

STRATEGIC DIMENSIONS OF INSTITUTIONAL GOVERNANCE IN CORPORATE ZAKAT MOBILIZATION: A TCT PERSPECTIVE ON NETWORK EFFICIENCIES

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Abstract: *Within the contemporary Islamic economic paradigm, corporate zakat serves as a critical mechanism for wealth redistribution, capital purification, and the preservation of macroeconomic equilibrium. However, the operational capacity of this fiscal instrument remains constrained by suboptimal institutional alignment and structural compliance deficits. In the state of Kelantan, corporate contributions continuously plateau below 20% of the aggregate zakat revenue, exposing a profound gap between actual collections and fiscal potential. This conceptual paper addresses this structural deficit by constructing an integrated, multi-tiered framework of institutional governance for corporate zakat mobilization. Grounded in Transaction Cost Theory (TCT) and relational governance frameworks, we deconstruct corporate zakat governance into three distinct configurations: shared governance, lead governance, and network administrative organizations (NAOs). We posit that these structural mechanisms collectively mitigate behavioral uncertainties, minimize information asymmetries, and lower transaction monitoring costs for corporate payers (muzakki). Furthermore, the framework introduces corporate leadership quality as a vital conditional moderator that actively optimizes the path between these governance dimensions and institutional compliance. This paper contributes to the Islamic social finance literature by shifting the research paradigm from individual compliance intentions to firm-level transactional efficiencies.*

Keywords: *Corporate Zakat Payment, Institutional Governance, Transaction Cost Theory, Leadership Moderation, Shared Governance, Network Administrative Organizations.*

Introduction

Within modern Islamic social finance, business zakat represents a foundational pillar for regional wealth equity, social justice, and targeted poverty alleviation. While classical Islamic jurisprudence historically conceptualized zakat as an individualized act of devotion, contemporary economic structures recognize corporations as independent juristic persons (*shakhsiyyah i'tibāriyyah*) bearing significant social and economic obligations. Consequently, corporate zakat function as a strategic instrument of faith-based corporate social responsibility (CSR) capable of driving sustainable regional development.

In the state of Kelantan, the administration, collection, and distribution of these religious funds are legally centralized under the Majlis Agama Islam dan Adat Istiadat Melayu Kelantan (MAIK). Recent empirical data from the MyMAIK dashboard indicates that while aggregate state zakat collections reached RM296.81 million in 2024 and are projected to hit an all-time high of RM355.19 million by the end of 2025, a critical structural imbalance persists. Business zakat contributions from the corporate sector continuously plateau between a conservative 17.5% and 19% share of the overall fund. For example, out of the total revenue collected in 2024, corporate entities contributed a mere RM54.11 million, demonstrating that a substantial portion of eligible Public Limited (Berhad) and Private Limited (Sdn Bhd) companies remain non-compliant or unengaged.

Prior scholarship frequently attributes low corporate compliance to deficiencies in individual religious awareness or personal intention. In contrast, this paper argues that the underlying compliance deficit is fundamentally rooted in institutional friction, complex governance environments, and severe information asymmetries between the private corporate sector and state religious authorities. From a transaction-cost perspective, corporate boards hesitate to authorize large financial allocations when they cannot actively verify the internal efficiency, equity, and transparency of fund distribution lines.

Therefore, establishing clear, transparent, and multi-tiered governance configurations is vital to reduce transactional friction and encourage voluntary compliance. This paper deconstructs corporate zakat governance into three specific configurations: shared governance, lead governance, and network administrative organizations (NAOs). Crucially, the model integrates corporate leadership as a key conditional moderator that translates formal governance systems into consistent compliance actions.

Theoretical Framework and Literature Review

Transaction Cost Theory and Relational Governance

The theoretical architecture of this framework is grounded in Transaction Cost Theory (TCT), pioneered by Coase (1937) and systematized by Williamson (1985). TCT posits that economic exchanges are inherently hindered by behavioral and environmental impediments, specifically bounded rationality and the risk of opportunism. In the context of corporate zakat management, firms face severe information asymmetries because they cannot realistically monitor every internal allocation and distribution process executed by state bodies. This lack of transparency increases behavioral uncertainty and perceived transaction risks, leading to corporate resistance and compliance avoidance.

To address these challenges, modern institutional literature suggests implementing a combination of formal contract structures and relational governance mechanisms. Good

governance indexes emphasize that transparency and accountability are vital to reduce behavioral uncertainty and minimize administrative tracking costs. By establishing clear administrative rules and structural benchmarks, robust governance frameworks replace the need for expensive external monitoring. This transaction-cost efficiency helps build institutional trust, encouraging corporations to channel their capital through formal state bodies rather than direct, uncoordinated distributions.

Corporate Zakat Payment as an Organizational Outcome

In this study, Corporate Zakat Payment is defined as the formal decision of an enterprise to fulfill its commercial religious wealth liabilities through officially recognized state channels. Unlike personal zakat, corporate zakat requires complex accounting treatments, including standardized methods to calculate the zakat base and formal disclosures in corporate financial statements.

When corporations disclose their zakat payments in their annual reports, it demonstrates their accountability to both religious principles and external stakeholders, thereby enhancing their market reputation. This study measures corporate payment behavior through structural initiatives and firm-level strategic orientations, viewing compliance as a formal organizational decision driven by institutional trust.

Deconstructing Governance Configurations

Shared Governance

Shared governance describes a decentralized structure where authority and decision-making are distributed across multiple network participants. In corporate zakat networks, shared governance involves creating joint committees and collaborative consultation forums where corporate financial managers and state zakat administrators work together to establish collection targets and evaluate performance metrics.

This collaborative approach directly reduces information asymmetry and behavioral uncertainty. By engaging corporate donors as active stakeholders, shared governance improves institutional transparency and responsiveness, which helps lower perceived transaction risks and fosters a sense of mutual accountability.

Lead Governance

Lead governance represents a centralized structure where a dominant organization or governing board maintains primary decision-making power and fiduciary oversight. Within zakat institutions, lead governance is demonstrated through the strategic actions of professional boards that enforce rigorous internal controls, standardize calculation methods, and manage financial and Shariah compliance audits.

From a transaction-cost perspective, strong lead governance functions as a vital structural safeguard against internal mismanagement and administrative inefficiencies. When corporate boards observe that a state zakat council implements rigorous, audited control protocols, their bounded rationality is alleviated, giving them the confidence to execute large-scale contributions.

Network Administrative Organizations (NAO)

A Network Administrative Organization (NAO) is a centralized, formal coordinating entity that manages network activities and interorganizational relationships without a single dominant authority. Within this framework, MAIK operates as the central NAO hub responsible for organizing the zakat network across Kelantan, maintaining centralized records, and coordinating distribution strategies among corporate contributors and public recipients.

An effective NAO structure streamlines inter-institutional collaboration, eliminates administrative redundancies, and facilitates trust-based information sharing. By lowering search, verification, and coordination costs for corporate entities, the NAO framework optimizes collection efficiency across the wider business ecosystem. Accordingly, we propose:

Implications and Future Directions

The proposed multi-tiered governance model offers important theoretical and practical implications. Theoretically, it expands the boundaries of Transaction Cost Theory by integrating structural governance tiers with relational leadership characteristics to analyze corporate compliance in Islamic social finance. Practically, it provides a clear roadmap for state administrators like MAIK to reform institutional workflows.

To optimize corporate fund mobilization, state bodies must look beyond basic enforcement mandates and focus on developing interactive shared governance systems and transparent digital reporting platforms. Future empirical research should apply this model through country-wide data collection to evaluate how variations in state-based enactments and localized board characteristics influence the governance-compliance relationship.

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