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AN INSTITUTIONAL ANALYSIS OF CORPORATE ZAKAT IN MALAYSIA

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Abstract: This study examines the institutional dynamics shaping corporate zakat practices in Malaysia. Corporate zakat, an almsgiving obligation for Muslim-owned businesses, operates within a complex regulatory and socio-economic framework influenced by religious institutions, state authorities, and corporate governance structures. By employing an institutional analysis approach, this study explores the interplay between legal frameworks, enforcement mechanisms, corporate compliance, and stakeholder expectations. It identifies key institutional factors that drive corporate zakat contributions, including state-led incentives, Shariah governance, and corporate social responsibility (CSR) considerations. The findings highlight the role of state Islamic religious councils, tax regulations, and corporate culture in shaping zakat compliance and reporting practices. This study contributes to the discourse on Islamic finance and corporate philanthropy by offering insights into the institutionalisation of zakat within Malaysia's business landscape.

Keywords: Institutional pressures; corporate zakat commitment; strategic CSR, Islamic CSR, Malaysia

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Introduction

CORPORATE ZAKAT is a significant aspect of Islamic financial obligations in Malaysia. It reflects the country's commitment to integrate Islamic principles within its economic framework. Zakat, one of the five pillars of Islam, requires eligible Muslims and businesses to contribute a portion of their wealth to designated beneficiaries. In the corporate context, zakat serves not only as a religious duty but also as a mechanism for wealth redistribution, social justice, and corporate social responsibility (CSR). Corporate zakat, being part of business zakat, is the act of duty performed by companies owned by Muslim owners.

Malaysia has established a structured institutional framework to regulate and administer corporate zakat. The regulation and administration of zakat particularly involve the State Islamic Religious Councils (SRIC) as the zakat collection centres and the deduction of zakat from the tax payable to encourage compliance. However, the implementation of corporate zakat is influenced by various institutional factors, including legal and regulatory frameworks, corporate governance structures, and stakeholder expectations from different industries. Corporate zakat compliance in Malaysia remains inconsistent despite these institutional efforts, with variations across industries and businesses. Understanding the institutional dynamics that shape corporate zakat practices is crucial to improve compliance, enhance transparency, and maximise its socio-economic impact.

This study adopts an institutional analysis approach to examine how coercive pressures, normative pressures, and mimetic pressures impact corporate zakat practices in Malaysia. By analysing key institutional factors, enforcement mechanisms, and corporate motivations, this research aims to provide insights into the effectiveness of the existing zakat system and its role in promoting ethical business practices within the Malaysian corporate landscape.

Literature Review

Institutional Pressures

Institutions can influence companies' activities by offering incentives or imposing constraints on their behaviour through reinforcements or punishments. DiMaggio and Powell[1] proposed a model of institutional pressures faced by companies and suggested three mechanisms of isomorphic change that may arise from legitimacy-seeking motivation: coercive, normative, and

[1] Paul J. DiMaggio and Walter W. Powell, "The Iron Cage Revisited: Institutional Isomorphism and Collective Rationality in Organizational Fields," *American Sociological Review* 48, no. 2 (1983): 147–60, https://doi.org/10.2307/2095101.

mimetic pressures. These institutional pressures have been proven to influence CSR activities,[2] especially the environmental dimension.[3] Monitoring organisations, such as government regulators, non-government agencies, the media, and acceptable institutionalisation activities by society and self-regulation, prompted CSR activities within companies.[4]

Since zakat can be regarded as part of CSR activities, it is essential to examine the effects of coercive, normative, and mimetic pressures on companies that are willing to commit to zakat. Although corporate zakat is considered a voluntary action by these companies, several pressures from regulatory bodies influence the decision to commit to it. These pressures include the religious obligation to pay zakat, the zakat enactment issued by SIRC, compulsion from several bodies such as Bursa Malaysia, initiatives by top management, and pressure from other zakat-paying companies.

Coercive Pressures

DiMaggio and Powell[5] posit that coercive pressures are the most effective form of institutional pressure. The government urge companies to align their activities with strategic goals through mandatory compliance and voluntary programmes. For instance, strong government pressures influenced Malaysian public listed companies to adopt environmental management accounting

[2] John L. Campbell, "Why Would Corporations Behave in Socially Responsible Ways? An Institutional Theory of Corporate Social Responsibility," *Academy of Management Review* 32, no. 3 (July 2007): 946–67, https://doi.org/10.5465/amr.2007.25275684.

[3] Dima Jamali and Archie Carroll, "Capturing Advances in CSR: Developed versus Developing Country Perspectives," *Business Ethics: A European Review* 26, no. 4 (October 2017): 321–25, https://doi.org/10.1111/beer.12157; Xiaodong Li et al., "Institutional Pressures on Corporate Social Responsibility Strategy in Construction Corporations: The Role of Internal Motivations," *Corporate Social Responsibility and Environmental Management* 26, no. 4 (July 2019): 721–40, https://doi.org/10.1002/csr.1713; Deepak Sardana et al., "CSR 'Sustainability' Practices and Firm Performance in an Emerging Economy," *Journal of Cleaner Production* 258 (June 2020): 120766, https://doi.org/10.1016/j.jclepro.2020.120766.

[4] Campbell, "Why Would Corporations Behave in Socially Responsible Ways?"

[5] DiMaggio and Powell, "The Iron Cage Revisited."

practices, provide environmental training, allocate budgets for ecological activities, or imitate the practices of their competitors and customers.[6] These pressures can be more intense than those from shareholders.[7] When government agencies control increases and regulations become stricter, companies are forced to restructure and implement practices conforming to the broader institutional standards.[8]

Empirical results demonstrated that both coercive and normative pressures significantly affected corporate philanthropic activities.[9] In China, coercive pressures mainly came from the government and represented a compelling force based on legal requirements with which firms must comply. A strong business–government relationship was a critical driver for corporate implementation of philanthropic activities.[10]

Conversely, weak and unclear regulations do not effectively motivate companies to comply, leading to resistance against the imposition of regulations.[11] Noncompliance typically arose from a

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[6] Badar Latif et al., "Coercive, Normative and Mimetic Pressures as Drivers of Environmental Management Accounting Adoption," *Sustainability* 12, no. 11 (June 2020): 4506, https://doi.org/10.3390/su12114506; Fatin Nabilah Abd Razak, Aliza Ramli, and Zarinah Abdul Rasit, "Organisation Isomorphism as Determinants of Environmental Management Accounting Practices in Malaysian Public Listed Companies," *Humanities and Social Sciences Letters* 8, no. 1 (2020): 110–22, https://doi.org/10.18488/journal.73.2020.81.110.122.

[7] Nabilah Abd Razak, Ramli, and Abdul Rasit, "Organisation Isomorphism."

[8] Ibrahem Alshbili and Ahmed A. Elamer, "The Influence of Institutional Context on Corporate Social Responsibility Disclosure: A Case of a Developing Country," *Journal of Sustainable Finance & Investment* 10, no. 3 (July 2020): 269–93, https://doi.org/10.1080/20430795.2019.1677440; DiMaggio and Powell, "The Iron Cage Revisited."

[9] Zhe Ouyang et al., "Institutional Drivers for Corporate Philanthropic Activities in China: Mediating Roles of Top Management Participation," *Corporate Social Responsibility and Environmental Management* 27, no. 1 (January 2020): 244–55, https://doi.org/10.1002/csr.1796.

[10] Ruixin Su, Xiaolong Shui, and Jianguo Du, "Institutional Pressures and Corporate Green Innovation: Evidence From Chinese Public Enterprises," *Organization & Environment* 36, no. 3 (September 2023): 442–67, https://doi.org/10.1177/10860266231174039.

[11] David Campbell and Richard Slack, "Corporate 'Philanthropy Strategy' and 'Strategic Philanthropy': Some Insights From Voluntary Disclosures in

low risk of being penalised and rejection from social activists.[12] This is evident among giant Chinese construction corporations, which face minimal CSR-related mandatory regulations and a lack of intense supervision. The majority of corporations in China are state-owned, and the existing laws are fragmented and unable to promote the development of effective CSR strategies. The study proposed that the government should establish systematic and future-based CSR legislation, which requires corporations to engage in good CSR practices. Regulations should be stringent, ensuring that information about noncompliance and regulatory penalties is quickly communicated to the public through media channels.[13] As a result, companies will comply with coercive pressures to avoid social rejection and prevent expensive penalties and lawsuits that threaten their legitimacy.[14]

One government agency that influences companies' social reporting is the State government.[15] Pressures, whether formal or informal, on organisations will encourage them to perform certain actions and procedures.[16] The pressure or coercive isomorphism can stem from a variety of sources, such as the government and regulatory bodies.[17] Coercive isomorphism manifests through

Annual Reports," *Business & Society* 47, no. 2 (June 2008): 187–212, https://doi.org/10.1177/0007650306297941.

[12] Xiaojiang Gao-Zeller et al., "Driving Mechanism of CSR Strategy in Chinese Construction Companies Based on Neo-Institutional Theory," *KSCE Journal of Civil Engineering* 23, no. 5 (May 2019): 1939–51, https://doi.org/10.1007/s12205-019-0989-y.

[13] DiMaggio and Powell, "The Iron Cage Revisited."

[14] DiMaggio and Powell, "The Iron Cage Revisited."

[15] Joanna Krasodomska, Paweł Zieniuk, and Jadwiga Kostrzewska, "Reporting on Sustainable Development Goals in the European Union: What Drives Companies' Decisions?," *Competitiveness Review* 33, no. 1 (August 2022): 120–46, https://doi.org/10.1108/CR-12-2021-0179.

[16] Carri Reisdorf Tolmie, Kevin Lehnert, and Hongxin Zhao, "Formal and Informal Institutional Pressures on Corporate Social Responsibility: A Cross-country Analysis," *Corporate Social Responsibility and Environmental Management* 27, no. 2 (March 2020): 786–802, https://doi.org/10.1002/csr.1844.

[17] Sana Malik, Sumayya Chughtai, and Kausar Fiaz Khawaja, "An Insight into Determinants of Corporate Social Responsibility Decoupling: Evidence from Pakistan," *NICE Research Journal*, June 30, 2020, 27–48, https://doi.org/10.51239/nrjss.v0i0.172.

means such as taxation[18], zakat[19], International Financial Reporting Standard (IFRS)[20], and information security[21]. Additionally, it encompasses sustainability practices, including CSR[22] and its dimensions, such as corporate philanthropy[23] and EMA.[24]

Formal pressures typically lead to the introduction of acts and guidelines by the government or state legislation. According to Barrena Martínez, López Fernández, and Romero Fernández,[25] the government plays a significant role in CSR activities. State regulatory bodies also enforce regulatory pressure on companies via legislation, legal systems, rules, and policies,[26] including CSR

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18 A. Sbeiti and A. Qasim, "Antecedents of Tax Compliance of Small Business Enterprises: A Developing Country Perspective," *Management* 59, no. 1 (2017): 147–76.

19 Rahmatina Awaliyah Kasri and Niken Iwani S. Putri, "Fundraising Strategies to Optimize Zakat Potential in Indonesia: An Exploratory Qualitative Study," *Al-Iqtishad: Jurnal Ilmu Ekonomi Syariah* 10, no. 1 (January 2018): 1–24, https://doi.org/10.15408/aiq.v10i1.6191.

20 Iwona Vellam, "The Adoption of IFRS in Poland: An Institutional Approach. PQDT - UK & Ireland, Ph.D.(August)." (PhD Thesis, University of Greenwich, 2012), https://gala.gre.ac.uk/id/eprint/9457/.

21 Farkhondeh Hassandoust, Maduka Subasinghage, and Allen C. Johnston, "A Neo-Institutional Perspective on the Establishment of Information Security Knowledge Sharing Practices," *Information & Management* 59, no. 1 (January 2022): 103574, https://doi.org/10.1016/j.im.2021.103574.

22 Eduardo Ortas et al., "The Impact of Institutional and Social Context on Corporate Environmental, Social and Governance Performance of Companies Committed to Voluntary Corporate Social Responsibility Initiatives," *Journal of Cleaner Production* 108 (December 2015): 673–84, https://doi.org/10.1016/j.jclepro.2015.06.089.

23 Ouyang et al., "Institutional Drivers for Corporate Philanthropic Activities in China."

24 Shanyong Wang, Hualong Wang, and Jing Wang, "Exploring the Effects of Institutional Pressures on the Implementation of Environmental Management Accounting: Do Top Management Support and Perceived Benefit Work?," *Business Strategy and the Environment* 28, no. 1 (January 2019): 233–43, https://doi.org/10.1002/bse.2252.

25 Jesús Barrena Martínez, Macarena López Fernández, and Pedro Miguel Romero Fernández, "Corporate Social Responsibility: Evolution through Institutional and Stakeholder Perspectives," *European Journal of Management and Business Economics* 25, no. 1 (January 2016): 8–14, https://doi.org/10.1016/j.redee.2015.11.002.

26 DiMaggio and Powell, "The Iron Cage Revisited."

activities.[27] Meanwhile, informal pressure could be in the form of social pressures on voluntary acts, such as CSR reporting in certain parts of China.[28] Furthermore, punishments could have a good impact on actions.[29] However, some institutions might attempt to avoid issues related to power, justice, and trust concerning tax compliance. In this context,[30] taxpayers often consider the risk of being caught and facing penalties. Coercive power emerges from the interaction between tax authorities and taxpayers, in which tax authorities may implement comprehensive measures to ensure tax compliance. A rational taxpayer evaluates the implications of their actions by considering the options of either avoiding or complying with tax laws. They consider the likelihood of being caught, potential penalties, and the possibility of being audited. In short, an individual's choice is guided by the potential economic benefits, the threat of punishment, and the severity of the sanctions.

Different factors influence the actions of both individuals and institutions, stemming from various institutional factors.[31]

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[27] Campbell and Slack, "Corporate 'Philanthropy Strategy.'"

[28] Xueji Liang, Lu Dai, and Sujuan Xie, "Examining the Social Pressures on Voluntary CSR Reporting: The Roles of Interlocking Directors," *Sustainability Accounting, Management and Policy Journal* 13, no. 3 (March 2022): 653–79, https://doi.org/10.1108/SAMPJ-05-2021-0166.

[29] Latif et al., "Coercive"; Saeed Awadh Bin-Nashwan et al., "A Socio-Economic Model of *Zakah* Compliance," *International Journal of Sociology and Social Policy* 40, no. 3/4 (April 2020): 304–20, https://doi.org/10.1108/IJSSP-11-2019-0240; Meike Eilert and Abigail Nappier Cherup, "The Activist Company: Examining a Company's Pursuit of Societal Change Through Corporate Activism Using an Institutional Theoretical Lens," *Journal of Public Policy & Marketing* 39, no. 4 (October 2020): 461–76, https://doi.org/10.1177/0743915620947408; Gaurav Talan and Gagan Deep Sharma, "Doing Well by Doing Good: A Systematic Review and Research Agenda for Sustainable Investment," *Sustainability* 11, no. 2 (January 2019): 353, https://doi.org/10.3390/su11020353.

[30] Kerly Randlane, "Tax Compliance as a System: Mapping the Field," *International Journal of Public Administration* 39, no. 7 (June 2016): 515–25, https://doi.org/10.1080/01900692.2015.1028636.

[31] Majid Khan, James Lockhart, and Ralph Bathurst, "The Institutional Analysis of CSR: Learnings from an Emerging Country," *Emerging Markets Review* 46 (March 2021): 100752, https://doi.org/10.1016/j.ememar.2020.100752.

Campbell[32] identified several institutional forces, including government influences, civil societal members, industrial regulations, non-governmental organisations, and society expectations, which result in diverse social activities.

Normative Pressures

Normative pressures consist of shared social beliefs, norms, values, and expectations that influence the top management of an organisation.[33] The concept of normative pressures has been applied in many areas, such as non-financial reporting[34], CSR[35], and enterprise resource planning (ERP)[36] For instance, in Pakistan, normative pressures for CSR activities, such as the United Nations Global Compact Local network, non-governmental organisations (NGOs), such as the Worldwide Fund (WWF) for Nature, and CSR standards, such as the International Organisation for Standardisation (ISO) 14000, play a significant role in driving CSR disclosures.[37]

The importance of normative pressures is particularly pronounced in developing countries where regulations may be weak. Different stakeholders can have a significant impact on these pressures. In the field of ERP, a diverse group that includes suppliers, customers, consultants, and government bodies interacts to evaluate and promote various features of a product.

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[32] Campbell, "Why Would Corporations Behave in Socially Responsible Ways?"

[33] DiMaggio and Powell, "The Iron Cage Revisited."

[34] Jonida Carungu, Roberto Di Pietra, and Matteo Molinari, "Mandatory vs Voluntary Exercise on Non-Financial Reporting: Does a Normative/Coercive Isomorphism Facilitate an Increase in Quality?," *Meditari Accountancy Research* 29, no. 3 (June 2021): 449–76, https://doi.org/10.1108/MEDAR-08-2019-0540.

[35] Waris Ali and Jedrzej George Frynas, "The Role of Normative CSR-Promoting Institutions in Stimulating CSR Disclosures in Developing Countries," *Corporate Social Responsibility and Environmental Management* 25, no. 4 (July 2018): 373–90, https://doi.org/10.1002/csr.1466.

[36] Huigang Liang et al., "Assimilation of Enterprise Systems: The Effect of Institutional Pressures and the Mediating Role of Top Management1," *Management Information Systems Quarterly* 31, no. 1 (March 2007): 59–87, https://doi.org/10.2307/25148781.

[37] Ali and Frynas, "The Role of Normative CSR."

This interaction shapes the accepted norms regarding the implementation and integrating of ERP systems.[38]

DiMaggio and Powell[39] attributed this form of pressure to professionalisation or socially defined work conditions and standards. In his analysis of institutional pressures, Scott[40] suggested that normative pressures are based on the concept of appropriateness and conformity. Scott[41] also noted that professionals in organisations face pressure from their peers across the industry. The interaction between companies results in shared business practices due to inter-company mobility, such as recruitment from competitors or networks through trade group membership. Consequently, corporations gain social legitimacy by adhering to the expectations of their business partners, such as suppliers, customers, trade associations, and social groups. Thus, informal rules within these social networks lead to the adoption of similar behaviours among organisations.

There are two primary mediums through which a company could capture normative pressures.[42] First, top management can capture normative pressures through formal education and training.[43] For example, an educational focus on accounting can serve as a source of normative pressures. This is evident when companies hire managers with accounting backgrounds or when more individuals pursue education in accounting, leading these companies to develop standardised norms of behaviour.[44] In terms of corporate zakat, the knowledge of Shariah among top management can also motivate a company to pay and commit to corporate zakat,[45] particularly when a Shariah board guide the organisation's ethical direction regarding zakat ethics.

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[38] Liang et al., "Assimilation of Enterprise Systems."

[39] DiMaggio and Powell, "The Iron Cage Revisited."

[40] W. Richard Scott, *Institutional Theory Encyclopedia of Social Theory* (Sage, Thousand Oaks, CA, 2004).

[41] Scott, *Institutional Theory Encyclopedia of Social Theory*.

[42] DiMaggio and Powell, "The Iron Cage Revisited."

[43] DiMaggio and Powell, "The Iron Cage Revisited."

[44] Nabilah Abd Razak, Ramli, and Abdul Rasit, "Organisation Isomorphism."

[45] Jessie P. H. Poon et al., "Executives' Observance of Zakat among Islamic Financial Institutions: Evidence from Bahrain and Malaysia," *Journal of Islamic*

Second, behavioural norms can be rapidly diffused through professional networking, including inter-organisational personnel transfers, and shared consultants and trade associations.[46] As a result, practices within the industry tend to become homogeneous as individuals receive similar training, education, and socialise professionally through established networks. Within professions, regulatory bodies often establish guidelines to ensure compliance. They promote accounting techniques or methodologies to address flaws in current or traditional accounting processes, encouraging organisations to adapt and create uniform organisational cultures and behaviours.[47] Poon et al.[48] discovered that networking among professionals in Bahrain influenced the IFIs to pay zakat, as such networking facilitated the socialisation of zakat ethics.

Norms within companies are generally institutionalised through professional training, and top management plays an important role in motivating companies' involvement in CSR activities.[49] The functions include taking initiatives to gain local market information, knowledge, and insights into social issues. This engagement provides companies with the market exposure necessary for CSR activities. For example, communication proximity and frequency within social networks among top management can significantly influence the extent of normative pressures faced by companies. Chedrawi, Osta and Osta[50]

Accounting and Business Research 12, no. 4 (July 2021): 509–23, https://doi.org/10.1108/JIABR-07-2020-0211.

[46] Nabilah Abd Razak, Ramli, and Abdul Rasit, "Organisation Isomorphism."

[47] Che Ku Hisam Che Ku Kassim et al., "Institutional Isomorphism on Environmental Reporting Practices in Malaysian Local Governments," *Management & Accounting Review* 20, no. 2 (August 2021): 1–34, https://doi.org/10.24191/MAR.V20i02-01.

[48] Poon et al., "Executives' Observance of Zakat."

[49] Arinze Christian Nwoba, Nathaniel Boso, and Matthew J. Robson, "Corporate Sustainability Strategies in Institutional Adversity: Antecedent, Outcome, and Contingency Effects," *Business Strategy and the Environment* 30, no. 2 (February 2021): 787–807, https://doi.org/10.1002/bse.2654.

[50] Charbel Chedrawi, Alain Osta, and Souheir Osta, "CSR in the Lebanese Banking Sector: A Neo-Institutional Approach to Stakeholders' Legitimacy," *Journal of Asia Business Studies* 14, no. 2 (April 2020): 143–57, https://doi.org/10.1108/JABS-03-2018-0093.

emphasised that top management should be alert to activities that align with social pressures and international initiatives.

Mimetic Pressures

Competitive or mimetic pressures arise when companies observe and emulate successful business practices by other companies.[51] In uncertain market conditions,[52] companies often emulate tactics of previously successful businesses to avoid future regrets and save on planning time.

Employee mobility between organisations or benchmarking practices, such as business re-engineering and total quality management, could lead to mimicking or 'modelling'.[53] By doing this, companies might benefit from reduced search costs when identifying relevant successful approaches, leading to potential positive returns on investments as drawn by competitors.

Evidence suggests that companies' CSR actions in international markets are significantly influenced by mimetic pressures.[54] When successful CSR practices are perceived as successful, or when competitors who adopt such practices are perceived as strong and experienced, competitors tend to emulate them.[55] The effectiveness of competitors' information and actions is determined by indicators, such as stock market prices, expansion plans, consumer support changes, and product demand. Additionally, herd behaviours are associated with increased acceptance of self-regulated systems, such as ISO certifications, GRI and Dow sustainability indices.[56] Companies typically use such standards as templates to emulate the CSR efforts of market

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[51] DiMaggio and Powell, "The Iron Cage Revisited."

[52] Soyoung Joo, Ben Larkin, and Nefertiti Walker, "Institutional Isomorphism and Social Responsibility in Professional Sports," *Sport, Business and Management: An International Journal* 7, no. 1 (March 2017): 38–57, https://doi.org/10.1108/SBM-03-2016-0010.

[53] DiMaggio and Powell, "The Iron Cage Revisited."

[54] Chedrawi, Osta, and Osta, "CSR in the Lebanese Banking Sector."

[55] Dima Jamali, "A Stakeholder Approach to Corporate Social Responsibility: A Fresh Perspective into Theory and Practice," *Journal of Business Ethics* 82, no. 1 (September 2008): 213–31, https://doi.org/10.1007/s10551-007-9572-4.

[56] Che Ku Kassim et al., "Institutional Isomorphism"; Nabilah Abd Razak, Ramli, and Abdul Rasit, "Organisation Isomorphism."

leaders, as they provide information about successful CSR operations.[57]

In Libya, where coercive pressures are relatively weak (only guidelines have been issued), some managers mimic the strategies of other foreign-owned companies in terms of CSRD to achieve legitimacy. This finding aligns with previous studies, indicating that companies are affected by their peers and that mimetic pressure could be more impactful than coercive pressures.[58]

Compliance with mimetic pressures can lead to superior financial performance. The financial performance of first movers influences the adoption of CSR activities by other companies within the same environment.[59] Companies may derive strategic benefits from CSR activities if they can effectively internalise the benefits of these activities through product differentiation or innovative business solutions exclusive to their companies.[60]

During preliminary research interviews with Shariah officers, it was noted that board members who serve on the boards of multiple organisations tend to mimic the zakat practices of other companies. It shows that mimetic behaviour is already applied in the existing zakat practice, potentially motivating non-paying zakat companies to adopt similar actions. Therefore, the mimicking of CSR activities can occur through peers and industry leaders.[61]

Institutional Theory

The institutional theory explains how organisations face pressures for legitimacy, resulting in a tendency to eventually become similar.[62] Contrary to the neo-classical approach, which focuses on utility maximisation, institutional theory sees

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[57] Nwoba, Boso, and Robson, "Corporate Sustainability Strategies in Institutional Adversity."

[58] Alshbili and Elamer, "The Influence of Institutional Context."

[59] Latif et al., "Coercive."

[60] Alshbili and Elamer, "The Influence of Institutional Context"; Latif et al., "Coercive."

[61] Alshbili and Elamer, "The Influence of Institutional Context"; Latif et al., "Coercive"; Che Ku Kassim et al., "Institutional Isomorphism"; Nabilah Abd Razak, Ramli, and Abdul Rasit, "Organisation Isomorphism."

[62] DiMaggio and Powell, "The Iron Cage Revisited."

companies as being more than profit-maximising units. They operate within a social structure comprising suppliers, consumers, competitors, regulatory agencies, and other non-government entities (NGOs). As a result, companies compete not only for resources but also for legitimacy amongst their social constituents.[63]

Companies particularly adhere to institutional pressures to gain legitimacy or reduce uncertainties. This means adopting actions determined by regulatory bodies or social constituents to earn legitimacy.[64] Furthermore, social and environmental uncertainties and outcome ambiguity lead to the replication of successful practices of others. By complying with institutional standards, companies increase their access to societal resources and assure long-term survival. Over time, companies within the same industry become more uniform due to these institutional pressures. Compliance also provides certainty, stability, and predictability to organisational decision-makers; thus, reducing task-related risks. In this theory, legitimacy is the key explanatory factor. Social legitimacy provides tangible benefits, for instance, lower compliance costs and higher stock market valuations, and intangible benefits, such as brand likeability and good reputation. Institutional theory predominantly concentrates on conformity, passivity, and unwitting acceptance of external pressures as a means of survival and strategic purpose.[65]

Institutional Pressures and Corporate Zakat Commitment

Effect of coercive pressures on corporate zakat commitment.

The government plays a significant role in encouraging companies' responsible practices through mandatory compliance and voluntary programmes for strategic purposes. For instance, Gavrila (2019) noted that companies often conform to institutional and informal norms in the initial stage of CSR implementation to

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[63] Christine Oliver, "Strategic Responses to Institutional Processes," *The Academy of Management Review* 16, no. 1 (January 1991): 145, https://doi.org/10.2307/258610.

[64] DiMaggio and Powell, "The Iron Cage Revisited."

[65] DiMaggio and Powell, "The Iron Cage Revisited."

secure their licenses to operate. In the case of reporting, Carungu et al.[66] found that preparers may perceive mandatory non-financial reporting (NFR) as the best practice for adequately reporting their social, economic, and environmental performance.

In regard to corporate zakat, multiple agencies enforce and encourage companies to pay zakat. One key regulatory body in Malaysia is the State Religious Islamic Council (SRIC), which monitors Islamic compliance and has the authority to impose penalties. Each state has its own Act that governs the zakat practices of individuals and businesses. In addition, the Shariah industry influenced companies to pay zakat due to the perception that Shariah-compliant companies represent a positive outlook. Islamic financial institutions also encounter several industry-related pressures, such as monitoring by Bank Negara and AAOIFI, which compel many Islamic banks to participate in corporate zakat.

Since the motivations for companies to pay zakat are unclear, it is expected that coercive pressures from regulators, laws, and state agencies are key factors influencing companies to fulfil their zakat obligations. Based on earlier discussions about the effect of coercive pressures on CSR activities, this study proposes the following hypothesis:

H1 - Coercive pressures positively motivate companies to practise corporate zakat commitment.

Effect of normative pressures on corporate zakat commitment.

Normative pressures consist of shared social beliefs, norms, values, and expectations that influence the behaviour of an organisation's top management. Scott[67] suggested that normative pressures emerged from the notion of appropriateness and conformity.

There are two primary ways in which a company can recognise normative pressures. First, these pressures can be cultivated through formal education and training. For example,

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[66] Carungu, Di Pietra, and Molinari, "Mandatory vs Voluntary Exercise on Non-Financial Reporting."

[67] Scott, *Institutional Theory Encyclopedia of Social Theory*.

specific educational fields, such as accounting, can serve as a source of normative pressures. Companies that hire managers with accounting backgrounds or that have more individuals pursuing higher education in accounting are likely to develop standard norms of behaviour, given the shared knowledge among these individuals.

Second, behavioural norms can spread rapidly through professional networking, including inter-organisational personnel transfers and having the same consultants.[68] As a result, practices within the same industry tend to be homogeneous, as professionals receive similar training and education while socialising through shared networks. Professional connections and formal education contribute to the development of practical and operational regulations. Promoting these practices encourages organisations to respond positively, leading to uniform cultures and consistent behaviours across different organisations.[69]

Poon et al.[70] noted two key mechanisms that influence corporate zakat payment under normative pressures: professional networking that encourages companies to pay zakat in Bahrain and ii) the education of Shariah board members that affects companies' decision to pay zakat in Malaysia. The findings highlight how normative pressures motivate companies to engage in zakat. Based on the discussion of how normative pressures affect CSR activities, this study proposes the following hypothesis:'

H2 - Normative pressures positively motivate companies to practise corporate zakat commitment.

Effect of mimetic pressures on corporate zakat commitment.

Competitive or mimetic pressures stem from observing successful business practices of other companies.[71] When companies are unsure about market conditions, they often emulate

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[68] Nabilah Abd Razak, Ramli, and Abdul Rasit, "Organisation Isomorphism."

[69] Che Ku Kassim et al., "Institutional Isomorphism."

[70] Poon et al., "Executives' Observance of Zakat."

[71] DiMaggio and Powell, "The Iron Cage Revisited."

the strategies of previously successful businesses to avoid potential regrets and reduce planning time. Employee mobility across organisations or benchmarking practices, such as business re-engineering and total quality management, could lead to mimicking or 'modelling'.[72] Companies could benefit from reduced search costs by identifying effective strategies and potentially achieving positive returns on investment through emulating their competitors.

Additionally, mimetic pressures can arise from market or industry leaders. Companies typically look at these leaders as yardsticks for their CSR efforts, as these leaders provide insights into successful CSR operations.[73] When most competitors engage in CSR activities, companies that have yet to do so will miss the advantages of such activities.

In Malaysia, the recognition of businesses that pay zakat has positively influenced corporate zakat contributions. A notable example is the award of a logo to these businesses by zakat institutions, which has increased other companies' willingness to pay zakat. This trend is similarly evident in the Halal industry.[74]

Based on the discussion of the effect of mimetic pressures on CSR activities, this study proposes the following hypothesis:

H3 - Mimetic pressures positively motivate companies to practise corporate zakat commitment.

Methodology

This study distributed questionnaires to the top management of companies that paid zakat in 2019 (which are known as corporate zakat payers in this study). The top management serves as representatives to answer the survey on behalf of their organisations. They are typically led by the Chief Executive Officer

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[72] DiMaggio and Powell, "The Iron Cage Revisited."

[73] Nwoba, Boso, and Robson, "Corporate Sustainability Strategies in Institutional Adversity."

[74] Rosly Othman, Zainal Ariffin Ahmad, and Suhaiza Zailani, "The Effect of Institutional Pressures in the Malaysian Halal Food Industry," *International Business Management* 3, no. 4 (2009): 80–84, https://www.researchgate.net/publication/287509365_The_effect_of_institutional_pressures_in_the_Malaysian_halal_food_industry.

(CEO) for public companies or the Managing Director (MD) for private companies. Contact numbers of all respective companies, including the email addresses and phone numbers, were obtained from the companies' respective websites. These contact details are usually managed by the corporate communication team, which directs calls received to the finance or Shariah departments that handle zakat payments. Phone calls were made to confirm the correct information for persons in charge, ensuring invitations for survey participation could be sent via email. The invitations clearly outlined the objectives of the survey.

Data collected were analysed using SmartPLS version 4.0 and the variance-based structural modelling equation-partial least squares (PLS-SEM). PLS-SEM was selected as the primary data analysis method due to its suitability for the prediction-oriented approach of this study. It offered greater statistical power than the covariance-based SEM (CB-SEM) and was capable of handling non-normal data distributions. To assess potential non-normality, Mardia's multivariate skewness and kurtosis were examined using the online software tool WebPower. The result show that Mardia's multivariate skewness coefficient is 4.226 with a *p*-value of 0.000, while kurtosis is 5 38.536, p 5 0.000 which represented non-normality of data. The study continued with SmartPLS for nonparametric analysis, confirming that the collected data were multivariate and non-normal.

Results

Hypo	Path	β beta	t-value	CI - min	CI - max	*p*-value	Decision
H1	IC → ZC	-0.002	0.025	-0.127	0.135	0.490	Not supported
H2	IN → ZC	0.598	5.901	0.433	0.768	0.00	Supported
H3	IM → ZC	-0.022	0.286	-0.147	0.100	0.387	Not supported

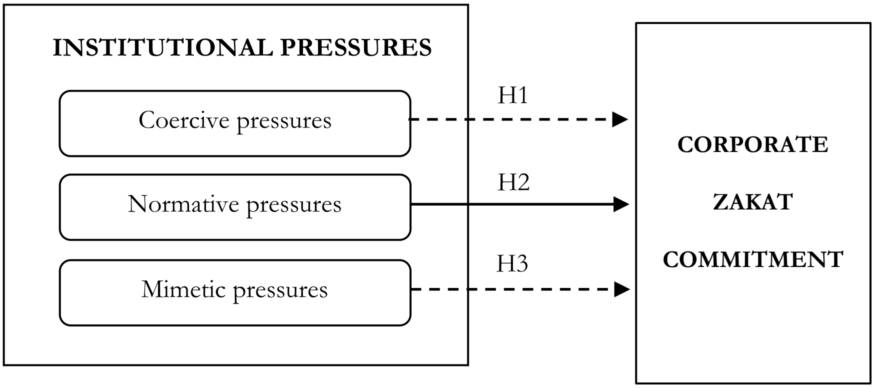

Figure 1 Direct effect of institutional pressures on corporate zakat commitment.

Analysis

The first objective of this study is to examine the relationship between institutional pressures and corporate zakat commitment. Institutional pressures are categorised into three types: coercive, normative, and mimetic. Corporate zakat commitment is measured based on companies' dedication to paying zakat, rather than just fulfilling the obligation of corporate zakat. The analysis reveals three significant findings that can be summarised and deliberated.

H1 - The Relationship between Coercive Pressures (IC) and Corporate Zakat Commitment (ZC)

First, the findings of this study indicate that coercive pressures have a positive but insignificant relationship with corporate zakat commitment. This result is inconsistent with previous research, whereby government regulation and initiatives influenced zakat payment, indicating that better incentives led to higher zakat payment. Their study also highlighted that tax deduction can lead to increased zakat payments, particularly from tax payable compared to taxable income.

The insignificant impact of coercive pressures towards corporate zakat commitment may be attributed to a lack of government regulations and guidelines. The significant effect of coercive pressures can be seen in the CSRD practised in Libya, which has extensive reporting guidelines and government regulations regarding disclosure requirements. In this case, coercive pressures were strengthened by the implementation of penalties for companies that fail to adhere to CSRD.

However, the result of this study is in line with the CSR practices in Pakistan,[75] indicating that weak regulations of CSR marketing have compelled MNCs to adhere to norms influenced by social media movements and religious groups. The insignificant government pressure can be attributed to the CSR practices that tend to be non-strategic, focusing primarily on charitable and philanthropic activities. Companies collaborating with NGOs have enhanced their CSR activities by leveraging the practical knowledge these organisations possess regarding community needs.

A similar situation was observed in China's state-owned construction companies, where institutional pressures from individuals and inconsistent laws and regulations hindered the systematic development of CSR activities. In these organisations, top-level management and mandatory provisions (such as laws, regulations, and rules) control and regulate organisational behaviour through formal authorities. Similarly, in the halal industry in Malaysia, the coercive pressures are deemed weak. Currently, there is no strong regulatory authority capable of enforcing compliance with the required standards among companies.

Strict environmental regulations and laws should be established by relevant government agencies, like those implemented in Kuwait and Saudi Arabia. Companies violating the imposed regulations and laws will face consequences. Meanwhile, the government should encourage industry associations and media involvement to report on companies' unethical social practices. These measures are effective in fostering social and environmental protection, as well as promoting beliefs and norms in society; hence, applying normative pressure on companies.[76]

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[75] Zaheer Khan, Yong Kyu Lew, and Byung Il Park, "Institutional Legitimacy and Norms-Based CSR Marketing Practices: Insights from MNCs Operating in a Developing Economy," *International Marketing Review* 32, no. 5 (September 2015): 463–91, https://doi.org/10.1108/IMR-01-2014-0017.

[76] Wang, Wang, and Wang, "Exploring the Effects."

As previously mentioned, corporate taxation is governed by the Inland Revenue Board (IRB), while corporate zakat falls under state regulations. Each state has varying levels of regulatory enforcement based on the Act that governs zakat regulation. This situation leads to different states enforcing zakat according to the practices of zakat institutions. The diverse regulatory acts related to zakat among states create coercive pressures that affect overall corporate zakat commitment in Malaysia. This variability is deemed acceptable since the authority of religious and Malay institutions is established under the State Act. However, this study found that coercive pressures alone cannot motivate companies to commit to corporate zakat.

H2 - The Relationship between Normative Pressures (IN) and Corporate Zakat Commitment (ZC)

The findings presented in the previous chapter empirically confirmed that normative pressures affect corporate zakat commitment. This outcome aligns with a recent study by Martínez-Ferrero and García-Sánchez,[77] who revealed that national culture significantly impacts differences in sustainability reports across countries. Meanwhile, Poon et al.[78] found that managers' perceptions and understanding of their companies' zakat responsibilities are determined by normative pressures generated through networking activities and the leadership of Shariah-competent directors in Malaysia and Bahrain.

H3 - The Relationship between Mimetic Pressures (IM) and Corporate Zakat Commitment (ZC)

On the other hand, mimetic pressures were found statistically insignificant in motivating corporate zakat commitment, as hypothesised in H3. The insignificant finding might be due to the inadequate recognition of zakat-paying companies. However, other study indicated that corporate image enhanced by a zakat-

[77] Jennifer Martínez-Ferrero and Isabel-María García-Sánchez, "Coercive, Normative and Mimetic Isomorphism as Determinants of the Voluntary Assurance of Sustainability Reports," *International Business Review* 26, no. 1 (February 2017): 102–18, https://doi.org/10.1016/j.ibusrev.2016.05.009.

[78] Poon et al., "Executives' Observance of Zakat."

paying logo significantly influenced the likelihood of businesses paying zakat. The insignificant results of H3 suggest that implementing such recognition in Malaysia is insufficient. The poor implementation is reflected by zakat-paying companies that do not disclose their zakat payments, despite fulfilling their responsibilities through zakat institutions (PPZWP, LZC). Previous studies have demonstrated a positive and significant impact of mimetic pressures in environments where these practices were widely practised.[79] Moreover, major companies are generally known for their CSR activities,[80] often collaborating with foreign business partners and operating under the scrutiny of international stakeholders.[81]

Besides, the concept of *riya* prevents companies from reporting and modelling their zakat payment behaviour (Nurunnabi et al. 2019). The study argued that organisations might be subject to public scepticism if they openly display their CSR activities, or known as 'showing off' (riya in Arabic). Thus, to avoid riya, the best i-CSR practice is to support society discreetly, without media involvement (Alfakhri et al. 2018). Internalising CSR is the basic principle of Islamic value-oriented CSR. Therefore, religious individuals are more likely to adopt an intrinsic religious orientation and engage in charity work privately to receive greater rewards from God, while avoiding riya, which is disfavoured. Furthermore, scholars highlighted the importance of giving zakat for the sake of Allah (*Tawhid*). If an act of kindness is tarnished by the desire to flaunt (riya), the act will be spurned. Therefore, zakat institutions play a crucial role in distributing zakat to rightful recipients and in helping prevent riya or showing off.

Discussion and Conclusion

The results of this study indicate that corporate zakat commitment in Malaysia is significantly influenced by leaders and society (normative pressure). Meanwhile, the enforcement of zakat

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[79] Che Ku Kassim et al., "Institutional Isomorphism."

[80] Gao-Zeller et al., "Driving Mechanism of CSR Strategy in Chinese Construction Companies Based on Neo-Institutional Theory."

[81] Alshbili and Elamer, "The Influence of Institutional Context."

regulation (coercive pressure) has not yet succeeded in motivating companies to pay zakat. The stigma against showing off remains strong, which prevents companies from being affected by the actions of others when it comes to replicating those that pay zakat.

Future studies should explore the top management characteristics that could serve as role models to encourage companies to fulfil their zakat obligations. Even though corporate zakat is an institutional decision, it ultimately relies on top management, as they are the individuals who make key decisions for their companies. Therefore, having the right top management can significantly influence a company's decision to pay and commit to corporate zakat.

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