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The Factors Influencing of Value based Perspective on Corporate Zakah Payment Decisions in Malaysia: A Proposed Conceptual Model

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Abstract

Islam requires its followers to pay the *Zakah*, a religious due. *Zakah* purifies one's wealth and uplifts the socio-economic status of the ummah simultaneously. *Zakah* is one of the five pillars of the Islamic faith, which is an obligatory form of "charity", and every Muslim is expected to contribute. *Zakah* purifies property, but it also purifies the hearts of *Zakah* payers from greed and selfishness. According to National Fatwa Committee, business entities formed under the principle of *syakhsiyyah i'tibariyyah* (legal entity) are obliged to pay *Zakah* under the principle of *khultah* (group ownership). However, factors that influence a business entity's *Zakah* payment are still not properly defined, and very limited research done on this. Malaysian *Zakah* institution still faces several obstacles to increase the collection of business *Zakah*. Most of the previous studies on this issue do not explain more detail about the factor chosen as leadership support, stakeholder engagement, and elective accountability. Hence, the purpose of this research is to propose a conceptual framework for corporate *Zakah* payment decisions. This research also applies the Institutional Work theory. The aim of this research is to identify *Zakah* payment influencing factors in business entities and take Public Listed Companies (PLCs) who are entitled as Shariah Compliant Companies as a research subject and decision-makers in Shariah Compliant Companies as the research object.

Keywords: Zakah Collection, Institutional Work Theory, Resource-Based View (RBV) Theory, Imposed Accountability, Elective Accountability, and Management Capability, Zakah.

Introduction

Social finance is defined as a method of managing money that generates social dividends as well as economic returns (MaRS, 2016). It is also frequently used to describe investments and lending to businesses that consider themselves to be social, charitable, cooperative, or other impact-focused organizations (Investopedia, 2016). Shariah-compliant finance and economics, also known as Islamic social finance, is a sophisticated system and a broad one that exists only in Islam. It also aims to promote social justice through wealth redistribution and fair financial practices. Islamic social finance was created during Islamic birth to balance society's wealth and prevent economic exploitation. Zakah is a cornerstone of Islamic social finance. Furthermore, Zakah, a tax on wealth and income, is a type of obligatory goal-giving.

Researchers discovered that Islamic social finance tools such as wakaf (Islamic waqf) and Zakah (compulsory donations or payments payable by all Muslims who have more than nisab wealth, which is a threshold or exemption limit) can effectively support Sustainable Development Goals (SDGs) if properly developed, managed, and utilized with transparency, accountability, and efficiency by Muslims (Benedikter, 2011).

Zakah is the third and obligatory rule of *Islam* for Muslims who fulfill all the requirements. *Zakah* is "that portion of a man's wealth is designated for the poor" by (Azeez, 2003). It is mandatory for every Muslim that has stable finances to pay *Zakah* to the poor and needy said (Afzal & Akram, 2014). According to *Islam*, *Zakah* is known to pay to purify wealth. Thus, Muslims that have enough wealth have to give a little amount of their wealth for example 2.5%. So, it is responsible for the rich people to help the poor by helping them in every way possible. When a Muslim gives Zakah, he acknowledges that everything belongs to Allah s.w.t. and that we can use it to remember Allah s.w.t. and help the poor. Based on (Chapra, 1979), the benefit of Zakah is it can clean one's character from being a miser. Apart from compulsory payment, Zakah also brings much importance because it will help us learn self-discipline, free from desire and excessive greed. The benefit the giving the Zakah is it purifies their wealth as Allah says in the Qur'an, it keeps one away from sin and saves the giver from the moral ill arising from the love and greed of wealth and through Zakah, the poor have cared for these include widows, orphans, the disabled, the needy and the destitute. According to (Ahmed, 2008) it helps in the purification of the heart. After that, Zakah also helps in reducing poverty in society.

Companies or business entities are obligated to pay the *Zakah* when the business is owned by Muslims, the business is owned by an Independent Muslim. perfectly owned, there is enough *nisab*. Quite *haul* (even a *qamariah* year or 354.3 days) and the *Zakah* rate on the company is 2.5%. Therefore, the joint venture between Muslims and non-Muslims is compulsory on the number of shares owned by Muslims only based on the net income assessed after adjustment and rejection of the items. A corporate entity is a group of individuals, assuming the roles and responsibilities as the servants and representatives of Allah on earth and are responsible for managing the resources they possess for the development of the people, society, and the Islamic Ummah as per Shari'ah rules. This means that lawful (halal) and unlawful (haram) in different aspects of commercial activities that are stated in the Quran and Sunnah need to be closely observed. Moreover, the obligation of zakat which is a compulsory charity must be implemented on yearly basis.

Problem Statement

Zakah is paid by Muslims to alleviate poverty and promote equitable wealth distribution, according to (Taheri, 2001). In addition, *Zakah* on business is one of the *Zakah* on wealth.

Corporate Zakah is a type of business Zakah that is levied on a business entity such as a partnership, enterprise, or firm. Based on the concept of a separate legal entity, corporations are owned and managed by two groups of people (owner and management). The obligation of Zakah is on the individual's capacity, which causes many problems with corporate Zakah because the management pays Zakah on behalf of the owner's obligation on the business they own. The concept of *syakhsiyyah i'tibariyyah* emphasized that a corporation, based on a legal entity, can pay corporate Zakah in the same way as any other transaction. Even with a fatwa requiring companies to pay Zakah in several states, including Selangor and Wilayah Persekutuan, the practice is disastrous. Generally, corporate *Zakah* is a responsibility performed by a business entity in fulfilling Islamic law. In Malaysia, the law of corporate *Zakah* as a *'itibariyyah'* and not as a witness against it, has been repeatedly discussed in the past and contemporary fuqaha (Chik & Tharin, 2018). These differing perspectives may influence corporate management capability on the need to make *Zakah* payment as one of the mechanisms for corporations to contribute towards socio-economic development. Corporate *Zakah* is a major contributor to *Zakah* collection in Malaysia, especially in Wilayah Persekutuan. In 2017, the total corporate Zakah payment was RM 106,303,269.21 (PPZ-MAIWP, 2017). In 2018, the amount decreased to RM 118,140,629.41 (PPZ-MAIWP, 2018), and for 2019, it decreased to RM 114,096,123.42 (PPZ-MAIWP, 2019).

In the current climate, the issue of Zakah on business is rarely discussed, particularly how to increase the number of businesses Zakah payers. Today, Zakah on wealth exceeds total Zakah on business (Halizah et al., 2011). According to (Halizah et al., 2011), this is due to the Malaysian Zakah institution still facing several obstacles in increasing the collection of business Zakah.

According to Abdul Rahim (2014), this situation cannot occur again since *Zakah* on business has the potential to be the largest contributor to *Zakah*. *Zakah* compliance remains a problem in many Muslim countries, including Malaysia, which is said to have a poor collection of *Zakah* among Muslim entrepreneurs who are required to pay *Zakah* on their businesses but fail to do so (Haniffa, 2014). The potential for *Zakah* collection in Selangor could reach 1.2 billion if all individuals and businesses pay *Zakah* according to an analysis done by Ahmad Shahir and Adibah in 2010.

Some businesses are still confused about the difference between *Zakah* on business and the tax on business that is levied on them. This is due to the distinction between tax and *Zakah* compliance. According to (Yarbrough and Song, 1978; Feinstein et al., 1998), tax compliance is the taxpayer's willingness to comply with tax laws for the sake of the country's economic balance, and *Zakah* is one of the required Islamic responsibilities that anyone who meets the necessary requirements for achieving piety and good soul must fulfill (Nawi et al., 2011).

According to this situation, the main issue is that the collection of *Zakah* funds is yet to be effective, and even though there are many businesses in Malaysia, the Zakah collection on business is low and not optimal (Zuraidah, 2019). This is due to the fact that some companies pay their Zakah business while others do not. In motivating corporations to make *Zakah* payments, past studies (Arshard et al., 2019) found that corporations are motivated to pay *Zakah* due to tax exemptions given by the Inland Revenue. Another significant initiative is known as *Wakalah* under the Islamic Religious Council, WP. In Malaysia, *Wakalah* is a (reinstatement) *Zakah* refund policy by the Islamic Religious Council, WP for entities that pay *Zakah* to PPZ-MAIWP to be distributed to eligible donors, including paying by companies. In Malaysia, *Wakalah* is a policy of returning *Zakah* warfare by the Islamic Religious Council, WP to entities that pay *Zakah* to PP MAIWP for distribution to eligible donors, including to

corporate *Zakah* payers (PPZ, 2019). Nevertheless, based on the statistics on corporate *Zakah* payment, these initiatives have not been able to sustain continued growth for corporate *Zakah* contributions.

Corporations must demonstrate that funds have been managed efficiently and effectively in order to promote socioeconomic development. In order to encourage corporations to voluntarily communicate their accountability performance, a mechanism must be in place to raise public awareness of the need for information on the positive outcomes achieved. Based on this argument, this study proposes a Model of Corporate *Zakah* Payment Decision Perspective on Value-Based and focus for selected corporations. This research enables PPZ to act on behalf of the public in determining whether these public benefits have been realized. Concurrently, the research can serve as a guide for corporations to provide relevant information, as previous studies highlighted the difficulties that organizations face in understanding the public's information needs. There are 716 shariah-compliant companies in Malaysia as of November, 2019. However, only 53 paid and disclose their zakat payment.

In motivating corporations to pay *Zakah*, elective accountability is also important. Elective accountability aims to connect with low-salience stakeholders such as small donors, beneficiaries, and the public (Cordery and Baskerville, 2011). Often this elective accountability is less formal and structured in its form and content, and more mission-oriented in focusing on the long-term outcomes of charities' activities for beneficiaries and society (Laughlin, 1996; O'Dwyer and Unerman, 2007). It can also incorporate 'emotive disclosures' such as personal testimonies and photographs (Langton and West, 2016).

It has been suggested that 'grassroots' (or 'relational' or 'face-to-face') accountability can be an appropriate elective means of delivering performance accountability to stakeholders who have limited powers to hold charities to account (Awio et al., 2011; O'Leary, 2017; Nowland-Foreman, 2018). Grassroots accountability is less about formal reporting and more about informal, direct, and participative interaction with stakeholders. Since it focuses on making charities' actions and outcomes observable, grassroots accountability affects accountability of a thousand eyes, rather than a thousand tick boxes' (Nowland-Foreman, 2018, p. 65). However, while such direct and informal modes of accountability are potentially useful in public accountability, it has been noted that they can prove ineffective due to difficulties in engaging the public and understanding what information will meet their needs (Hyndman and McConville, 2018). Most of the studies conducted on business *Zakah* in Malaysia focus on various fields including theory (Mujaini, 1995; Mujitahir, 2003), legal and compliance, accounting (Rahim, 2003; Saad, 2010) and Islamic awareness and conduct (Abioye, 2012; Mohd et al., 2004; Sanep and Hairunnizam, 2005a). Many researchers have previously used planned behavior theory to see what factors influence corporate pay for *Zakah*. However, there are very limited studies that examine the value that stakeholders and wellbeing can have on the back of the *Zakah* payment by the company. What value will be created from their *Zakah* payment? Therefore, this study attempts to fill this gap by focusing on management capability and institutional work perspective on value-based corporate *Zakah* payment decisions.

The afore-mentioned issues have triggered this study to investigate determinant factors corporate *Zakah* payment decision perspective on value-based. Institutional Work Theory will apply for this study intends to examine the influence of factors on the corporate decision of *Zakah* payment. To the best of the researcher's knowledge, less of a study has been found to examine corporate decision payment based on perceptions, assumptions, and

initiatives in the context of business *Zakah*. Consistently, in view of the need for funds from the *Zakah* collection, there are still weaknesses in efforts to raise the motivation of corporate *Zakah* payments to be sustained. Therefore, the overall objective of this study is to identify the factors that influence corporate *Zakah* payment decision perspective on values-based approaches, where the role of trust as important to the value proposition of *Zakah* corporate that benefit the wider stakeholders in society and the wellbeing.

Research Objective

This research attempts to attain a few objectives which are all these goals must be considered to make certain the finding is accurate with what researchers are trying to find. The objective of the study is as follows:

- i. To examine the relationship between leadership support and Corporate *Zakah* Payment Decision.
- ii. To examine the relationship between stakeholder engagement and Corporate *Zakah* Payment Decision.
- iii. To examine the relationship between elective accountability and Corporate *Zakah* Payment Decision.

Research Questions

The following are the research question for this study:

- i. Does leadership support, stakeholder engagement, communicate accountability) influence Corporate *Zakah* Payment Decision?
- ii. Does stakeholder engagement influence Corporate *Zakah* Payment Decision?
- iii. Does elective accountability influence Corporate *Zakah* Payment Decision?

Literature Review

The Underpinning Theory of Institutional Work and Corporate *Zakah* Payment Decision.

According to (Lawrence & Suddaby, 2006) stated that institutional work can be defined as the purposive action of individuals and organizations aimed at creating, disrupting institutions, and maintaining. The institutional approach to organizational theory is traditionally concerned with relationships among organizations and providing affirm account for the process through which institutions govern action and the areas in which they operate. Moreover, it is also known as an interesting direction for the study of organizational institutions, not because it represents a 'new' idea, but because it connects an earlier set of ideas, opens new possibilities for conversation and in doing so points to new questions. Institutional work also highlights the intentional actions taken in relation to the institution, some of which are very visible and dramatic, as is often illustrated in institutional entrepreneurship research, but are mostly invisible and often lack of interest, such as compromises actors trying to maintain institutional arrangements.in daily adjustments, and adaptations.

Besides, institutional work embraces these traditional concerns on expanding institutional entrepreneurship, shifting their focus to understanding how actions affect institutions, bridging, linking, and institutional change and innovation, and institutionalization, studies of institutional work related to practical actions in which institutions are, maintained, and disrupted. Then, much of the promise of institutional work as a research area is to establish a broader agency vision in relation to the institution, which avoids portraying the perpetrator as either "cultural dopes" trapped by institutional

arrangements, or as hypothermic institutional entrepreneurs. Based on (Greenwood et al., 2008) states that even though institutional theory has become a standard reference point in contemporary organizational theory textbooks, it has failed to influence the practical discussion of organizational managers and members outside the academy. words (Miner, 2003).

The studies on institutional work have the potential not only to positively influence scholarly discussions within the institutional community, but also to generate conversations that address the interests of those who work with them. This institutional work theory was applied in the present study to examine the factor of corporate responsibility and motivating corporate *Zakah* payment on business.

Relationship between Leadership Support and Corporate *Zakah* Payment Decision

The role of the *Zakah* institution in ensuring that the administration of *Zakah* worship is fully fulfilled is certain because this trust is clearly stated in the Quran (surah at-Taubah (9) verse 60.82) However, in the context of its practice to what extent this role can lead to payment *Zakah* is something that requires data support to gauge the extent of the *Zakah* institution's role and what are the key indicators that support the *Zakah* payment drive as a result of the *Zakah* institution's work. As a result, many studies have been conducted to examine this role. Through studies on the nature of *Zakah* payment compliance, almost all studies that have developed a *Zakah* payment compliance model place the *Zakah* institution as a significant factor. A study conducted by Sanep(2017) shows that people tend to pay formal *Zakah* to *Zakah* institutions. In her research, she showed that 89.5% of respondents are more likely to make formal *Zakah* payments compared to only 10.5% who are interested in making a direct donation to the charity.

The *Zakah* institution is a non-profit organization that manage the collection and distribution of *Zakah*. The public wants to see the *Zakah* institution in good governance as the study by Sidek (2012) proposes to create a Composite Management Performance for the *Zakah* institution so that the institution's performance can be evaluated and monitored. In another attempt to refute the claim that the *Zakah* institution is not well managed by Norzehan et al (2008), found that the management of LZS has implemented many initiatives towards effective financial management. This initiative has directly strengthened the collection and distribution of *Zakah* by the LZS. Initiatives like this have increased the confidence of the people and have led them to the *Zakah*. Noor (2012) in his study developed and proposed a framework for assessing the performance of *Zakah* institutions by considering non-monetary evaluations as a key measure to ensure that a monitoring methodology could be performed on the performance of the *Zakah* institutions in Malaysia so that they would meet the objectives of their establishment. While in the study by Muda et al (2005) found that factors that led to the confidence of the *Zakah* institution were efficient, effective, and transparent in its management. This finding is in line with the study conducted by Rahim (2011) found important elements that support the payment of *Zakah* to the institution are accountability, transparency, fairness, and accountability of the *Zakah* institution. In a study conducted by Ahmad et. al (2011) on factors affecting the level of confidence that the corporate image of the institution is one of the most significant factors. In order to obtain a good image, the charity institution must be transparent in its administration. Referring to the above opinion, it can be summarized hypotheses as follows:

H1: There is a positive relationship between leadership support and corporate *Zakah* payment decision.

Relationship between Stakeholder Engagement and Corporate *Zakah* Payment Decision

Stakeholder engagement is the process by which an organization engages people who may be influenced by the decisions they make or can influence the execution of their decisions. They can support or oppose decisions, influence the organization or the community in which they operate, hold relevant official positions, or be affected in the long run. Stakeholder engagement is a key part of corporate social responsibility (CSR) and reaches the triple bottom line. Companies engage with stakeholders in dialogue to identify the social and environmental issues that are important to them and involve stakeholders in the decision-making process. Stakeholder Engagement is the practice of influencing a variety of outcomes through consultation, communication, negotiation, compromise, and relationship building, (Davidson, 2017). Stakeholder engagement provides opportunities to further align business practices with societal needs and expectations, helping to drive long-term sustainability and shareholder value. Stakeholder engagement is intended to help the practitioners and their organization, to compete in an increasingly complex and ever-changing business environment, while at the same time bringing about systemic change towards sustainable development (Torelli, Riccardo; Balluchi, Federica; Furlotti, Katia (2019). The concept of stakeholder engagement in accounting is very important and strongly correlated with the concept of materiality (Torelli et al., 2019). Stakeholder participation includes the promise that stakeholder contributions will influence the decision. Referring to the above opinion, it can be summarized hypotheses as follows:

H2: There is a positive relationship between stakeholder engagement and corporate *Zakah* payment decision.

Elective Accountability

Some elective modes of charity accountability are identified in the literature, although they are generally less well-researched. Unlike imposed accountability, which prioritises the information needs of high-salience stakeholders, elective accountability aims to connect with low-salience stakeholders such as small donors, beneficiaries, and the public (Cordery and Baskerville, 2011). Often this elective accountability is less formal and structured in its form and content, and more mission-oriented in focusing on the long-term outcomes of charities' activities for beneficiaries and society (Laughlin, 1996; O'Dwyer and Unerman, 2007). It can also incorporate 'emotive disclosures' such as personal testimonies and photographs (Langton and West, 2016).

It has been suggested that 'grassroots' (or 'relational' or 'face-to-face') accountability can be an appropriate elective means of delivering performance accountability to stakeholders who have limited powers to hold charities to account (Awio et al., 2011; O'Leary, 2017; Nowland-Foreman, 2018). Grassroots accountability is less about formal reporting and more about informal, direct, and participative interaction with stakeholders. Since it focuses on making charities' actions and outcomes observable, grassroots accountability effects 'accountability of a thousand eyes, rather than a thousand tick boxes' (Nowland-Foreman, 2018, p. 65). However, while such direct and informal modes of accountability are potentially useful in public accountability, it has been noted that they can prove ineffective due to difficulties in engaging the public and understanding what information will meet their needs (Hyndman and McConville, 2018). For this study, under elective accountability pressure, there are two factors (Shariah Supervisory Board and professionalism of religious knowledge) were chosen as a factor that influence Corporate *Zakah* Payment decision.

Proposed Framework

There are three independent variables which are leadership support, the stakeholder engagement and elective accountability while corporate *Zakah* payment decision is used as dependent variables.

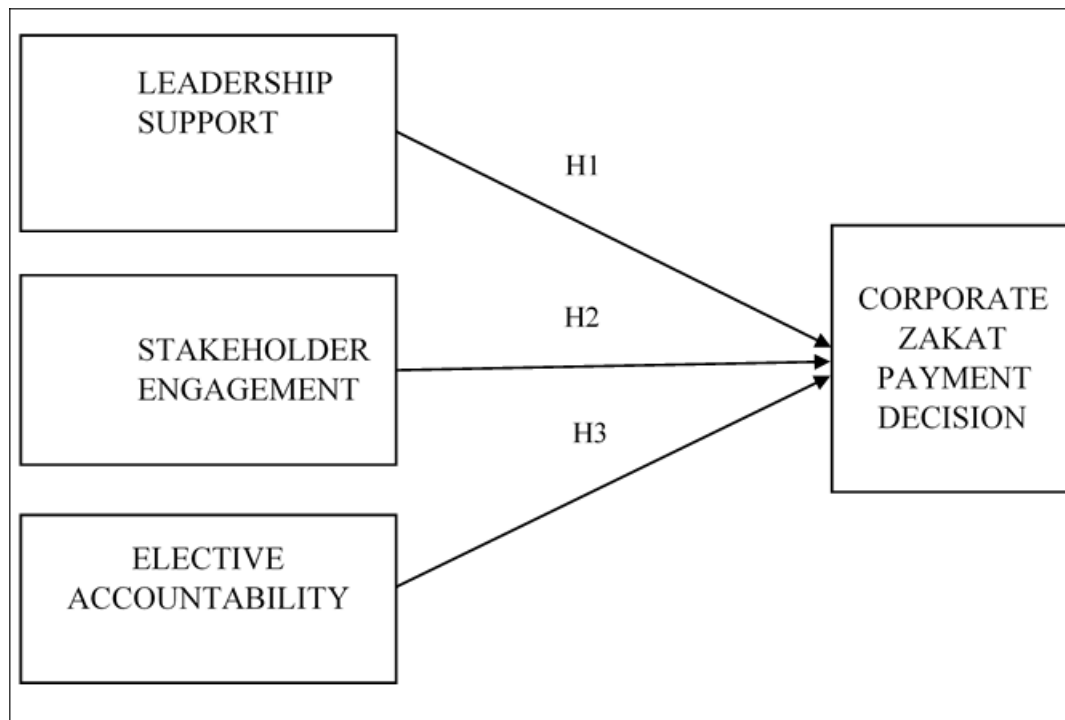


Figure 2.1 Proposed Framework

Hypothesis Development

H1: There is a positive relationship between leadership support and corporate *Zakah* payment decisions.

H2: There is a positive relationship between stakeholder engagement and corporate *Zakah* payment decisions.

H3: There is a positive relationship between elective accountability and corporate *Zakah* payment decisions.

Research Gap

The results of the literature study found that the topic on *Zakah* attracts many researchers, and the research is done on *Zakah* is various, whether in the context of *Zakah* worship, the role of *Zakah* on micro and macroeconomy, the role of *Zakah* in overcoming poverty, the contribution of *Zakah* to education, expansion of resources *Zakah*, contemporary *Zakah* calculation methods, accountability in *Zakah* management, *Zakah* financial management and various other scopes. Based on the literature review, the potential analysis of *Zakah* collection is still very low and needs to be enriched. In addition, the scope of the study of potential collection that has been held is different from the scope of this study where this study selects the segment of companies that sustain paying *Zakah* as the focus of the study is there any value to the company? The methodology of past studies is to use only certain assumptions and the results made are based on rough estimates and do not use the census method to the actual population. Past studies have used their own approach in identifying the difference between actual and potential quotations. Additionally, few studies have been conducted in

the business and corporate *Zakah* sector, especially when it comes to looking at the potential collection of *Zakah* in this sector and then understanding the collection gaps that exist in this segment.

There are only five studies that lead to the payment of *Zakah* by business entities and PLCs include Wahab and Borhan (2015); Arif et al (2011); Abdul Aziz et al (2014), but the focus of the study conducted by both on the internal and external factors of the company and measurement model of corporate *Zakah* collection in Malaysia: A test of diffusion of innovation theory" i.e., the percentage of Muslim directors, type of industry, company profits and company size. Immediately untouched by imposing accountability, elective accountability and management capability that show organizational decisions from a value-based perspective. Thus, a more comprehensive study including developing a framework of payment decision models by business entities is essential.

All previous studies on *Zakah* payment factors use direct effect assessment (direct effect) between factors and *Zakah* payment decision. Therefore, this study will examine the indirect effect by introducing the "trust" construct as a moderator on corporate *Zakah payment decision* decision. This exploration is important to expand the dimension of the study on the decision to pay *Zakah* on business by corporate.

Methodology

A correlation study was conducted to investigate the relationship between the variables in the research framework (Figure 2.1). Furthermore, a survey combined with a quantitative analysis method is the best methodology for this study. Because the goal of this study is to predict and explain the nature of the relationship between variables and to test the theory, a quantitative approach was chosen (Leedy & Ormrod, 2005). According to Creswell (2009), the quantitative approach is very useful for evaluating or verifying theories, identifying significant variables for future research, associating variables set by questions or hypotheses, and employing validity and reliability criteria as well as statistical processes. A survey method also provides a quick, efficient, and accurate way of assessing information about the population of interest. This method enables the researcher to collect data from geographically dispersed respondents.

Quantitative research is defined as "explaining phenomena by collecting numerical data that are analyzed using mathematically based methods (in particular statistics)" which is a method of describing phenomena by collecting numerical data and then analyzing it using basic mathematical methods or, more specifically, statistics. This study will consist of two phases, with the first phase aiming to understand the *zakat* payment scenario by corporate and chosen PLCs called Shariah-Compliant Companies in Malaysia, as well as to conduct an analysis of the *zakat* collection potential among Shariah-Compliant Companies segment in Malaysia. While the second phase entails a field study that will serve as the study's backbone in order to meet the first and second objectives of the study, namely identifying *zakat* payment factors, determining the impact of leadership support, stakeholder engagement and elective accountability, on *zakat* payment tendencies, and developing payment models *zakat* corporate payment decision.

Conclusion and Suggestion

Based on previous studies, there is established relationship between variables namely leadership support, stakeholder engagement, and elective accountability, which were suggested as driving factors for a corporate *Zakah* payment decision. These factors have their

own indicators, which are translated into the conceptual framework of the Corporate *Zakah* Payment Decision Model's value-based perspective, as shown in Figure 2.1. This conceptual framework is then translated into a theoretical model that is tailored to the empirical method approach. The framework of corporate *Zakah* payment decision very important towards recognition and implementation in increasing the number of business *zakah* payer in Malaysia as advocated by Syariah principles.

Suggestion

The study suggests that future research examines the variables to determine the relationship between variables as supported by previous studies. The use of quantitative analysis to investigate such links between factors for evaluating or verifying theories and employing validity and reliability criteria as well as statistical processes.

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