

**UNIVERSITI TEKNOLOGI MARA**

**THE INFLUENCE OF  
INSTITUTIONAL COERCIVE  
PRESSURES AND SOCIAL  
CAPABILITIES ON CORPORATE  
SOCIAL PERFORMANCE OF  
ZAKAT-FUNDED SOCIAL  
INITIATIVES**

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## ABSTRACT

Corporate zakat has emerged as a significant mechanism for the private sector to support social initiatives in line with Shari'ah principles. The distribution of zakat for social initiatives demonstrates a form of social performance where companies fulfill both their religious obligation and their role in promoting social welfare. Building on this foundation, corporate zakat also contributes to broader global agendas such as the Sustainable Development Goals (SDGs), particularly in reducing inequality, alleviating poverty, and promoting inclusive economic growth. Within the framework of Corporate Social Responsibility (CSR), zakat complements other forms of social investment, such as impact investing and blended finance, by mobilising resources from the private to the social sector to create both economic and social impact. However, there has been little research on the factors influencing corporate zakat payers to enhance the corporate social performance of zakat-funded social initiatives. Drawing on two theoretical lenses, Institutional Theory and Social Resource Based View (SRBV) Theory, this study examines the influence of institutional coercive pressures (government support, tax incentive, CSR regulatory framework and the role of zakat institutions) and social capabilities (mission statement, top management commitment, stakeholder engagement, cross-sector collaboration and social innovation) on the corporate social performance of zakat-funded social initiatives. The corporate zakat payers in the Federal Territories of Malaysia and the state of Kedah are selected due to the proactive approaches between zakat institutions in these regions and the private sector in implementing zakat-funded social initiatives. A quantitative approach was conducted using a set of questionnaires distributed to the company representatives responsible for corporate zakat management. The research model was further analysed using the Partial Least Squares-Structural Equation Modeling (PLS-SEM) technique. The finding indicates that institutional coercive pressures (government support, tax incentives, CSR regulatory framework and the role of zakat institutions) have no significant influence on the corporate social performance of zakat-funded social initiatives, contradicting the Institutional Theory argument that the institutional environment shapes the CSR conduct of companies. Instead, one of the institutional coercive pressures, which is the role of zakat institutions is found to significantly influence the corporate social performance of zakat-funded social initiatives when there is existence of zakat CSR committee as moderating variable. Meanwhile, the finding shows that some social capabilities (top management commitment, cross-sector collaboration, social innovation) have a significant relationship with the corporate social performance of zakat-funded social initiatives, which is consistent with SRBV Theory, which asserts that companies need social capabilities to enhance their social initiatives and achieve a competitive advantage. In addition, zakat CSR policy significantly mediates the relationship of one of the social capabilities, which is mission statement with the corporate social performance of zakat-funded social initiatives. This study has several significant implications. The finding offers guidance for zakat institutions to promote the participation of corporate zakat payers in zakat-funded social initiatives via value-based propositions that correspond with the VBI approach. It is also relevant for regulators in strengthening existing regulations and policies to mainstream the Islamic social finance impact measurement, particularly corporate zakat in Malaysia. Furthermore, the finding offers insight for corporate zakat payers to utilise the mechanism of zakat *wakalah* in order to strategize their zakat-funded social initiatives.

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# CHAPTER 1

## INTRODUCTION

### 1.1 Preamble

The role of business in sustainable development has typically been discussed in terms of its responsibility to society. The private sector, or profit sector, is not merely a self-serving, profit-generating business. The actions of business entities are also essential to the economy, community, and environment in which they operate. Nevertheless, the COVID-19 pandemic has presented significant opportunities for companies to proactively engage in various Corporate Social Responsibility (CSR) activities despite the financial strains caused by the outbreak and mounting pressure for survival (He & Harris, 2020). Companies have begun to recognise that their long-term sustainability relies on attaining mutually beneficial social and economic values, a concept known as shared value (Porter & Kramer, 2011). The review of CSR development revealed that CSR has evolved from generating profit to encompassing a broader range of responsibilities, including the creation of shared value (Latapí Agudelo et al., 2019). The concept of shared value has transitioned CSR from traditional philanthropy towards a strategically oriented approach, and CSR has become integral to a company's core strategic positioning (Yang & Yan, 2020; Wójcik, 2016; Porter & Kramer, 2011).

Meanwhile, social finance has emerged as a concept to explain capital allocated to all projects or organisations with a strategic priority to achieve social outcomes and impacts (Moore et al., 2012; A. Nicholls, 2010, 2021). With the magnitude of socio-economic challenges brought on by the COVID-19 pandemic, there is limited government funding to finance the operations of social organisations. Hence, the private sector has been called upon to take on a responsibility to play a key role in mobilising its resources to the social sector. The financing needs of social organisations have increased the demand for CSR to incorporate social finance into their social initiatives. While companies continue to innovate and expand their CSR efforts, they collaborate with governments, Non-Profit Organisations (NPOs), and local communities to find the most effective ways to drive meaningful change in the targeted communities and align their CSR strategies with the Sustainable Development Goals (SDGs).