzed. Rehman and Mia (2024) also identified key determinants of financial literacy, including demographic, socioeconomic, psychological, financial, societal, Islamic, and technological factors. While demographic and socioeconomic variables are frequently studied, other factors, such as psychological and Islamic elements, remain underexplored.

The willingness of *muzakki* to pay zakat to institutions is significantly influenced by their trust in these organizations. Abioye et al. (2013) highlighted key practices, such as trusted leadership, management accountability, employment of trustworthy workers, integrity, and respectful treatment of zakat payers and beneficiaries, as essential for establishing legitimacy and fostering acceptance in Muslim societies. Duyufur Rohman (2023) revealed that trust levels and understanding significantly and statistically influence the willingness of individuals in East Java, Indonesia to pay zakat through formal zakat institutions. Trust factors also play both direct and indirect roles in enhancing zakat collections through institutional channels (Hamdani et al., 2024). Furthermore, trust moderates the interactions of religiosity, moral reasoning, and peer influence on zakat compliance, although it shows no significant interaction with perceptions of zakat system fairness (Bin-Nashwan et al., 2021; Hamdani et al., 2024). Expanding on these insights, Sawmar and Mohammed (2021) developed a model adapted from Mustafa et al. (2013), which examines governance mechanisms influencing zakat compliance, with trust as a moderating factor. These mechanisms include leadership attributes, transparency and disclosure, stakeholder management, and procedural justice, highlighting the critical role of trust in strengthening the link between governance practices in zakat institutions and zakat payments in societies.

The hypothesized relationships in this study are grounded in behavioral and socioeconomic theories that explain decision making in financial and religious contexts. According to the Theory of Planned Behavior (Ajzen, 199), attitudes shape individual intentions and behaviors, including compliance with zakat obligations, while length of business may strengthen literacy, as experience provides knowledge and awareness. As mentioned above, prior studies highlight that zakat literacy also plays a mediating role, as understanding zakat regulations and benefits encourages willingness to pay through formal institutions (Arifin et al., 2022; Soemitra & Nasution, 2021). Collectively, these perspectives provide a theoretical foundation for examining how attitudes, religiosity, experience, literacy, and institutional roles interact to shape SMEs' willingness to channel zakat through official institutions in East Java.

Based on previous studies, this study aims to test the hypotheses summarized in Table 1. These hypotheses were developed to explore the relationships between key variables, including attitude, length of business, religiosity, trust in zakat administrators, zakat literacy, and willingness to pay zakat through formal zakat institutions. Specifically, this study examines how attitude, business experience, religiosity, and trust influence zakat literacy among SME owners in Indonesia. Additionally, it investigates whether these variables, along with zakat literacy, significantly affect willingness to pay zakat through zakat institutions. The integration of these factors into the study is intended to provide a comprehensive understanding of the determinants of zakat literacy and compliance, contributing to the existing literature on zakat behavior and the optimization of institutional zakat collection.

Hypotheses

This study proposes research hypotheses on zakat literacy and willingness to pay zakat among SMEs in East Java, Indonesia, as presented in Table 1.

Table 1. Research hypotheses

Research Hypotheses	
H1:	Attitude positively influences zakat literacy among SME in East Java,Indonesia.
H2:	Length of business positively influences zakat literacy among SME in East Java, Indonesia.
H3:	Religiosity positively influences zakat literacy among SME in East Java,I ndonesia.
H4:	Zakat administrators positively influences zakat literacy among SME in East Java,I ndonesia.
H5:	Attitude positively influences the willingness to pay zakat through zakat institutions among SME in East Java, Indonesia.
H6:	Length of business positively influences the willingness to pay zakat through zakat institutions among SME in East Java, Indonesia.
H7:	Religiosity positively influences the willingness to pay zakat through zakat institutions among SME in East Java, Indonesia.
H8:	Zakat administrators positively influences the willingness to pay zakat through zakat institutions among SME in East Java Indonesia.
H9:	Zakat literacy positively influences the willingness to pay zakat through zakat institutions among SME in East Java, Indonesia

Source: Author's own elaboration (2025)

Figure 1 presents the hypothesized research model linking antecedent factors to zakat literacy and willingness to pay for zakat through formal institutions.

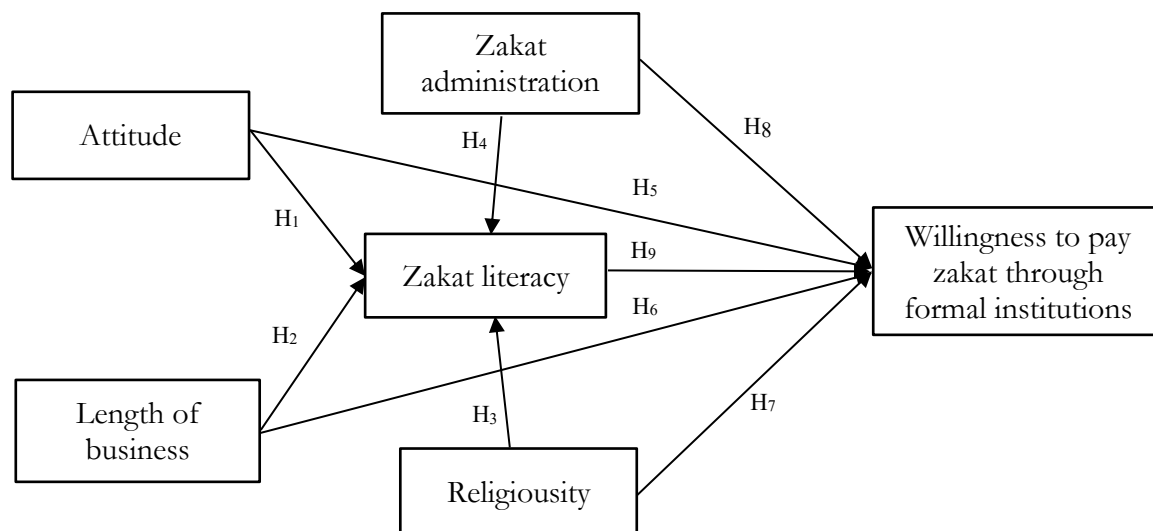


Figure 1. Research model
Source: Author's illustration (2025)

Research Methods

This study adopts a quantitative approach using survey questionnaires to gather primary data from SME decision-makers who represent small and medium-sized enterprises (SMEs) in East Java. The quantitative method allows for the effective systematic summarization and organization of findings. A cross-sectional survey design was employed, and data were collected using a five-point Likert-scale questionnaire. The survey employed a five-point Likert scale, with responses ranging from one ("strongly disagree") to 5 ("strongly agree"). The questionnaire items were adapted from established theories and constructs developed by experts in the field, ensuring alignment with the theoretical underpinnings of the study. The questionnaire used in this study was adopted from several previous related studies and adjusted to align with the specific context and objectives of the research (Duyufur Rohman, 2023; Liñán & Chen, 2009; Mohd Dali et al., 2019; Vamvaka et al., 2020; Wu & Mgt, 2009). This comprehensive methodological approach enhances the validity and reliability of the findings while adhering to robust academic frameworks.

The sampling technique used probability sampling, specifically a stratified random sampling approach, to ensure a representative sample. The primary objective of this study is to examine the factors influencing SMEs' decisions to pay zakat through formal zakat institutions, and to test the role of zakat literacy as a mediating factor. Data were collected directly from the study's target participants, including business owners, managers, and employees who were responsible for zakat-related decisions.

The study further employs a quantitative research approach to analyze the data collected from 171 SME decision-makers. The target population for this study consisted of Muslim owners or representatives of SMEs in East Java who serve as a pertinent demographic for exploring trade zakat practices. Based on 2023 census data from the BPS, the total number of SMEs in East Java is reported to be 115,414. Utilizing the Slovin formula with an 8% margin of error, the minimum required sample size was determined to be 150. The questionnaire was developed with independent variables (X), including attitude (ATT), Length of Business (LOB), Zakat Literacy (ZL), and Zakat Administrators (ZA), while the dependent variable (Y) was Willingness to Pay Zakat through Formal Zakat Institutions (WPZ).

The data were analyzed using the Structural Equation Modeling-Partial Least squares (SEM-PLS) approach using SmartPLS4 software. The PLS method involves a two-step process, beginning with the evaluation of the measurement model for validity and reliability. Convergent validity was assessed using Average Variance Extracted (AVE) following the guidelines proposed by [Hair et al. \(2010\)](#). The AVE indicates the proportion of variance captured by the indicators in relation to the measurement error, with a threshold of 0.50 or higher is acceptable, as recommended by [Hair et al. \(2010\)](#) and [Henseler et al. \(2015\)](#).

Following the evaluation of the measurement model, the structural model was analyzed in line with recommendations from [Henseler and Chin, \(2010\)](#)[Hair et al., \(2014\)](#), and [Henseler et al., \(2015\)](#) this phase included hypothesis testing through bootstrapping to determine the significance of the path coefficients. R^2 scores were also assessed, and the Smart PLS structural model test was conducted to evaluate the proposed relationships among the hypotheses. While the bootstrapping process typically requires 500 samples, the researchers conducted their analyses based on 171 responses. Despite this limitation, this study provides valuable insights into the factors influencing zakat payment behavior among SMEs.

The SEM framework incorporates components, such as latent variables, indicators, modeling structures, parameters, and error terms. Moreover, PLS-SEM analysis is recognized as a versatile and reliable analytical tool with significant strengths in theoretical testing ([Henseler et al., 2014](#); [Hair et al., 2017](#); [Sarstedt et al., 2017](#)). SEM is a multivariate statistical technique that enables the evaluation of relationships between variables, the validation of theoretical models, and the precise estimation of parameters. This method ensures that the empirical model corresponds to the theoretical framework.

Results and Discussion

Participants profile

The questionnaire was distributed to SME owners across all the regencies in East Java. A total of 171 respondents participated in this study. [Table 2](#) lists the sample details used in this study.

This study captures diverse demographic and business characteristics in East Java, Indonesia. A notable finding is that 59.6% of respondents were under 25 years old (59.6%), reflecting the involvement of younger generations in entrepreneurial activities. In terms of educational background, 61.4% of the respondents had at least a diploma or bachelor's degree, suggesting a relatively educated group. The businesses surveyed were predominantly micro-sized, with 74.3% employing fewer than five people. Additionally, 73.1% of these businesses reported having capital below 50 million IDR, indicating limited financial capacity, which is typical of micro-enterprises. However, only 48% of respondents paid zakat on trade through official zakat institutions, with the remaining 52% not engaging in such practices. This highlights a gap in factors that could impact zakat collection through formal zakat institutions.

Table 2. Descriptive Analysis

	<i>n = 171</i>	N	%
Gender	Male	115	67.3
	Female	56	32.7
Age	Below 25	102	59.6
	25 – 40	39	22.8
	51 – 50	20	11.7
	Over 50	10	5.8
Level of Education	Junior High School	1	.6
	High school	54	31.6
	Diploma/Bachelor	105	61.4
	Masters	11	6.4
No. of Employees	Less Than 5	127	74.3
	6-25	35	20.5
	26-50	7	4.1
	Above 50	2	1.2
The Length of Business Establishment	Less than 1 Year	41	24.0
	1-5 Years	91	53.2
	6-10 Years	22	12.9
	11-20 Years	11	6.4
	More Than 20 years	6	3.5
Company capital size	Less Than 50 million IDR	125	73.1
	50 million to 100 million IDR	27	15.8
	101 Million to 200 million IDR	7	4.1
	201 Million to 300 million IDR	3	1.8
	Above 300 million IDR	9	5.3
Have paid zakat on trade through a zakat institution	Yes	82	48.0
	No	89	52.0

Source: Author's own elaboration (2025)

Data analysis

This study utilized SmartPLS 4.0 to conduct data analysis through PLS regression (PLS-SEM). The PLS-SEM method was employed to examine the cause-and-effect relationships among the variables in the framework of the factors influencing the willingness of SMEs in East Java to pay zakat on trade through formal zakat institutions. The analysis consisted of two main phases: preliminary analysis and SEM-PLS. During the preliminary phase, data screening and quality tests were performed to ensure the accuracy of the data entry and compliance with normality assumptions.

To test collinearity among the variables, the tolerance value and variance inflation factor (VIF) were analyzed, as these are widely regarded as reliable statistical methods. The results in [Table 3](#) indicate that the VIF values range from 1.160 to 4.178, which is significantly below the critical threshold of 10. This confirms that all the exogenous variables in the model are free from multicollinearity issues, ensuring the robustness of the analysis.

Table 3. Collinearity testing

Variable	Range of VIF
Attitude (ATT)	1.52 – 2.01
Length of Business (LOB)	1.16 – 2.05
Religiosity (RLG)	1.67 – 1.86
Willingness to Pay Zakat (WPZ)	1.64 – 2.73
Zakat Administrator (ZA)	1.59 – 3.74
Zakat Literacy (ZL)	2.36 – 4.18

Source: Author (2025)

Additionally, Cronbach's α (CA) was used to evaluate the internal consistency of the construct items, as recommended by Nunnally, (1978). Table 4 illustrates that Cronbach's α values between 0.718 and 0.911 surpass the minimum threshold of 0.6, which signifies a high degree of reliability for the items (Hair et al., 2014). Composite reliability (CR) and average variance extracted (AVE) were utilized as additional measures to assess the quality of the data. Composite reliability (CR) is considered acceptable if its values range between 0.60 and 0.70 or higher, while values below 0.60 indicate insufficient internal consistency reliability. In addition, the AVE evaluates the convergent validity of each latent construct, with a threshold of 0.50 or above, considered acceptable, and AVE below 0.50 implies that measurement errors in the items outweigh the variance explained by the construct (Chin & Marcoulides, 1998; Hair et al., 2014).

The study found that all composite reliability (CR) values exceeded 0.7, while AVE values ranged from 0.590 to 0.836. These findings suggest that the constructs in this study exhibit strong internal consistency and account for a significant proportion of variance in their associated items. The AVE values further confirmed the adequacy of the constructs in capturing the latent variables with minimal measurement errors, supporting their validity and reliability. All items and variables in the study demonstrated an average variance extracted (AVE) of 0.5, with factor loadings of 0.694 and above; the details of the factor loadings in this study are outlined in Table 5. Furthermore, the majority of the factor loadings exceeded 0.7, signifying strong convergent validity and compliance with the established standards for construct validity.

Table 4. Convergent validity

VARIABLE	CA	CR	AVE
ATT	0.828	0.878	0.590
LOB	0.718	0.844	0.647
RLG	0.813	0.869	0.571
ZA	0.845	0.932	0.697
ZL	0.911	0.939	0.836
WPZ	0.902	0.907	0.764

*Note: ATT: Attitude, LOB: Length Of Business, RLG: Religiosity, ZA: Zakat Administrator, ZL: Zakat Literacy, WPZ: Willingness To Pay Zakat Through Formal Zakat Institutions
Source: Author (2025)

Table 5. Factor Loadings

Variable	Code	Question (English Version)	Factor Loading
Attitude (ATT)	ATT1	Paying zakat on business is my responsibility as a Muslim.	0.745
	ATT2	Paying zakat on business will purify my wealth.	0.755
	ATT3	Paying zakat on business brings blessings to my business.	0.816
	ATT4	Paying zakat on business helps reduce economic inequality.	0.705
	ATT5	Paying zakat on business supports the welfare of society.	0.814
Length of Business (LOB)	LOB1	I believe that the length of time in business has a significant impact on business stability and customer trust.	0.866
	LOB2	I have sufficient management experience to effectively manage my business.	0.869
	LOB3	I have adequate knowledge from training and management experience that helps me to sustainably develop my business.	0.659
Religiosity (RLG)	RLG1	I always perform the five daily prayers on time.	0.694
	RLG2	I regularly read the Qur'an.	0.816
	RLG3	I always fast in the month of Ramadan.	0.794
	RLG4	I perform sunnah worship such as dhikr and voluntary prayers.	0.694
	RLG5	I always try to avoid actions prohibited by religion.	0.770
Zakat Administrator (ZA)	ZA1	Zakat institutions in East Java are easily accessible.	0.851
	ZA2	Zakat institutions provide accurate and transparent information.	0.891
	ZA3	Zakat institutions provide convenience in zakat payment.	0.842

Variable	Code	Question (English Version)	Factor Loading
Zakat Literacy (ZL)	ZA4	Zakat institutions provide trustworthy services.	0.704
	ZA5	Zakat institutions distribute zakat to appropriate recipients.	0.899
	ZA6	Zakat institutions conduct socialization and education on zakat.	0.805
	ZL1	I know the nisab (minimum threshold) for obligatory business zakat.	0.876
	ZL2	I know how to calculate zakat on business wealth.	0.938
	ZL3	I know that zakat can only be distributed to eight eligible groups (asnaf).	0.893
Willingness to Pay Zakat (WPZ)	WPZ1	I am willing to pay zakat on business through formal zakat institutions.	0.812
	WPZ2	I prefer to pay zakat on business through zakat institutions rather than individually.	0.913
	WPZ3	I intend to continue paying zakat on business through formal zakat institutions in the future.	0.895

Source: Author's own elaboration (2025)

Furthermore, the study employed the heterotrait-monotrait ratio (HTMT) and the Fornell-Larcker criterion to assess discriminant validity ([Table 6](#)). The HTMT was used to measure the relationships between the variables and identify potential issues with discriminant validity. As shown in the table, the HTMT ratio values are below the threshold, ranging between 0.85 and 0.90, demonstrating that the latent variables are distinct from one another ([Henseler et al., 2015](#)). The Fornell-Larcker criterion, on the other hand, was utilized to ensure that each latent variable is more strongly associated with its own items than with other variables ([Fornell & Larcker, 1981](#)). The results indicated that the square root of the AVE values was higher than the correlation values, confirming the validity of the constructs according to the Fornell-Larcker method. In conclusion, [Table 6](#) validates the proposed model, as recommended by previous studies.

Table 6. Discriminant Analysis

Heterotrait–monotrait						
	ATT	LOB	RLG	WPZ	ZA	ZL
ATT						
LOB	0.632					
RLG	0.695	0.491				
WPZ	0.545	0.350	0.607			
ZA	0.479	0.473	0.547	0.852		
ZL	0.435	0.550	0.586	0.456	0.587	
Fornell–Larcker						
	ATT	LOB	RLG	WPZ	ZA	ZL
ATT	0.768					
LOB	0.487	0.804				
RLG	0.572	0.386	0.756			
WPZ	0.464	0.266	0.500	0.874		
ZA	0.438	0.380	0.477	0.750	0.835	
ZL	0.399	0.448	0.521	0.396	0.533	0.914

*Note: ATT: Attitude, LOB: Length of Business, RLG: Religiosity, ZA: Zakat Administrator, ZL: Zakat Literacy
Source: Author (2025)

Based on PLS-SEM analysis, the results indicate that only the zakat administration variable has a significant direct effect on SMEs' willingness to pay zakat through formal zakat institutions. The analysis revealed a significant positive relationship between zakat administration and SMEs' WTP zakat ($\beta = 0.68$, $p < 0.05$). However, other variables, such as business owner attitude ($\beta = 0.147$, $p > 0.05$), length of business ($\beta = -0.097$, $p > 0.05$), religiosity ($\beta = 0.164$, $p < 0.05$), and zakat literacy ($\beta = -0.067$, $p > 0.05$) did not show a significant influence on SMEs' willingness to pay zakat

through formal zakat institutions. Nevertheless, several variables, including zakat administration, religiosity, and length of business significantly influenced zakat literacy. The zakat administrator had a significant positive effect on SME zakat literacy by 3.15% ($\beta = 0.315$, $p < 0.05$). Similarly, the length of business and religiosity had a significant positive impact on zakat literacy, with coefficients of 0.233 ($p < 0.05$) and 0.294 ($p > 0.05$), respectively. Thus, Hypotheses 2, 3, 4, and 8 were supported.

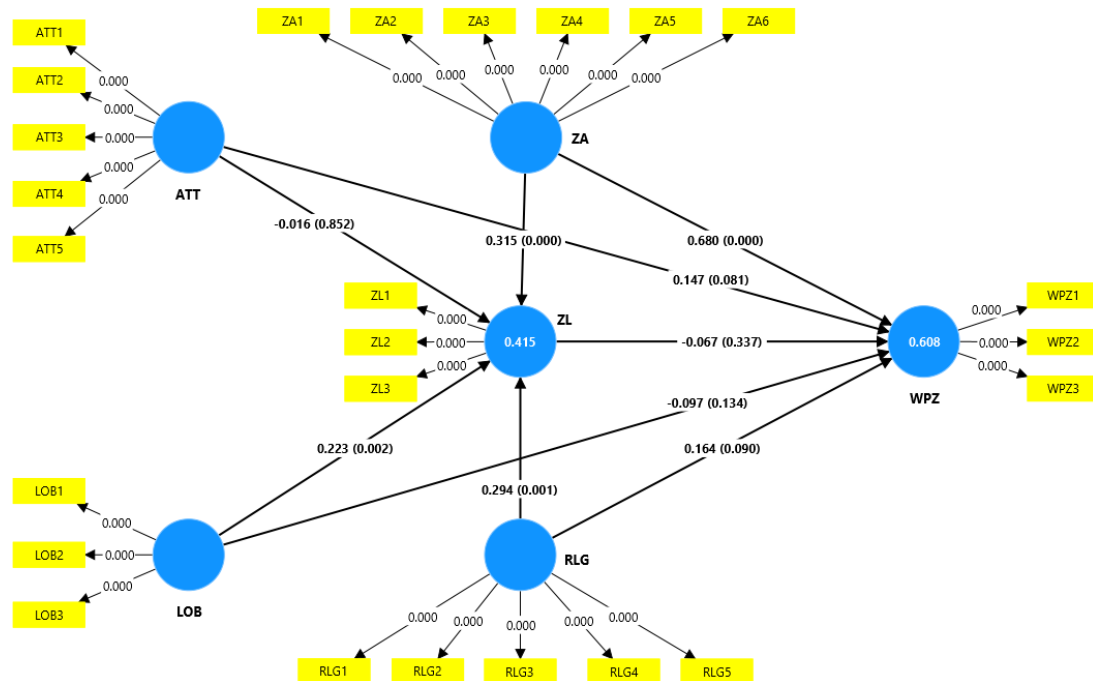


Figure 2. Measurement Model
Source: Author's illustration (2025)

Table 7. Summary of the hypothesis

Hypotheses	Path Coefficient	t-statistic	p-value	Decision
H1: Attitude positively influences zakat literacy among SME in East Java, Indonesia.	-0.016	0.185	0.852	Rejected
H2: Length of business positively influences zakat literacy among SME in East Java, Indonesia.	0.223	3.092	0.002	Accepted
H3: Religiosity positively influences zakat literacy among SME in East Java, Indonesia.	0.294	3.478	0.001	Accepted
H4: Zakat administrators positively influences zakat literacy among SME in East Java, Indonesia.	0.315	3.486	0.000	Accepted
H5: Attitude positively influences the willingness to pay zakat through zakat institutions among SME in East Java, Indonesia.	-0.067	0.432	0.667	Rejected
H6: Length of business positively influences the willingness to pay zakat through zakat institutions among SME in East Java, Indonesia.	-0.097	0.230	0.130	Rejected
H7: Religiosity positively influences the willingness to pay zakat through zakat institutions among SME in East Java, Indonesia.	0.156	1.699	0.090	Rejected
H8: Zakat administrators positively influences the willingness to pay zakat through zakat institutions among SME in East Java Indonesia.	0.580	7.087	0.000	Accepted
H9: Zakat literacy positively influences the willingness to pay zakat through zakat institutions among SME in East Java, Indonesia	0.147	0.961	0.337	Rejected

Source: Author's own elaboration (2025)

As a crucial indicator of model fit in structural equation modeling, the coefficient of determination (R^2) indicates how well the model can explain the variance in the endogenous variable. The results of the SEM-PLS analysis show that the R^2 value for SMEs' WTP zakat is 0.608, and the R^2 value for zakat literacy is 0.415. The reported R-squared values indicate that all variables in the model explain 60.8% of the variance in the willingness to pay zakat through zakat institutions and 41.5% for zakat literacy. Thus, it can be concluded that both R-squared values are considered moderate, based on [Chin \(1998\)](#) criteria, as both values fall between 0.33 and 0.67.

This study also assumed that some variables act as mediators in the relationship between variables. Based on the results of the indirect effect in the SEM-PLS model, Zakat Literacy has been generally proven to not serve as a significant mediator in the relationship between the independent variables (Zakat Administrator, Attitude, Length of Business, and Religiosity) and the dependent variable (Willingness to Pay Zakat through Formal Zakat Institutions). All P-values are greater than 0.05, indicating that the indirect effects of these variables through Zakat Literacy do not have a meaningful impact.

Table 8. Indirect Effect

Indirect Effect	STDEV	T statistics	P values	Decision
ZA → ZL → WPZ	0.024	0.867	0.386	Rejected
ATT → ZL → WPZ	0.009	0.116	0.907	Rejected
LOB → ZL → WPZ	0.017	0.865	0.387	Rejected
RLG → ZL → WPZ	0.022	0.897	0.370	Rejected

*Note: WPZ: Willingness to Pay Zakat through Formal Zakat Institutions, ZA: Zakat Administrator, ATT: Attitude, LOB: Length of Business, RLG: Religiosity, ZL: Zakat Literacy

Source: Author (2025)

Discussion

This study highlights that zakat administration exerts the most significant direct effect on SMEs' willingness to pay zakat through formal means. This finding aligns with prior research ([Duyufur Rohman, 2023](#); [Mustafa et al., 2013](#); [Sawmar & Mohammed, 2021](#)), which emphasizes the pivotal role of zakat institutions and their management in influencing people's decisions to fulfil zakat obligations through formal institutions, particularly in East Java. Conversely, other variables such as attitude, length of business, and religiosity did not demonstrate significant direct effects. Additionally, the zakat administration also plays a dual role, significantly influencing both zakat literacy and SMEs' willingness to pay zakat. These findings align with one of the primary roles of Formal Zakat Institutions in Indonesia, which is to enhance zakat literacy within society ([Brilianty, 2022](#)).

These findings highlight the significant role of zakat institutions and their administrators in zakat collection, particularly from entities, such as SMEs. Therefore, it is crucial for zakat administrators to establish strong relationships and collaborations in zakat collection and social activities to optimize zakat contributions from these organizations.

The analysis further reveals that zakat literacy does not directly impact SMEs' willingness to pay zakat through formal institutions, which may be attributed to several factors, such as the capability of businesses to manage and distribute their zakat independently or low levels of trust in zakat institutions. This finding is consistent with that of [Pertiwi \(2020\)](#), who also reported no significant relationship between zakat literacy and willingness to pay zakat through formal institutions. One explanation is that knowledge alone may not be sufficient to drive behavior if it is not accompanied by trust in zakat institutions. In Indonesia, many muzakki still prefer direct distribution to mustahiq because of social norms and cultural practices, suggesting that willingness is shaped more by institutional credibility and communal expectations than by the knowledge itself ([Afiyana et al., 2019](#); [Arifin et al., 2022](#)).

This pattern aligns with the studies by [Bin-Nashwan et al. \(2021\)](#), which highlight the moderating role of trust and social influence. In the context of SMEs in East Java, practical constraints such as limited access to zakat offices or insufficient institutional outreach further weaken the link between literacy and willingness. These insights suggest that literacy must be

complemented by trust-building, social reinforcement, and supportive institutional mechanisms to effectively promote formal zakat compliance.

However, zakat literacy is significantly shaped by factors, such as zakat administration, length of business, and religiosity. This aligns with [Rehman and Mia \(2024\)](#) who identified the key factors that influence financial literacy. For instance, the length of business operations significantly enhances financial experience, knowledge, and decision-making. Lusardi and Mitchell (2017) validate the existence of a positive relationship between financial knowledge and financial literacy. This implies that individuals or businesses with stronger financial concepts are better equipped to make informed decisions, resulting in higher levels of financial literacy. Religiosity also plays a crucial role in shaping financial literacy as it reflects an individual's religious beliefs, values, and practices. Some studies demonstrate that religiosity positively influences financial literacy, showing how religious principles can guide financial behavior and decision-making ([Rahim et al., 2016](#); [Rehman & Mia, 2024](#); [Shukor & Jamal, 2013](#)). Thus, these results support the hypothesis that zakat administration, religiosity, and length of business positively contribute to literacy.

Although the length of SMEs in East Java does not directly affect SMEs' willingness to pay zakat, it still significantly influences zakat literacy. This suggests that the duration of business operations, along with the scale of capital owned, contributes to SMEs' knowledge and experience, including their understanding of zakat obligations. This finding is consistent with [Ansong and Gyensare \(2012\)](#), who highlighted that longer business operations foster greater knowledge and awareness, including zakat-related literacy. Similarly, religiosity, while not having a significant impact on SMEs' willingness to pay zakat directly, still has a significant positive impact on SMEs' zakat literacy. This aligns with basic Islamic principles, which emphasize the importance of integrating Islamic knowledge with true action, as reflected in the variable of religiosity examined in this study. In addition, this underscores the importance of enhancing the comprehension and awareness of zakat principles. However, attitude does not show any significant direct or indirect effects on SMEs' WTP zakat or zakat literacy.

Conclusion

This study reveals critical findings on the determinants of zakat literacy and SMEs' willingness to pay zakat through formal institutions in East Java, Indonesia. Among the tested hypotheses, it was observed that zakat administrators, length of business, and religiosity significantly influence zakat literacy, highlighting the pivotal role of institutional support and individual factors in shaping SMEs' Islamic financial literacy, including their understanding of zakat principles. This study also highlights the importance of effective management and outreach programs by formal zakat institutions to foster awareness and knowledge within the community. However, attitude did not show a significant impact on zakat literacy, which might be influenced by a number of factors, including respondent demographics or the need for further development of questionnaire items.

When examining SMEs' willingness to pay zakat through formal zakat institutions, the results emphasize the dominant role of zakat administrators, which significantly influences zakat payment behavior, reaffirming the importance of trust and credibility in encouraging zakat compliance. However, other variables, such as length of business, religiosity, zakat literacy, and attitude, did not exhibit significant effects on willingness to pay zakat. This study also found the importance of the zakat administrator's role in enhancing the role of zakat administrators by improving their reputation, conducting socializations, seminars, public outreach, and education programs, and optimizing websites and social media platforms to enhance public zakat awareness, especially for SMEs in Indonesia.

Additionally, although zakat literacy has no significant direct effect on SMEs' zakat payment behavior through zakat institutions, it does not diminish the importance of zakat literacy. Several studies have demonstrated that zakat literacy enhances zakat payments, whether through formal institutions or other channels. Therefore, efforts to improve zakat literacy in Indonesia should be prioritized to maximize its zakat potential.

The findings highlight that zakat administrators play a decisive role in shaping both literacy and willingness to pay zakat among SMEs, indicating that regulators and institutions must

strengthen institutional trust, transparency, and outreach programs. While religiosity and business experience enhance literacy, they do not directly translate into zakat payments through official institutions, thus revealing a gap between knowledge and practice. Therefore, regulators should design policies that bridge this gap by integrating literacy campaigns with behavioral incentives, while zakat institutions should provide clearer accountability and innovative collection mechanisms to encourage SMEs to channel their zakat through formal channels.

This study is limited to SMEs located in East Java, and does not encompass larger business entities or non-SME categories across Indonesia. Furthermore, future research could explore these variables in greater depth by incorporating aspects such as technology adoption, number of zakat institution branches, transparency, accountability, and management practices. Including these variables could provide more detailed and comprehensive insights and generate more precise and practical recommendations for practitioners in zakat institutions.

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