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INSTITUTIONAL DETERMINANTS OF CORPORATE ZAKAT PAYMENT: THE ROLE OF INTERORGANIZATIONAL TRUST, TRANSACTION COST THEORY, AND LEADERSHIP IN KELANTAN

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Abstract: *Zakat is a cornerstone of Islamic socio-economic justice, yet corporate zakat compliance in Malaysia remains paradoxically low compared to individual contributions. This study addresses a critical fiscal gap in the state of Kelantan, where despite a thriving ecosystem of Shariah-compliant enterprises, corporate zakat constituted a mere 18% of total collections in 2025. Such systemic underperformance paralyzes regional poverty alleviation initiatives and highlights profound institutional frictions. Moving beyond traditional socio-psychological paradigms that focus primarily on individual taxpayers, this research pioneers a macro-level investigation into the institutional determinants of corporate compliance. Grounded in Transaction Cost Theory (TCT), this study conceptualizes how governance mechanisms, ethical institutional climates, and transparent communication technologies cultivate interorganizational trust, thereby minimizing behavioral uncertainties and transaction costs. Furthermore, it uniquely evaluates the moderating, catalytic role of internal organizational leadership in overriding external administrative frictions. Employing a quantitative deductive methodology, cross-sectional survey data will be purposively collected from Public (Berhad) and Private (Sdn Bhd) limited companies in Kelantan, and rigorously analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM). The anticipated empirical insights will offer a paradigm shift—proposing an Islamically anchored, transaction cost-efficient framework of interorganizational trust. Practically, this research arms policymakers and the Majlis Agama Islam dan Adat Istiadat Melayu Kelantan (MAIK) with strategic imperatives to dismantle bureaucratic barriers, foster unshakeable corporate trust, and unlock the true fiscal potential of corporate zakat for sustainable economic empowerment.*

Keywords: *Corporate Zakat Payment, Interorganizational Trust, Transaction Cost Theory, Leadership, Governance, Kelantan.*

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Introduction

Zakat is universally recognized as a foundational pillar of Islam, meticulously designed to ensure equitable wealth distribution, socio-economic justice, and the spiritual purification of wealth (Al-Qardawi, 1999). It acts as a divine fiscal tool aimed at bridging the gap between the affluent and the marginalized. Over the past decades, Malaysia has established a robust, highly institutionalized framework for zakat collection and distribution, primarily managed at the state level by respective Islamic Religious Councils. However, despite the modernization of these institutions, a significant and persistent dichotomy exists between individual and corporate zakat compliance.

While individual zakat contributions (such as zakat fitrah and zakat on personal income) have consistently surged due to aggressive awareness campaigns and salary deduction schemes, corporate zakat (zakat perniagaan) continues to drastically underperform against its projected fiscal capacity (Muhammad, 2021). Corporations, by virtue of their substantial capital and revenue generation, possess the highest potential to significantly boost zakat funds. Yet, the realization of this potential remains stunted.

This disparity is glaringly evident in the state of Kelantan. Despite possessing a dense ecosystem of Shariah-compliant enterprises, vibrant Muslim-owned business networks, and a population deeply rooted in Islamic values, corporate zakat contributions accounted for merely 18% of the total zakat revenue collected by the Majlis Agama Islam dan Adat Istiadat Melayu Kelantan (MAIK) in 2025. This suppression in corporate compliance is not merely an administrative failure; it deprives the state of critical funds necessary for large-scale, sustainable poverty alleviation and socio-economic empowerment programs (Embong et al., 2013).

Understanding corporate zakat compliance requires a departure from individual behavioral models. Corporate entities operate differently from individuals; their interactions with zakat institutions are heavily dictated by institutional frictions, information asymmetries, board consensus, and behavioral uncertainties (Ghazali et al., 2020). When corporations interact with institutional collectors, they incur 'transaction costs'—which include the effort to understand complex fatwas, the bureaucratic processes of payment, and the uncertainty regarding how their funds will be distributed. Consequently, this paper investigates the institutional determinants of corporate zakat compliance in Kelantan by grounding the research in Transaction Cost Theory (TCT). The core objective is to uncover how interorganizational trust, driven by governance, ethical climate, and technology, can mitigate these transaction costs, and how internal leadership moderates this relationship.

Literature Review and Theoretical Framework

Transaction Cost Theory (TCT) and Corporate Zakat

Transaction Cost Theory (TCT), pioneered by Williamson (1981), posits that organizations inherently seek to minimize the costs associated with participating in any institutional or economic exchange. In the traditional economic sense, transaction costs involve drafting, negotiating, and safeguarding an agreement. Translated into the context of zakat administration, transaction costs refer to the time, effort, administrative burden, bureaucratic friction, and information asymmetries that corporations experience when assessing, calculating, and remitting zakat to statutory authorities (Dyer & Chu, 2003).

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High transaction costs create 'behavioral uncertainties' that act as significant disincentives for corporate compliance. When corporations perceive the zakat payment process as opaque, highly bureaucratic, or lacking in post-payment reporting, their perceived transaction costs escalate. They are forced to expend resources to verify whether their contributions are effectively reaching the asnaf (beneficiaries). According to Zaenal et al. (2024), when trust is absent, the perceived risk and cost of compliance drop significantly, leading corporations to either delay payments, under-report taxable assets, or distribute zakat directly to beneficiaries (informal distribution), bypassing MAIK entirely.

Interorganizational Trust as a Mediator

To counteract high transaction costs, interorganizational trust acts as a vital buffering mechanism. Trust diminishes the need for complex monitoring and reduces behavioral uncertainty between the corporate payer and the zakat institution (Isa, 2019). This study hypothesizes three core structural configurations that drive interorganizational trust between corporations and MAIK:

Firstly, Robust Governance Mechanisms. Corporate boards are highly sensitive to how funds are managed. Transparent auditing, clear standard operating procedures, and accountability mechanisms within MAIK signal reliability (Norazlina & Abdul Rahim, 2011). When governance is strong, corporations trust that their funds are immune to mismanagement.

Secondly, an Ethical Institutional Climate. The perceived moral integrity of the zakat institution's personnel plays a crucial role. A culture rooted in Islamic ethics (Akhlaq) reassures corporate entities that the institution operates purely on divine mandates rather than bureaucratic self-interest (Ram Al Jaffri & Roszaini, 2014).

Thirdly, Trust in Communication Technology infrastructures. In the digital age, the efficiency of payment gateways, online calculation tools, and digital reporting dashboards significantly lowers the friction of compliance (Zaidi et al., 2019). A seamless technological interface signals institutional competence, thereby fostering trust.

The Moderating Role of Organizational Leadership

While external institutional factors (governance, ethics, technology) shape the environment, internal organizational dynamics are equally critical in the decision-making process. The payment of corporate zakat requires approval from the Board of Directors and top management. Therefore, Organizational leadership—specifically the ethical and religious orientation of the leadership team—serves as a conditional catalyst (Tajuddin et al., 2021).

Transformational and Islamically grounded leadership can mitigate perceived external institutional frictions. Leaders with a strong commitment to corporate social responsibility (CSR) and Islamic accountability are more likely to champion zakat compliance, fostering a pro-zakat corporate culture that overrides administrative hurdles.

Methodology

This study adopts a quantitative, deductive research design aimed at rigorous hypothesis testing. A structured cross-sectional survey will be utilized for primary data collection. The target population consists of registered corporate entities and businesses operating within the state of Kelantan.

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Purposive sampling will be employed to select Public Limited (Berhad) and Private Limited (Sdn Bhd) companies. This ensures that the sample accurately represents established corporate entities that possess the financial capacity and structural mandate to pay corporate zakat, as opposed to sole proprietorships whose zakat behaviors closely mirror individual taxpayers.
The survey instrument will be adapted from validated scales in prior literature, measured on a 5-point Likert scale. Data will be analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) via SmartPLS software. PLS-SEM is particularly suited for this research as it robustly evaluates complex predictive models encompassing multiple direct paths, mediation (interorganizational trust), and interaction effects (moderating role of leadership) without requiring strict assumptions of data normality (Hair et al., 2021; Henseler et al., 2015). The analysis will proceed in two stages: assessing the measurement model (reliability and validity) and the structural model (hypothesis testing).

Expected Findings and Implications

The empirical insights generated from this study are expected to deliver a significant theoretical contribution by formulating an Islamically grounded, transaction cost-efficient model of interorganizational trust. By extending TCT into the domain of Islamic fiscal policy, this study will clarify how bureaucratic friction and behavioral uncertainties suppress corporate zakat compliance.

Practically, the findings will provide actionable, strategic frameworks for the Majlis Agama Islam dan Adat Istiadat Melayu Kelantan (MAIK) and state policymakers. The research will highlight the urgent need to refine administrative workflows, enhance governance transparency, and upgrade technological infrastructures. By doing so, MAIK can lower transaction costs, foster unshakeable corporate trust, and optimize corporate zakat mobilization. Ultimately, unlocking this fiscal potential will significantly bolster MAIK's capacity to fund sustainable socio-economic development and poverty eradication programs in Kelantan.

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