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The Role of Institutional Drivers in Corporate Zakat Implementation for CSR: A Study of Malaysian Corporations

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Abstract

Corporate Social Responsibility (CSR) is gaining popularity, and an increasing number of firms are dedicating extensive efforts and resources to strategically implement CSR initiatives. Companies have grown increasingly attentive to optimizing their resource allocation for maximum societal benefit resulting in sustainable CSR initiatives. In addition to their usual CSR initiatives, companies in Malaysia can leverage the use of Islamic social finance tools, such as corporate zakat, for their CSR efforts. Corporations are now started to assess their social performance by measuring the social impact of interventions, projects, and programs to assist them for evidence-based decision making and strategic resource allocation. The assessment of social performance is also needed for their zakat funded social initiatives to align with corporate's social mission and social legitimacy purposes. The current study utilizes institutional theory to comprehend the effectiveness of institutional drivers in influencing management's decision to allocate zakat funds for the sustainable zakat funded social initiatives. A questionnaire study was carried out on 96 corporate zakat payers at the Zakat Collection Centre, Federal Territories Islamic Religious Council (PPZ-MAIWP). The results suggest that CSR regulatory framework and tax incentives have a substantial impact on the decision to incorporate zakat into CSR as part of corporates' sustainability efforts. Therefore, the results of this study suggest that a consistent oversight from regulators through a robust regulatory framework and tax incentive will help Malaysian corporations fully utilize the corporate zakat fund to make significant contributions to society through sustainable zakat funded social initiatives.

Keywords

Corporate social responsibility, social performance, corporate zakat, CSR initiatives, zakat funded social initiatives

1.0 Introduction

Over the last few decades, concepts such as Corporate Social Responsibility (CSR) and sustainable development have gained attention in the business world and academia. CSR is seen as a business contribution to sustainable development. Companies in every sector are increasingly pressured to take more responsibility for their actions, operate socially and environmentally responsible (Porter & Kramer, 2011), and improve ethical business practices, processes, and actions (Kanji & Chopra, 2010). The shocking effects brought by the COVID-19 pandemic becomes imperatives that the social interventions are crucial to address societal challenges. Millions of people have gone into extreme poverty in different region of the planet. According to The World Bank (2020), extreme poverty increased considerably during the COVID-19 pandemic and global organizations urged the contribution by private sectors to help mitigating the adverse impact brought by the pandemic. Covid-19 pandemic offers great opportunities for companies

to actively engage with their CSR strategies and agendas (He & Harris, 2021, Crane & Matten, 2020).

It is estimated that an enormous amount of financing is required to combat the extreme poverty worldwide and realize the Sustainable Development Goals (SDGs). Within this context, the role of private investment became essential given that other funding sources for addressing the gaps in sustainable outcomes are also inadequate. In order to fill the gap in financing the sustainable social initiatives, Islamic social finance is one of the most notable instruments that claimed to be effective in providing social justice in the society. Islamic social finance applications are attributed by the SDGs and are gaining momentum through a resurgence of primary Islamic social instruments such as zakat to be implemented through collaboration and strategic deployment of capital (Mohamed, 2021). It is aimed to be used for social benefit that align with the social sustainability (Hassan et al., 2021). Further, both zakat as instrument of social well-being and CSR can play important role to pursue SDGs through zakat funded social initiatives (Hoque et al., 2022).

In Muslim countries such as Malaysia, Islamic organizations are governed by Islamic principles resulting in higher public expectations for their social contribution. Philanthropic activities such as CSR are rooted in a local culture and Islamic religion influence these activities (Rettab & Brik, 2009, Williams and Zinkin, 2010). Due to religious significance, Muslim business entrepreneurs will be highly committed to undertaking CSR initiatives that aligned with the Shari'ah using their zakat funds with a view to pursue SDGs. This is because Muslim business owners can perform both religious and social obligations simultaneously. Hence, the integration of zakat and CSR is an innovative move in assisting the function of private sector and specifically, corporate zakat payers towards social justice in the society. Corporate zakat plays a crucial role in the framework of the Islamic economic system and is extensively employed to fund economic growth, alleviate poverty, and address social inequity (Ismail et al., 2017). Corporate zakat is not solely a financial obligation. Instead, it encompasses a significant ethical and social aspect that is in line with the wider goals of CSR (Hoque, 2022). Corporate zakat can be considered as a win-win strategy to maximize returns and improve performance while considering the society as a whole (Javaid & Malkawi, 2018).

The distribution of corporate zakat for CSR is initiated by zakat institutions through innovative approach known as zakat *wakalah*. In Malaysia, the obligation to pay zakat includes individuals and corporate entities. They can pay zakat to state Islamic religious councils (SIRCs) or relevant state zakat institutions. Zakat management in Malaysia is under state jurisdiction. Zakat *wakalah* involves zakat institutions entrusting their mandatory charity to an agent who distributes it to qualified beneficiaries (*asnaf*) on their behalf (Amin, 2024). Here, *wakalah* refers to a basis for a zakat refund by the zakat institutions to entities (individuals, companies, employers and higher educational institutions) who pay zakat for redistribution to eligible *asnaf* (Abd Hamid et al., 2020). Zakat payers (*muzakki*) are entrusted in managing distribution of zakat with accountability and transparency as for corporate zakat payers, they could use the refund of zakat and channeled it for their social initiatives. This innovative approach increases the corporate zakat collection (Nor Paizin & Abd Aziz, 2021) and enhance the satisfaction of *muzakki* as they directly interact with beneficiaries in distributing zakat (Samir & Fadili, 2019). Zakat *wakalah* attract the corporate zakat payers because it can reduce the burden of companies to pay both zakat and tax to authorized bodies (Ahmad & Wahid, 2017). Malaysia provides for a tax rebate on zakat payment by individuals but only tax deduction on zakat payment by business. The tax deduction allowed is only up to a maximum 2.5 percent of the

aggregate income (Obaidullah, 2016). Business needs to pay zakat regardless of if the profits are earned or not because zakat is paid on working capital (Hamat, 2009). On the other hand, business tax is obligated to be paid by companies if there be any chargeable income (Awang & Mokhtar, 2011). Due to tax regulation imposed in Malaysia, businesses are inclined to allocate the zakat *wakalah* for social initiatives, because involvement in CSR can contribute to a good reputation in the eyes of stakeholders and the public (Abd Samad et al., 2015).

In addition, the approach of zakat *wakalah* encourage cross-sector collaboration among corporate zakat payers with zakat institutions for the delivery of sustainable zakat funded social initiatives (Paizin & Sharif, 2021). More companies are started to integrate zakat with CSR and zakat fund is used to finance a value-driven social initiatives to create long-term impacts. For example, Bank Islam Malaysia Berhad (BIMB) in 2019 received more than RM3.5 million in *zakat wakalah* for various CSR initiatives including economic empowerment program, microfinancing facilities and home financing for asnaf (BIMB Annual Report, 2019). Given the substantial expenditure allocated on Corporate Social Responsibility (CSR) and the growing global focus on impact investing for Islamic social finance, stakeholders are expressing concern about the impact of zakat. This is because the disclosure of information regarding the impact of zakat could potentially encourage corporate zakat payers to be more accountable (Samir & Fadili, 2019). Subsequently, the accountability aspects in zakat distribution contribute to a good image towards a corporate zakat payers. The lack of impact information on zakat distribution could affect the trust of the public and stakeholders because they are not able to assess the changes made to beneficiaries for every amount of zakat paid (Wahid et al., 2010, Kamaruddin, 2022). Hence, the social performance in terms of impact assessment of zakat funded social initiatives enable the stakeholders to understand the extend the zakat funded social initiatives have achieved their intended objectives, how they have influenced the lives of the beneficiaries and the overall societal changes they have brought about (Johari, 2023).

It is worth noting that in delivery of social initiatives, literatures highlighted the importance of government roles in providing a supportive regulatory mechanism, policies and incentives that could foster the impactful and value-driven social initiatives (Gond et al., 2012, Jouti et al., 2019, Kappen et al., 2019). According to institutional theory, organizations adapt to pressures in institutional environment to survive and maintain legitimacy (DiMaggio & Powell, 1983). Campbell (2007) asserted differences in CSR practices can be explained through the institutional environment of each country including laws and regulations. The dynamic of institutional environment affects organizational practices of sustainability including CSR (Pinheiro et al., 2021, Halme et al., 2018). Corporations are more likely to act in socially responsible by the creation of strong regulations and policies supporting CSR initiatives (Filha et al., 2022, Matten & Moon, 2008) and pressure from stakeholders such as customers and NGOs (Campbell, 2007). In the context of corporate zakat in Malaysia, paying zakat is treated as voluntary although it is a religious obligation for companies who complete the fulfilment according to Shari'ah. Despite the business zakat guidelines provided by zakat agencies such as Department of Awqaf, Zakat and Hajj (JAWHAR), there is no legal enforcement by any government agencies to ensure that companies that are liable to fulfil their zakat obligations (Abd Samad et al., 2015).

In contrast, Malaysia government imposed a regulation pertaining to CSR practices for public listed companies. It was started in 2006 when the Prime Minister of Malaysia announced all public listed companies to reveal evidence of their CSR. Subsequently, Bursa Malaysia issued CSR framework in 2007

for all listed companies to identify CSR activities covering four areas; environment, workplace, community and marketplace. Further, Bursa Malaysia issued Sustainability Reporting Guideline in 2015 to extent the CSR efforts and properly guide Malaysian public listed companies in committing and practicing sustainability including the impact on economic, environmental and social sustainability. Another regulatory framework to strengthen the social initiatives with Islamic finance is issuance of a Strategy Paper by Bank Negara Malaysia known as Value Based Intermediation (VBI): Strengthening the Roles and Impact of Islamic Finance in July 2017. the Strategy Paper enlighten the CSR activities from traditional philanthropic activities towards value-based initiatives that create sustainable outcomes and impact. There is growing coercive pressure for companies to treat corporate *zakat* as a sustainable source of financing thus, demanding that every CSR initiative should deliver both impactful social outcomes and higher transparency.

Although there have been numerous studies on CSR in Malaysia, most of them have focused on evaluating the effectiveness of CSR disclosure, examining perceptions of CSR, developing CSR reporting frameworks, and comparing Malaysia's CSR practices with those of other nations. The integration of zakat and CSR has attracted studies to investigate the impact of zakat to the financial performance (Rosman, 2019) and the practice of zakat distribution for Islamic financial institutions (Zaaba & Hassan, 2022, Abd Samad et al., 2015). Additionally, studies have started to examine how zakat could contribute to SDGs, without really investigate the factors contributing to the social impact performance of zakat funded social initiatives (Bahri et al., 2023, Ismail et al., 2023, Engku Abd Rahman et al., 2023, Abd Wahab et al., 2022, Osmera et al., 2021, Abu Bakar & Md Yusof, 2014). Most of studies focus mainly on single organization with adaptation of qualitative approach. This study addresses the gap in previous literature by shedding light on how institutional drivers such as CSR regulatory framework and tax incentives influences the corporate social performance of zakat funded social initiatives. This paper is organized as follows. Section 2.0 explain the literature review and hypotheses development followed with section 3.0 on research methodology undertaken for this study. Section 4.0 discuss the results and discussions and finally, the conclusion is addressed in section 5.0.

2.0 Literature Review and Hypotheses Development

2.1 Corporate Social Responsibility (CSR) and Corporate Zakat

CSR has always been described as an organization's obligation to benefit society in ways that go beyond the primary business objective of maximizing profit. The concern on contribution of CSR towards society has initiated by Bowen (1953) where he described CSR as "the obligation of businessmen to pursue those policies, to make those decisions or to follow those lines of action which are desirable in terms of the objectives and value of our society". Today, the concept of shared value has been widely accepted in business practice to transforming the business model for sustainable development. Porter & Kramer (2011) asserted that by identifying social issues that coincide with their core business, companies can determine which social issues to address and create shared value that is meaningful for both society and business. In 2011, the European Commission has incorporated the elements of shared value and impact of CSR to the society where CSR is generally defined as "the responsibility of enterprises for their impact on society [...]. To fully meet their CSR, enterprises should have in place a process to integrate social, environmental, ethical, human rights and consumer concerns into their business operations and core strategy in close collaboration with their stakeholders, with the aim of maximizing the creation of shared value for their owners or shareholders and for their stakeholders and society at large [and of] identifying,

preventing and mitigating their possible adverse impacts” (European Commission, 2011).

CSR initiatives take many forms including charitable donations, employee volunteering and initiatives that promote sustainable business practices such as poverty alleviation, people empowerment, quality education, access to good healthcare and infrastructure development for the vulnerable group in the society. CSR initiatives are effective ways for companies to demonstrate their commitment to create a positive impact in the communities they operate in. Adopting a strategic approach to CSR, business resources are invested to produce both financial and non-financial value. Hence, managers must strategically allocate financial resources to implement CSR initiatives and pursue corporate social performance (CSP). Measuring the social performance and impact of initiatives is vital for companies to achieve the greatest good possible with their resources. Therefore, firms allocated resources for CSR for various reasons, but the major reason as highlighted in the literature is to enhance financial performance. Previous studies addressed the impact of CSR on financial performance, but the results are always inconsistent (Orlitzky et al., 2003, Margolis & Walsh, 2003).

In relation to zakat and CSR, few studies attempted to investigate the extent of zakat to the financial performance. Javaid & Malkawi (2018) examined the impact of zakat and CSR on financial performance of Saudi Arabian companies. Their study measured financial performance using profitability and firm values. Their study found that using zakat as a proxy of CSR has a positive impact on corporate financial performance. Similar findings are reported by Rosman (2019) in Malaysian Islamic banks. Using return of asset, return of equity and operating profit as a measurement for financial performance, the study contended that CSR through zakat payment will encourage Islamic banks to focus on their social obligations to improve financial performance. These studies provide the understanding in the context of Islamic developing countries that using zakat for CSR could enhance the firm’s value and motivating companies in fulfilling their social obligations especially where zakat law is voluntary to foster their zakat funded social initiatives towards a better corporate financial performance.

The involvement of companies in zakat funded social initiatives is also contributed by non-financial benefits of CSR. Other than profit maximization objectives, engaging in strategic CSR practices or value-driven initiatives can bring competitive advantage (Porter & Kramer, 2011). Engagement in CSR is associated with a firm to be seen as a good corporate citizen and social license to operate (Kowszky & Vanclay, 2021). Through involvement in CSR, companies are seen as contributing to the society, and will receive support from the communities in which they operate. As a result, they are able to develop a positive image for the government that will provide continuous support for their business operations and create a good perception for customers to buy their products.

Despite the various motives and benefits of CSR, scholars have expressed their concerns regarding the impact of CSR on society. With large amount of money involved for social initiatives, debate surrounds on the impact of CSR on both the giving business and the receiving society (Liket and Maas, 2016). In fact, CSP should shift from business centric to society centric (Wickert, 2021). Scholars have proposed the application of logic chain model to measure and monitor the performance of social initiatives (Ebrahim & Rangan, 2014, Barnett et al., 2020). Moreover, logic chain model is used in the social sector to explain how specific social interventions create outputs, outcomes and impacts to understand the difference that investment will make (Ebrahim & Rangan, 2014). Currently, the logic chain model is proposed as a

method to evaluate the social impact of social initiatives towards value-based creation as mentioned in the VBI Strategy Paper by BNM. The new shift requires support from institutional environments such as government in shaping the policy and regulation that can give a clear direction for companies in application of value-based propositions in their corporate policies.

2.2 Hypotheses development

2.2.1 CSR Regulatory Framework

Law and regulations play an important role in facilitating the corporation's engagement with the state as well as its key stakeholders (Campbell, 2007). Iannou & Serafaim (2012) studied the CSP for 40 countries consisting of developed and developing countries. Their study found that when CSR regulations encourage competition between firms, it will decrease the CSP. However, if CSR regulations protect the interest of stakeholders, it could enhance the CSP. Malaysia has mandatory CSR requirements by Bursa Malaysia where public listed companies are required to describe any CSR activities they have undertaken, or if they have none to provide a statement in their annual report. Bursa Malaysia is empowered to take enforcement actions for any contraventions of the listing requirements.

In addition, Iannou & Serafaim (2017) provide evidence that countries with mandatory CSR regulation have a better CSP and companies implement ethical business conduct, reduce bribery and corruption and increase managerial capability. This is because mandatory CSR regulations create awareness among top management to strategically manage their CSR. The difference on how institutional drivers in each country influence the CSP is also explained by Ernstberger, Maniora & Schramm (2021). Their studies investigated CSR regulations in 24 countries and demonstrated that CSR regulations is stronger if it is issued by the government than those issued by stock exchanges. The regulations are stronger required standalone CSR reports than those requiring other formats.

Another studies by Khan, Jose & John (2019) in banking institutions in Bangladesh found that Islamic bank embrace CSR practices to follow the regulatory guidelines issued by the central bank. Bangladesh Bank initiated guidelines for CSR practices in 2008 and require commercial banks focus on CSR activities and incorporate responsible activities in their operations. However, Khan, Jose & John (2019) also indicate that despite the banking industry is treated as highly regulated, banks bypassing regulatory guidelines and dress up reported CSR information when responding to demand from powerful stakeholders.

On the other hand, Meskovic et al., (2024) investigated the effect of CSR regulatory framework on CSP of 40 Islamic banks in 13 countries. They documented that CSR regulatory framework related to Islamic finance have a significant positive impact on the social performance of the Islamic banks. Islamic banks often enhance their credibility by engaging in socially responsible activities, as mandated by regulations. Their studies suggested that Islamic finance regulation playing a significant role in enhancing their social impact. Therefore, this study proposes that the CSR regulations could foster zakat funded social initiatives practices towards sustainability and impact driven social initiatives, which enhance the corporate social performance of zakat funded social initiatives. The hypothesis of the study is formulated as follows:

H1: CSR regulatory framework has a significant influence on corporate social performance of zakat funded social initiatives.

2.2.2 Tax incentives

Taxation presents an important tool for government intervention in the economic and social development of countries. Tax incentive can be defined as reduction in the tax burden generally attributed to any taxable activity (Kacem & Omri, 2021). The government uses tax policies with the aim of creating employment, encouraging specific sectors or stimulating community actions. To encourage companies and organizations in Malaysia to pay zakat to zakat institutions, government has provided incentives include zakat deduction and tax rebates to encourage Muslim business community to comply with zakat payment (Khamis, Abdullah, & Noranee, 2016, Obaidullah, 2016). The purpose of these incentives is to reduce financial burden faced by the Muslim business community. Malaysian government provides tax rebate on zakat payment by individuals while tax deduction on zakat payment by businesses. The organizations paying zakat are allowed for deductions on zakat payment and should not exceed 2.5 percent of the aggregate income. Abdul Wahab & Borhan (2016) claimed that tax incentive is essential to encourage positive attitude among corporate zakat payers. According to Obaidullah (2016), the Malaysian Inland Revenue Board will reduce the amount of tax payable when zakat is paid during the year of assessment with the condition that the zakat must be paid to approved zakat institutions. However, Khamis et al., (2016) provides evidence that SME entrepreneurs do not comply with paying corporate zakat and they are not influenced by government incentives in their decision making. The incentives like tax deduction are not much benefit since they still need to pay business tax as responsible citizens.

Meanwhile, a study by R. M. Noor, Nik Mohd Rashid, & Mastuki (2011) on disclosure of zakat and tax reporting discovered low compliance of zakat disclosure among Shari'ah companies listed on Bursa Malaysia. Their study asserted the inefficiency and ineffectiveness of the present conventional tax system that may discourage companies from paying zakat. In 2006, the Malaysian government introduced a 7% ceiling tax rebate in all the CSR efforts as one incentive to encourage corporates' involvement with CSR practices (Lu & Castka, 2009). Wan Jusoh & Ibrahim (2020) found that the tax deduction on CSR activities is not the primary motivating factor for Islamic banks in Malaysia to adopt CSR practices. Instead, the legitimacy purposes of promoting corporate image are the main factors influencing Islamic banks to engage in CSR practices. Similarly, Kacem & Omri (2021) revealed a significant negative association between CSR practices and tax incentives for CSR among Tunisian companies.

A study by Benito-Hernandez et al., (2021) in manufacturing firms in Spain provide contradicting findings. Their study found that tax incentives positively influence the firm's commitment to a proactive environmental strategy. This study posits that the tax incentive offered by the government for companies on CSR and zakat will influence the corporate social performance of zakat-funded social initiatives. Although there is weak law enforcement by regulatory authorities on corporate zakat payment (Obaidullah, 2016, Abd Samad et al., 2015), this study argues the existence of tax initiatives on tax and CSR has coerced the companies in Malaysia to pay zakat to zakat institutions. Consequently, they use the zakat refund to fund their corporate social mission through their social initiatives. Based on these arguments, the following hypotheses was developed:

H2: Tax incentive has a significant influence on the corporate social performance of zakat-funded social initiatives.

Figure 1 demonstrated the conceptual framework developed for this study.

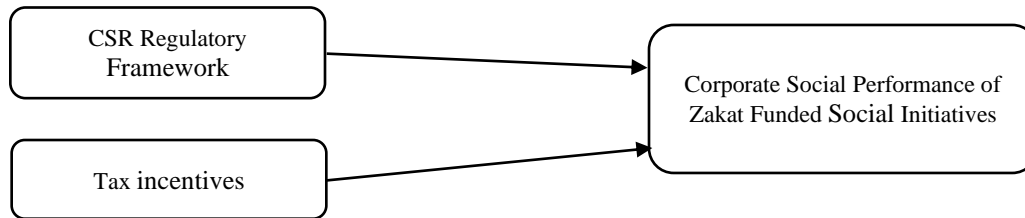


Figure 1: Conceptual Framework

3.0 Methods

3.1 Sample

This study adopts a quantitative research design to obtain participants' opinion whether CSR regulatory framework and tax incentive influence corporate social performance of zakat funded social initiatives. Data is gathered through a questionnaire survey distributed to the person in charge of managing corporate zakat in the organizations. The organizations selected in this study are the corporate zakat payers paid zakat in 2020 and applied for wakalah zakat refund from Pusat Pungutan Zakat, Majlis Agama Islam Wilayah Persekutuan (PPZ-MAIWP). From the lists of corporate zakat payers, it can be grouped into three categories: public companies (Bhd), private companies (Sdn Bhd) and cooperatives. From 314 total populations, 250 organizations were selected using stratified random sampling which consists of 91 public limited companies, 121 private companies and 38 cooperatives. Stratified random sampling is applied in this study, where all respondents in the population have a chance to be selected.

Data for this study were collected from January to May 2022. The questionnaire through Google Forms was e-mailed after telephone contact was made to obtain the names and e-mail address of the department managers responsible in managing corporate zakat and CSR program. A cover letter was attached to inform the importance of the survey and confidential nature of the study by ensuring anonymity. After multiple sessions of follow-up, only a total of 96 questionnaires were returned and valid for the analysis. A sample size which is larger than 30 and smaller than 500 is considered to be appropriate (Sekaran & Bougie, 2016).

3.2 Variables Measurement and Questionnaire Design

Based on the adopted approach, the researchers developed a questionnaire, having consulted relevant literature, to gather the required data from the participants. The survey instruments used in the present study comprised three parts. Part A contained demographic questions of the respondents and organizations. Part A used nominal scale to assess the demographic data of the organizations. Part B questions pertaining to institutional factors influencing corporate decision on the social performance of zakat-funded social initiatives. Part B consists of two variables, tax incentive and CSR regulatory framework with a total of 8 items measured using five-point Likert scale anchored by "strongly disagree" (1) to "strongly agree" (5) with "not sure" (3) as middle point. Part C sought information on the corporate social performance of zakat-funded social initiatives. Building from enhanced framework of social performance in social sectors, this items for part C were adapted from literatures using logic chain model to assess the social performance of zakat funded social initiatives. The items from previous literature were modified to suit the research context. The items for corporate social performance consist of 7 dimensions; input, capacity, output,

outcome, public value, network and legitimacy. A total of 30 items were constructed and measured using the seven-point Likert scale anchored by "strongly disagree" (1) to "strongly agree" (7) with "not sure" (4) as middle point. Table 1 provides a summary of the items of each part in the questionnaire.

Table 1: Summary of items in the survey instruments

Variables	Code	No of items	Sources
Tax incentive	TI	4	Mohd Khamis et al., (2016) and Mohd Noor et al., (2011)
CSR Regulatory Framework	REG	4	Syed Azman & Engku Ali (2019) and Arshad et al., (2021)
Corporate Social Performance of Zakat Funded Social Initiatives	CSP	30	Lee & Nowell (2015), Ebrahim & Rangan (2014)

The data was statistically analysed using descriptive statistics and OLS regression to examine the influence of CSR regulatory framework in the extent of corporate social performance of zakat funded social initiatives. This study used firm size as a control variable measured by number of employees. The OLS regression model used follows:

$$CSP = \alpha + \beta_1REG + \beta_2TI + \beta_3SIZE + \varepsilon$$

4.0 Results and Discussion

4.1 Descriptive analysis

The demographic information for the respondents is shown in Table 1. The respondents' position within the company indicates that the respondents are competent to respond to the questions in the survey instrument. 69.8% of the respondents hold managerial positions and 30.2% are Assistant Manager and Senior Executives who actively manage corporate zakat in their organizations. The respondents represent various departments ranging from Shari'ah Department, Islamic Social Finance Department, CSR and Sustainability Department, Zakat and Waqf Department and Corporate Communication Department. The demographic information for the organizations is shown in Table 2.

Table 2: Descriptive Statistics on Demographic of the Corporate Zakat Payers

		Frequency	Percentage
Company type	Cooperatives	18	18.8
	Public limited (Bhd)	36	37.5
	Private limited (Sdn Bhd)	42	43.8
Industry	Construction	3	3.1
	Consumer products and services	22	22.9
	Energy	4	4.2
	Financial services	22	22.9
	Healthcare	6	6.3
	Industrial product and services	2	2.1
	Plantation	6	6.3
	Property	6	6.3
	Real estate investment	3	3.1
	Technology	5	5.2
	Telecommunications and media	5	5.2

	Transportation and logistics	7	7.3
	Utilities	5	5.2
Years of operation	Less than 10 years	9	9.4
	11 – 20 years	27	28.1
	More than 20 years	60	62.5
Number of employees	100 and below	17	17.7
	101 - 200	7	7.3
	201 - 300	11	11.5
	301 - 400	9	9.3
	401 - 500	11	11.5
	500 and above	41	42.7

4.2 Reliability Analysis

To measure the internal consistency of the items in the questionnaire, a reliability test using Cronbach's Alpha was conducted on all the independent and dependent variables. The value of Cronbach's alpha measures the internal consistency and in an exploratory study, value of 0.60 to 0.70 is deemed an acceptable level (Hair et al., 2023). The result of the reliability analysis is presented in Table 3. The analysis yielded a Cronbach's alpha coefficient value more than 0.6 for all constructs as shown in Table 4. As the values of Cronbach's alpha were satisfactory, the study preceded its data analysis with regression analysis.

Table 3: Reliability analysis

Reliability coefficients	Cronbach's alpha	No of items
CSR regulatory framework (REG)	0.956	4
Tax incentive	0.661	4
Corporate social performance of zakat funded social initiatives	0.944	30

4.3 Correlation Analysis

A correlation test was used to check for multicollinearity problems that might occur between the variables. If the correlation among variables is higher than 0.70, one of the variables should be omitted due to occurrence of singularity (Pallant, 2020). Singularity arises when an independent variable is found to be combination of other variables. Hence, this condition will cause multicollinearity issues to the analysis. Table 4 shows a summary of bivariate analysis performed to test the correlation between variables. Given the result was less than 0.70, no multicollinearity problem exists in the datasets. The result depicts that CSR regulatory framework and tax incentive are significantly related to corporate social performance of zakat-funded social initiatives. The results indicate a significant relationship with all the tested variables.

Table 4: Pearson Correlation analysis

	Corporate Social Performance	CSR regulatory framework	Tax incentives
Corporate social performance of zakat funded social initiatives	1.000		
CSR regulatory framework	0.291**	1.000	
Tax incentives	0.197*	0.170	1.000

**Correlation is significant at the 0.01 level (2-tailed)

*Correlation is significant at the 0.05 level (2-tailed)

4.4 Regression Analysis

The results of a multiple regression analysis are presented in Table 5. The results produce an F statistic of 5.054 and an adjusted R² of 0.108, while the p-value is significant at the 0.01 level. The adjusted R² was valued at 0.155 implies that the regression model was able to explain 10.8% of the extant of corporate social performance of zakat funded social initiatives. R² values should be equal to or greater than 0.10 in order for the variance explained of a particular dependent endogenous construct (dependent variables) (Falk & Miller, 1992). This score of adjusted R² is considered reasonable for social science and CSR related studies in developing countries like Malaysia. Mohanadas, Abdullah Salim, & Pheng (2020) and Yusoff, Ahman, & Darus (2019) registered R² values of 0.174 and 0.107 respectively. CSR regulatory framework and tax incentives were found to have significant positive relationships with the corporate social performance of zakat funded social initiatives. Meanwhile, firm size is found not significant with corporate social performance of zakat funded social initiatives. Overall, the results supported all the hypotheses developed for the study. This study provides evidence to support Institutional Theory in which firms respond to the external coercive pressure in their CSR practices.

Table 5: Regression analysis

Variables	Standardised coefficients	Standard error	t-value	p-value
CSR regulatory framework	0.259	0.053	2.958	0.004**
Tax incentive	0.149	0.132	1.727	0.087*
Firm size	0.033	0.029	0.382	0.703

F-value = 5.054, Significance at 0.001

***Significance at 0.01 level (two-tailed test)

*Significance at 0.10 (two-tailed test)

R = 0.329

R² (Adjusted R²) = 0.108 (0.087)

5.0 Conclusion

This study seeks to ascertain the relationship between the institutional drivers imposed by regulatory authorities as an effective mechanism to enhance the corporate social performance of zakat-funded social initiatives among corporate zakat payers. The results provide a strong support for the relationship between CSR regulatory framework and tax incentive and corporate social performance of zakat funded social initiatives. It indicates that the government's effort in promoting CSR in their policies in the form of CSR regulations and tax incentives motivated companies to actively engage in CSR and play their role in contributing back to the community through their zakat-funded social initiatives. This study suggests on the needs for regulators in Malaysia to formulate the Islamic CSR framework which is currently absence. The framework could provide clearer guidance in terms of management and reporting of sustainable CSR

initiatives. The tax incentives could be improved to avoid the business from having to pay dual payment; zakat and tax. Nevertheless, the study is not without limitations. The sample size of the study is merely focusing on the corporate zakat payers in Federal Territory. The future research could expand to corporate zakat payers in other states in Malaysia.

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Tarikh : 20 Januari 2023

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